USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 4/12/2004

GAIN Report Number: IN4034

India

Sugar

Annual

2004

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

Prepared by:
Santosh Kr. Singh

Report Highlights:
India's 2004/05 sugar production is forecast to decline 5 percent to 15.9 million metric tons (raw value basis) due to forecast lower cane production. India is set to emerge as a net importer in 2004/05, with imports estimated at 1.0 million metric tons.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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

Total centrifugal sugar production in marketing year (MY) 2004/05 is forecast at 15.9 million metric tons (mmt), including 683,000 metric tons (mt) of khandsari, a low recovery centrifugal sugar, down 5 percent from the 2003/04 estimate due to forecast tight sugarcane supplies. Delayed cane payments by the mills adversely influenced the 2004/05 planting intentions. Drought conditions in major cane growing regions of Maharashtra and parts of Gujarat, Karnataka, and Tamil Nadu further dampened planting prospects, as the 2004/05 cane area is forecast to decline by 5 percent to 3.9 million hectares. The cane yield will also be adversely affected by the dry conditions that will persist until the onset of 2004 monsoon. Anticipating normal weather conditions and adequate 2004 monsoon rains, 2004/05 sugarcane production is forecast at 240 mmt.

Post's 2003/04 sugar production has been lowered to 16.7 mmt (vs. earlier estimate of 19.9 mmt) on lower than anticipated cane supply. Cane production during the season was adversely affected by drought conditions in major cane growing regions of Maharashtra, Karnataka, and Gujarat. Maharashtra and parts of Karnataka also experienced a severe attack of wooly aphid, a sucking pest, which affected the yields (down 20-50 percent) and sugar recovery (down 1%) in affected areas. Consequently, MY 2003/04 cane production is estimated lower at 256 mmt (vs. earlier estimate of 280 mmt). The mill sugar production till end February 2004 is estimated at 11.1 mmt compared to 12.9 mmt during the comparable period last year. Due to insufficient cane supply, mill crushing is expected to be over by mid-May compared to end June last year. Despite increasing sugar prices, cane price payments to the farmers continue to be delayed, with mills falling behind by 2-3 months versus the normal lag period of 2-3 weeks.

Four consecutive years of record sugar production (1999/2000 to 2002/03), and consequent ballooning of sugar stocks and depressed sugar prices have brought severe financial crisis to the Indian sugar industry. The government of India (GOI) had to initiate various measures to provide some fiscal relief to the sector (see Section III). Low sugar production during the current season has increased local sugar prices. The forecast lower production during 2004/05 shall further firm domestic sugar prices and, hence, may improve the fiscal condition of the domestic sugar industry.

Consumption

Owing to comparatively tight domestic supplies and expected firm domestic prices, consumption in 2004/05 is forecast to grow marginally to 20.7 mmt. Based on the figures provided by Indian Sugar Mills' Association, MY 2002/03 and MY 2003/04 consumption has been revised marginally lower to 19.9 mmt and 20.5 mmt, respectively.

The decline in sugar production and the subsequent draw down in sugar stocks resulted in a strong recovery in sugar prices during the current season (see table 5). Existing prices of sugar in major markets range from $320 to $345/mt. Prices are expected to remain steady until after the general elections in May, 2004. Provided the new government does not interfere with the market, prices are expected to increase subsequently. MY 2003/04 ending stocks are estimated at 8.3 mmt, and are forecast to decline to 4.5 mmt by the end of MY 2004/05. These stocks are less than the desired 'normal stocks', which should be equivalent to three months of consumption.

Trade

India is set to import sugar in MY 2004/05 after being a net exporter since MY 2000/01. With domestic prices well above the international sugar prices, the 2004/05 sugar imports are forecast at 1.0 mmt, mostly raw sugar to be further processed into refined sugar. Although high import tariff and non-tariff barriers may preclude imports of refined sugar by traders, market sources expect some relief from the GOI to allow imports of raw sugar by the mills. Exports are unlikely to exceed 20,000 mt in 2004/05, mostly quota exports to the US and EU, as local prices are expected to be well above the international prices.

Due to insufficient availability of sugarcane, many mills in Maharashtra and southern states face closure. The local industry may petition the government to allow imports of raw sugar at a concessional duty to enable the mills to utilize their production capacities. Market sources expect some policy relief to the sugar industry, which may allow imports of raw sugar to be further processed into refined sugar, and sold in the domestic market.

MY 2003/04 exports have been revised lower to 400,000 mt, as export prospects have been dampened by comparatively high local prices, strengthening value of the Indian rupee versus the US dollar (rs. 45.8 in September 2003 to rs 43.5 in April 2004), and reported increase in freight charges. In fact, the recent upsurge in domestic prices, and the resultant differential over international prices itself, have more than offset the various export subsidies and incentives offered by the government. Sources report that only 262,000 mt of sugar (raw value basis) contracted for exports during the current MY have been shipped till end February 2004. Accounting for some additional sugar contracted for exports to be shipped during the remaining period, MY 2003/04 exports are estimated to reach 400,000 mt. Based on the reports of raw sugar being imported by a couple of south India based mills for re-exports of refined sugar, MY 2003/04 imports have been revised to 100,000 mt.

Trade Policy

India imposes an advalorem import duty of 60 percent 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/mt, additional excise duty of rs. 370/mt, and sugar cess of rs. 140/mt). 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 GOI offers a number of export incentives to encourage the local sugar industry to liquidate the highly burdensome sugar stocks into the international market. In July 2002, the GOI announced an inland freight subsidy (cost of transport from mill to port actual up to rs. 1000/mt ($21) to be funded by the Sugarcane Development Fund (SDF)). In February 2003, an ocean freight subsidy of rs. 350/MT ($8) was extended from the SDF. From October 2003, the government reimbursed handling and marketing expenses up to Rs. 500/mt ($10), also from the SDF. The state government of Maharashtra is also providing an export subsidy of rs. 2500/MT ($55) to their sugar mills. In addition, the GOI has 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				
		2003		2004		2005	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		Oct-02		Oct-03		Oct-04	(MONTH/YEAR)
Beginning Stocks	11670	11670	11090	12430	0	8300	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	22100	22140	19880	16670	0	15880	(1000 MT)
TOTAL Sugar Production	22100	22140	19880	16670	0	15880	(1000 MT)
Raw Imports	20	10	0	100	0	1000	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	20	10	0	100	0	1000	(1000 MT)
TOTAL SUPPLY	33790	33820	30970	29200	0	25180	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	1950	1410	1300	400	0	20	(1000 MT)
TOTAL EXPORTS	1950	1410	1300	400	0	20	(1000 MT)
Human Dom. Consumption	20750	19980	21500	20500	0	20700	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	20750	19980	21500	20500	0	20700	(1000 MT)
Ending Stocks	11090	12430	8170	8300	0	4460	(1000 MT)
TOTAL DISTRIBUTION	33790	33820	30970	29200	0	25180	(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						
		2003		2004		2005	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		Oct-02		Oct-03		Oct-04	(MONTH/YEAR)
Area Planted	4300	4230	4100	4100	0	3900	(1000 HA)
Area Harvested	4300	4230	4100	4100	0	3900	(1000 HA)
Production	290000	282000	280000	256000	0	240000	(1000 MT)
TOTAL SUPPLY	290000	282000	280000	256000	0	240000	(1000 MT)
Utilization for Sugar	204500	203825	182000	158000	0	151000	(1000 MT)
Utilizatn for Alcohol	85500	78175	98000	98000	0	89000	(1000 MT)
TOTAL UTILIZATION	290000	282000	280000	256000	0	240000	(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
	Mha	MT/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	4.43	67.74	300.10	180.320	10.500	73.264	36.012
2002/03	4.23	66.67	282.00	194.325	9.500	44.335	33.840
2003/04	4.10	62.44	256.00	148.000	10.000	60.000	38.000
2004/05/3	3.90	61.54	240.00	140.000	11.000	59.000	30.000

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

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

State	2001/02	2002/03	2003/04	2004/05
	Final	Final	Revised Estimate	Forecast
Andhra Pradesh	10.5	12.1	10.0	10.0
Bihar	3.4	4.1	3.5	4.0
Gujarat	10.6	12.5	10.0	10.0
Haryana	6.2	6.4	6.0	6.0
Karnataka	15.5	18.7	15.0	15.0
Maharashtra	56.1	62.2	33.0	18.0
Punjab	5.9	5.9	5.0	5.0
Tamil Nadu	18.4	16.4	12.0	14.0
Uttar Pradesh	52.6	56.5	50.0	54.0
Others	6.0	6.4	5.5	6.0
Total	185.3	201.1	150.0	142.0

Note *: Khandsari sugar not included as statewise breakdown is not available.

Source: 1. 2001/02 and 2002/03; Indian Sugar Mills Association.
2. 2003/04 & 2004/05; Post estimates.

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

Prices Table			
Country:	India		
Commodity:	Sugar		
Year:	2004		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2003	2004	% Change
Jan	12400	14000	12.9%
Feb	12800	14800	15.6%
Mar	12600	14600	15.9%
Apr	12250		-100.0%
May	12300		-100.0%
Jun	13000		-100.0%
Jul	14000		-100.0%
Aug	13800		-100.0%
Sep	14100		-100.0%
Oct	14000		-100.0%
Nov	14000		-100.0%
Dec	12800		-100.0%
Exchange Rate	43.50	(Local currency/US $)	
Date of Quote	07-Apr-04	(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:	2004		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2003	2004	% Change
Jan	9200	9750	6.0%
Feb	9000	10250	13.9%
Mar	9000	10500	16.7%
Apr	9500		-100.0%
May	10500		-100.0%
Jun	11250		-100.0%
Jul	10500		-100.0%
Aug	10750		-100.0%
Sep	11500		-100.0%
Oct	9750		-100.0%
Nov	9000		-100.0%
Dec	11000		-100.0%
Exchange Rate	43.50	(Local currency/US $)	
Date of Quote	04/07/04	(MM/DD/YY)	

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

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

PRICE	2003/04	2002/03	2001/02
Minimum Support Price (MSP)*	730	695	621
State Advised Price for			
Uttar Pradesh	730-950	695-950	925-1000
Haryana/Punjab	960-1100	960-1100	960-1100
Southern States	730-950	695-957	642-861

Note: MSP linked to a basic recovery rate of 8.5 percent. For every 0.1% increase in recovery over the basic rate, an additional premium of rs. 85/mt, rs. 83/mt and rs.73/mt paid in the MY 2003/04, 2002/03 and 2001/02, respectively.

Exchange rate: 2001/02 (Oct/Sept) 1 US $ = 47.5 Indian rs.
2002/03 (Oct/Sept) 1 US $ = 48.0 Indian rs.
April 7, 2004 1 US $ = 43.50 Indian rs.

Table 8: Export Trade Matrix: Centrifugal Sugar
(quantity in crystal/actual weight basis)

Export Trade Matrix			
Country:	India	Units:	Metric Tons
Commodity:	Sugar		
Time period:	Oct-Sep		
Exports for	2003		2004
U.S.	8,140	U.S.	0
Others		Others	
Indonesia	296,623	Bangladesh	83,713
Bangladesh	285,245	Indonesia	67,433
Sri Lanka	201,504	Sri Lanka	49,150
Somalia	63,400	Afghanistan	5,483
Egypt	48,550	Dubai	3,350
West Africa	43,620	Somalia	3,000
Iraq	34,808	Ivory Coast	2,500
Dijibouti	18,850	DPR Korea	1,248
Eriteria	17,550	Mascut	780
Massawa	16,000	Uganda	430
Total for Others	1,026,149		217,087
Others not listed	286,711		26,988
Grand Total	1,321,000		244,075

Note: Export figures for 2004 shows exports during October 2003 through February 2004.

Source: Industry Sources.

SECTION III : Narrative on Production Policy & Developments

Sugarcane Production Policy

The GOI continues to focus on improving sugarcane productivity through transfer of improved technologies and supply of improved planting material. The Indian Council of Agricultural Research, through its numerous research institutions, undertakes research and development efforts at the national level. These efforts are supported by the state agricultural universities and regional research institutions, and various state agricultural extension departments. The central and state governments also support the sugarcane growers' efforts by ensuring input supplies, particularly irrigation water supplies at affordable prices.

Cane Pricing

Each year the GOI establishes a minimum support price (MSP) for sugarcane, which state governments typically augment by 20-30 percent except in the recent years. The sugar mills have to pay the effective state advised price (SAP) for the sugarcane. The successive increase of cane prices (largely for political purposes) in the past years has pushed the cost of Indian sugar production abnormally high (an estimated $270-280/ton). Although local industry has been strongly advocating rationalization of the cane pricing policy (by linking it to sugar prices in the domestic/world markets), the political muscle of the farmers' lobby has forced the GOI and various state governments to maintain the current policy. Forced by extreme financial crisis, local industry refused to take sugarcane at SAP at the start of MY 2002/03 and filed a case in the Supreme Court of India against the state governments' policy of arbitrarily fixing the SAP. In an interim order, the court directed the mills to pay the farmers the central government announced MSP until the final decision is made on the applicability of SAP. The private sugar mills have been paying the MSP since MY 2002/03 onwards. The state owned mills continue to pay the SAP, even though, their cane payment backlogs to the farmers are 2-3 times that of the private mills.

Sugar Market Release

Mills are required to supply a portion of their production as 'levy sugar' at below market prices, which the government then sells through its public distribution system (PDS) to consumers below the poverty line. The mills are further required to sell the balance of the 'free sugar' at market prices. However, the free sale sugar and levy sugar sales are subject to periodic quotas so as to maintain price stability in the market. Over the past few years, the GOI had a phased policy of liberalization of the sugar marketing system, with the proportion of levy sugar progressively scaled down from historical levels of 40 percent (Pre-Jan 2000) to 10 percent (April 2002 onwards) of total production. To provide more marketing flexibility to the mills, the government has changed the free sale sugar quota release mechanism from a monthly to quarterly basis from January 2002, with the clause that 50 percent of the quota is utilized in each half of the quarter. In 2002, the government granted permission to three companies for futures trading in sugar, although actual trading has yet to commence due to lack of interest in the trade. The GOI plans complete decontrol of the sugar marketing, i.e., removal of the levy requirement and periodic sugar release mechanism, from October 2005, but industry sources expect that government may have to defer this move by a year or two. Once that happens, the government will procure sugar from the market for subsidized sale through the PDS, and will allow futures trading to take care of stabilizing market prices.

Ethanol Program

To ease the current supply glut of sugar and sugarcane, the GOI has launched a program for production of ethanol from molasses and sugarcane juice for fuel purposes. The ethanol program was launched in nine selected states in January 2003, with the annual production target of 320-350 million liters. The ethanol supplied by the domestic mills will be procured by the petroleum companies (all government parastatals), and mixed with petrol/gasoline at the ratio of 5 percent ethanol. Market sources report that current production of ethanol is about 300 million liters, and there is potential to increase production to 6 billion liters with some policy support. Most of the ethanol is being produced from molasses. Since production of ethanol from cane juice/syrup requires additional investment for technological modification, most mills will likely wait and watch for some time to assess the market demand for ethanol before installing the necessary units.

Sugar Development Fund (SDF)

The GOI levies a cess of rs. 140 per ton on sugar produced by the domestic mills for the SDF. The SDF is used for conducting various research, extension, and technological improvement activities in support of sugarcane and sugar production in India. In recent years, these funds have been used to support buffer stocks, provide internal transport subsidy and ocean freight subsidies for exports of sugar, and offer soft loans for the installation of power generation and ethanol production facilities.

New Policy Developments

Four consecutive years (1999/2000 to 2002/03) of record sugar production caused a glut in the market, which contributed to a severe financial crisis in the sugar industry. This led to abnormally high cane payments arrears to farmers. In June 2003, the central government announced a special relief package of rs. 6.8 billion ($149 million), to be disbursed as soft loans (concessional interest) to selected state governments (offering higher SAPs). The loan was to enable the sugar mills to disburse the difference between the SAP and the MSP. Later, the central government announced an additional soft loan package of rs. 25.6 billion ($ 557 million) to all states to enable them to pay the cane payment arrears to farmers. Except for states like Maharashtra, Uttaranchal and Bihar, there have been no takers for the relief package as the industry wants a one-time grant instead of a loan. Moreover, market sources expect an improvement in the fiscal condition of sugar mills due to the recent upsurge in domestic sugar prices. Consequently, the cane payment arrears are expected to decline to manageable levels.