USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

Date: 9/30/2003

GAIN Report Number: IN3090

India

Sugar

Semi-Annual

2003

Approved by:
Chad R. Russell
U.S. Embassy, FASNEWDELHI

Prepared by:
Santosh Kr. Singh

Report Highlights:
India's MY 2002/03 sugar production estimate has been raised to a record 22.1 million metric tons (mmt) on lower than anticipated diversion of cane to alternative sweeteners. MY 2003/04 production forecast has been increased to 19.9 mmt on improved crop prospects due to excellent monsoon rains.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
New Delhi [IN1]
[IN]

TABLE OF CONTENTS

SECTION I – Situation and Outlook

Note: All data are on raw value basis unless referenced otherwise.

Production

Post raised its forecast of India's centrifugal sugar production for marketing year (MY) 2003/04 to 19.9 mmt (including 620,000 tons of khandsari sugar), on improved crop prospects due to excellent monsoon rains. Total production of centrifugal sugar in MY 2002/03 has also been revised higher to a record 22.1 mmt on lower-than-anticipated diversion of cane for production of alternative sweeteners such as 'Gur.' Sugarcane area and production estimates for 2002/03 and 2003/04 have been revised marginally higher based on the latest official statistics. Ending stocks for MY 2002/03 and 2003/04 have been revised upward to reflect higher production.

Belying initial expectations of a slowdown, sugar production continued to surge to record levels for the fourth consecutive year in MY 2002/03. As sweetener prices were depressed due to the existing glut situation, producers of alternative sweeteners could offer very low cane prices (rs. 400-500/MT) to the farmers. With the mills forced to pay the much higher 'government fixed' procurement prices (rs. 695-1,100/MT), farmers offloaded most of their cane with them, despite delays in payments. Owing to the late season arrival of sugarcane, mills had to extend crushing by 30-45 days, and mill sugar production by the end of July ballooned to an estimated 21.4 mmt compared to 19.6 mmt last year. With the khandsari sugar production estimate at 590,000 MT, total centrifugal sugar production in MY 2002/03 is estimated to reach 22.1 mmt, nearly 8 percent over last year's record level.

Very high sugar stocks and depressed sugar prices have severely eroded the financial position of the sugar mills, resulting in abnormal delays in cane payments to sugarcane farmers. Market sources report that cane payment arrears have ballooned over rs. 30 billion ($655 million) by the end of August, almost one and a half times last year's level. The potential impact of these arrears on input usage and planting for next season may be limited, however, due to excellent monsoon rains and relatively higher returns from sugarcane compared to the competing crops. However, some of the cash strapped farmers may resort to higher early season diversion of cane for alternative sweeteners for immediate cash payments.

Due to the existing government policy props (see Section III), Indian sugar industry is heading to a continued market glut situation for the next few years. It is imperative that the government will have to undertake measures to liquidate sugar stocks through exports and/or encourage diversion of sugarcane for alternative usage like biofuel, etc.

Trade

Post's forecast for 2003/04 sugar exports has been increased to 1.3 mmt on expected improved sugar supplies. The strong domestic production and the resultant sugar glut forced India to aggressively explore the export market. Despite burdensome sugar stocks and various hand-outs extended by the government to encourage exports, uncompetitive Indian sugar prices vis-à-vis international prices, and the recent strengthening of the Indian rupee, will likely limit exports to neighboring countries. High tariffs and other non-tariff barriers (see Trade Policy) should preclude any sugar imports during MY 2003/04.

Based on information from industry sources, MY 2002/03 sugar exports have been raised to 1.95 mmt on improved late season exports. Market sources estimate total exports through August at 1.82 mmt, mostly to Indonesia (0.5 mmt), Sri Lanka (0.33 mmt), Bangladesh

(0.32 mmt), Yemen (0.18 mmt), Somalia, Egypt, Eritrea, and West Africa. Most recent export contracts have been at $213-218/ton FOB, well below the domestic prices of $270-310/ton. Facing a severe financial crunch and burdensome sugar stocks, many mills liquidate their stocks through exports in order to lower costs (lower storage cost, interest on credit, physical loss, etc., for an estimated gain of $10-12/ton), and derive the benefits from the government's various export promotion schemes.

Trade Policy

India imposes an import duty of 60 percent advalorem on the CIF value, plus a countervailing duty (CVD) of rs. 850/ton on sugar (both raw and refined under HS 1701). The CVD is in lieu of the local taxes and cess on the domestic sugar (central excise tax of rs. 340/ton, additional excise duty of rs. 370/ton, and sugar cess of rs. 140/ton). The imported sugar is also subject to other non-tariff barriers like a levy sugar obligation, the quarterly sugar quota release system and other local regulations applicable in case of domestic sugar (see Section III).

The government offers various sugar export incentives to encourage local mills to liquidate the highly burdensome sugar stocks in the international market. The government announced an inland freight subsidy (cost of transport from mill to port varying from $12-14/MT) in July 2002 to be funded by the Sugarcane Development Fund (SDF), followed by an ocean freight subsidy of rs 350/MT ($8) in February 2003. The state government of Maharashtra is also providing an export subsidy of rs. 1000/MT ($21) to their sugar mills. The government has also extended export incentives, such as an exemption from the levy requirement, quarterly sales quota restrictions, local taxes and cess (rs. 850/MT), and other provisions applicable to sugar for sale in the domestic market.

SECTION II – Statistical Tables

Table 1: Commodity: Centrifugal Sugar (raw value basis)

PSD Table							
Country:	India						
Commodity:			Sugar				
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		10/2001		10/2002		10/2003	(MONTH/YEAR)
Beginning Stocks	11985	11985	11670	11670	9340	11090	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	20475	20475	20100	22100	18800	19880	(1000 MT)
TOTAL Sugar Production	20475	20475	20100	22100	18800	19880	(1000 MT)
Raw Imports	100	100	20	20	0	0	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	100	100	20	20	0	0	(1000 MT)
TOTAL SUPPLY	32560	32560	31790	33790	28140	30970	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	1130	1130	1700	1950	1000	1300	(1000 MT)
TOTAL EXPORTS	1130	1130	1700	1950	1000	1300	(1000 MT)
Human Dom. Consumption	19760	19760	20750	20750	21500	21500	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	19760	19760	20750	20750	21500	21500	(1000 MT)
Ending Stocks	11670	11670	9340	11090	5640	8170	(1000 MT)
TOTAL DISTRIBUTION	32560	32560	31790	33790	28140	30970	(1000 MT)

Note: Stocks in PS&D include only milled sugar, as all khandsari sugar is assumed to be consumed within the production year. Virtually no centrifugal sugar is utilized for alcohol, feed, and other non human consumption.

Table 2: Commodity: Sugarcane, Centrifugal

PSD Table							
Country:	India						
Commodity:	Sugar Cane Centrifugal						
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		10/2001		10/2002		10/2003	(MONTH/YEAR)
Area Planted	4350	4400	4200	4300	4000	4100	(1000 HA)
Area Harvested	4350	4400	4200	4300	4000	4100	(1000 HA)
Production	300100	300100	285000	290000	275000	280000	(1000 MT)
TOTAL SUPPLY	300100	300100	285000	290000	275000	280000	(1000 MT)
Utilization for Sugar	190820	190820	188000	204500	175000	182000	(1000 MT)
Utilizatn for Alcohol	109280	109280	97000	85500	100000	98000	(1000 MT)
TOTAL UTILIZATION	300100	300100	285000	290000	275000	280000	(1000 MT)

Note: Virtually no cane is utilized for alcohol. Utilization for alcohol data include cane used for gur, seed, feed and waste. Utilization for sugar data include cane milled to produce centrifugal sugar, including khandsari.

Table 3: Sugarcane Area, Production and Utilization

YEAR	AREA/1	YIELD/1	PRODUCTION/1	SUGAR/2	KHANDSARI/3	GUR /3	SEED/3
	million ha	tons/ha	mmt	mmt	mmt	mmt	mmt
1985/86	2.86	59.99	171.68	68.977	10.481	71.621	20.602
1990/91	3.69	65.39	241.05	122.319	13.175	76.626	28.925
1995/96	4.15	68.02	282.09	174.761	10.000	67.268	30.060
2000/01	4.32	68.49	295.60	176.650	11.000	72.474	35.472
2001/02	4.40	68.16	300.10	180.320	10.500	73.264	36.012
2002/03	4.30	67.44	290.00	195.000	9.500	55.500	30.000
2003/04 /3	4.10	68.29	280.00	172.000	10.000	64.400	33.600

Source: /1. Directorate of Economics and Statistics, Ministry of Agriculture.
/2. Indian Sugar Mills Association.
/3. FAS/New Delhi Estimates.

Table 4: Mill Sugar Production by State in India
(in 100,000 MT actual weight basis)

State	2001/02	2002/03	2003/04
	Final Estimate	Estimate (Revised)	Forecast (Revised)
Andhra Pradesh	10.5	12.0	10.0
Bihar	3.4	4.0	3.0
Gujarat	10.6	12.5	11.0
Haryana	6.2	6.3	5.5
Karnataka	15.5	19.0	16.0
Maharashtra	56.1	62.0	58.0
Punjab	5.9	6.0	5.5
Tamil Nadu	18.4	16.0	15.0
Uttar Pradesh	52.6	56.5	50.0
Others	6.0	6.7	6.0
Total	185.3	201.0	180.0

Note: Khandsari sugar not included as statewise breakup is unavailable.

Source: 1. 2002/02 and 2002/03; Indian Sugar Mills Association.
2. FAS/New Delhi Estimates.

Table 5: Price Table: Centrifugal Sugar (price on actual weight basis)

Prices Table			
Country:	India		
Commodity:	Sugar		
Year:	2003		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2002	2003	% Change
Jan	13950	12400	-11.1%
Feb	14250	12800	-10.2%
Mar	14750	12600	-14.6%
Apr	14300	12250	-14.3%
May	13600	12300	-9.6%
Jun	13400	13000	-3.0%
Jul	13350	13200	-1.1%
Aug	13300	14220	6.9%
Sep	13300	14250	7.1%
Oct	13100		-100.0%
Nov	13000		-100.0%
Dec	12500		-100.0%
Exchange Rate	45.80	(Local currency/US $)	
Date of Quote	17-Sep-03	(MM/DD/YY)	

Source & contract terms: Indian Sugar Mills Association, month end prices in the wholesale market, Delhi.

Table 6: Price Table: Gur (price on actual weight basis)

Commodity:	Gur		
Year:	2003		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2002	2003	% Change
Jan	10750	9200	-14.4%
Feb	10250	9000	-12.2%
Mar	10500	9000	-14.3%
Apr	11000	9500	-13.6%
May	12000	10500	-12.5%
Jun	12250	11250	-8.2%
Jul	13750	10000	-27.3%
Aug	14500	10500	-27.6%
Sep	14000	11500	-17.9%
Oct	12000		-100.0%
Nov	9000		-100.0%
Dec	8400		-100.0%
Exchange Rate	45.80	(Local currency/US $)	
Date of Quote	09/17/03	(MM/DD/YY)	

Source & contract terms: Indian Sugar Mills Association, month end prices in the wholesale market, Delhi.

Table 7: Sugarcane Price MSP and SAP (rs./mt)

PRICE	2002/03	2001/02	2000/01
Minimum Support Price (MSP)*	695	621	595
State Advised Price (SAP) for			
Uttar Pradesh	695-1000	925-1000	860-950
Haryana/Punjab	960-1100	960-1100	960-1100
Southern States	695-957	642-861	595-881

* : MY 2002/03 MSP linked to basic recovery rate of 8.5 percent, Premium of rs. 8.2/mt for every 0.1% increase in recovery over 8.5% basic recovery rate.

Exchange Rate: 1999/00 (Oct/Sept) 1 US$ = 43.5 Indian Rs.
2000/01 (Oct/Sept) 1 US$ = 46.5 Indian Rs.
2001/02 (Oct/Sept) 1 US$ = 48.5 Indian Rs.
2003 September 1 US$ = 46.0 Indian Rs.

Table 8: Levy PDS Sugar Prices (Rs/kg.)

Price	2002/03	2001/02	2000/01
Levy Procurement Prices/1	12.1 - 13.7	11.16 - 13.03	11.05 - 12.84
PDS Sale Prices/2	14	13	13

Notes:
/1: Levy sugar procurement prices paid by the government to the sugar factories in different states.
/2 : Government sale/issue price of PDS sugar to consumers below poverty line.

Source: National Federation of Coop Sugar Factories Ltd.

SECTION III – Production Policy

The central government establishes a minimum support price (MSP) for sugarcane each year, which the state governments typically augment by 20-50 percent resulting in the applicable state advised prices (SAP). It is mandatory for all sugar mills to pay the SAP. The consistent hike in procurement prices for cane in the past few years has created a sugar glut situation and pushed the cost of Indian sugar abnormally high (an estimated $270-280/ton). Although local industry strongly advocated rationalization of the cane pricing policy (link it to sugar prices in the domestic/world market), the government has been reluctant to do so due to the political clout of the farmers' lobby. However, the private mills refused to take sugarcane at the SAP in the MY 2002/03, and filed a case in the Supreme Court of India. In an interim order issued in late November 2002, the court directed the mills to pay the farmers the MSP until a final decision is made on the applicability of the SAP. Although private sugar mills have paid the MSP during the current season, it may be a temporary relief as the state governments may formulate ways to force mills to pay higher prices even if the court decides against the SAP.

Mills are required to supply a portion of their production as 'levy sugar' at below market prices, which the government then sells at fixed prices through its public distribution system (PDS) to consumers who live below the poverty line. Although mills can sell the balance of their sugar at market prices, the free sale sugar and levy sugar sales are subject to periodic quotas to maintain price stability in the market. Over the past few years, the government phased in a policy of liberalization of the sugar marketing system. The proportion of levy sugar was progressively scaled down from historical levels of 40 percent (Pre-Jan 2000) to 10 percent (April 2002 onwards) of total production. The government has also changed the quota release mechanism from a monthly to quarterly basis beginning January 2002, with the clause that 50 percent of the quota is utilized in each half of the quarter. The government has granted permission to three companies for futures trading in sugar, though actual trading has yet to commence.

The government levies a cess of rs. 140 per ton on sugar produced for the SDF. The government has also launched a program for the production of ethanol from molasses and sugarcane juice for fuel purposes. See IN3028 for more details on the SDF and Ethanol Programs.

New Policy Developments

In June 2003, the central government announced a special relief package of rs. 6.8 billion ($147 million), to be disbursed as soft loans to the various state governments. This will enable them to disburse the difference between the state advised price (SAP) and the statutory minimum support prices currently being paid by the mills (see IN3028). However, there have been no takers for the relief package up until now, as the industry wants a one-time grant instead of a loan. Given the political clout of the farmers due to the pending 2003 elections in many states, followed by the general elections in 2004, most industry sources are confident that the government will announce additional hand-outs to the farmers and the sugar industry in order to expedite the cane price payment.