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India

Sugar Annual

2014

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Report Highlights:

Indian sugar production for marketing year (MY) 2014/15 (Oct-Sept) is forecast to rise by three percent to 27.9 million metric tons (MMT) due to higher than anticipated sugarcane production and strong cane recovery in the tropical zone. Consumption growth and tighter supplies will limit exports to 1.5 MMT in MY 2014/15. Partial central government deregulation is helping some millers operate more efficiently.

Commodities:

Sugar, Centrifugal

Sugar Cane for Centrifugal

Production:

Sugarcane area planted in MY 2014/15 is forecast to decline to 5.03 million hectares from 5.12 million hectares in the current year. Sugarcane area planted in Uttar Pradesh, which accounts for roughly 40 percent of India's total cane area, is expected to decline by over 10 percent. Despite India's overall decrease in sugarcane area, led by the decline in Uttar Pradesh, area planted in Maharashtra and Karnataka, which account for about 30 percent of India's cane area, will marginally increase. Note: Sugar data in the report are raw value basis unless otherwise noted.

Assuming a normal 2014 southwest monsoon and favorable planting conditions, cane yields should improve by two metric tons (MT) per hectare and increase production averages to about 70 MT per hectare. As a result, Indian sugarcane production in MY 2014/15 should to rise to 351 MMT. Similarly, strong cane recovery in Maharashtra, Karnataka, and Gujarat will improve the overall average recovery rates by 0.21 percent to 10.46 percent. These factors will lift total centrifugal sugar production to 27.9 MMT in MY 2014/15 (including 404,000 MT of *khandsari*, a low recovery sugar prepared by an open-pan evaporation method). *Gur* (crude non-centrifugal lump sugar) production will be stable at 5.7 MMT and *gur* prices should remain relatively strong (versus sugar prices), particularly during second half of MY 2013/14. In the event of less-than-normal levels of precipitation (Indian Meteorological Department), sugarcane yields may be negatively affected in 2014. However, sugar industry sources believe that it is too soon to make predictions regarding productivity.

Many traditional sugarcane farmers in Uttar Pradesh are likely to shift some acreage to more profitable crops like paddy (aromatic and non-aromatic), vegetables, mint, and sorghum. Uttar Pradesh farmers are under particular pressure to diversify, given low sugarcane yields in 2013 due to excessive precipitation and delays in the 2013 *rabi* (winter) wheat harvest. Moreover, in MYs 2010/11 through 2012/13,Uttar Pradesh increased its state advised price (SAP) for sugarcane by over 19 percent. During the same period, average mill gate sugar prices increased by an annual average of only 2.6, which created a situation where millers were forced to pay famers over than the value of sugar. [1] As a result, the entire sugar industry in Uttar Pradesh has been negatively affected because sugar millers are racked with debt and are unable to pay farmers. As on April 15, 2013, Uttar Pradesh accounted for almost two-third of India's total sugar miller debt. Arrears due to farmers in Maharashtra, Karnataka, Tamil Nadu, and Gujarat were less than one-tenth of Uttar Pradesh. According to recent media reports, Uttar Pradesh sugar millers owed roughly INR 110 billion ($1.8 billion) as of March 2014. The SAP in Uttar Pradesh for MY 2013/14 remains unchanged from last year.

Conversely, in Maharashtra and Karnataka, abundant 2013 monsoon rains, high reservoir levels, a state-regulated market guarantee program, and a shift to a producer/miller revenue sharing scheme should incentivize farmers in those states to plant more cane in MY 2014/15. While

[1] Price Policy for Sugarcane, Commission for Agricultural Cost and Prices, GOI

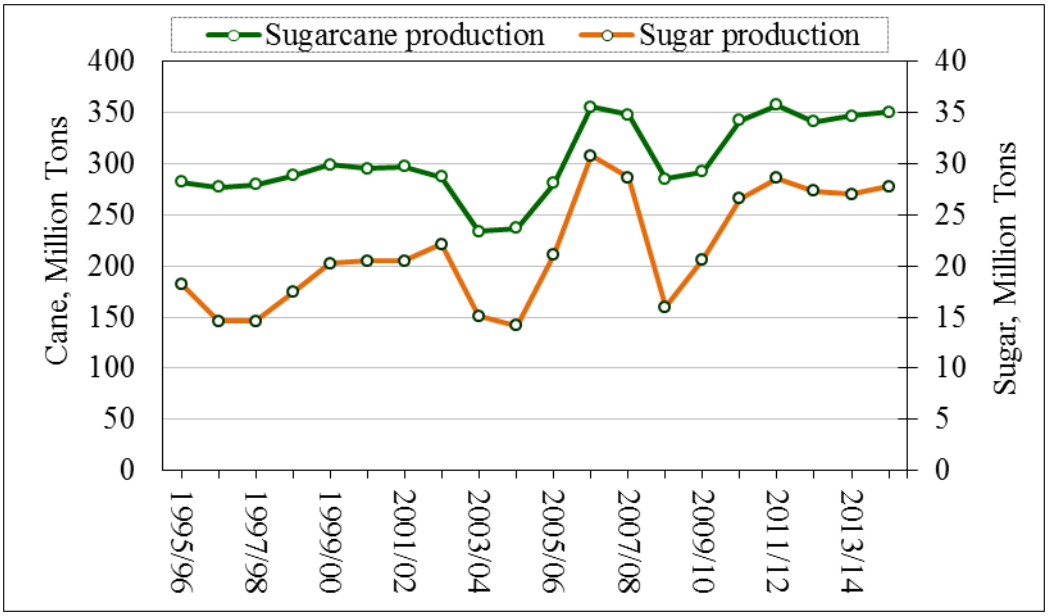
market prices for sugar are lower in Maharashtra and Karnataka, sugarcane tends to be more profitable over competing crops like paddy and cotton. The revenue sharing model noted above

was recommended in 2012 by a GOI appointed an expert committee under C. Rangarajan, Chairman of the Prime Minister's Economic Advisory Committee. The committee recommended that states enact policies one of two policies for implementing a revenue sharing program: 1) cane prices are set at 75 percent of the value of the sugar produced from one quintal of cane, or 2) sugar prices are set at 70 percent of the sales revenue for sugar, molasses, bagasse and press-mud produced from a quintal of cane.

The Indian Ministry of Agriculture's (MinAg) *Second Advance Estimate of the Production of Foodgrains 2013-14 projects* sugarcane production in MY 2013/14 at 345.92 MMT. However, Post estimates sugarcane production in MY 2013/14 to be slightly higher at 347 MMT, with cane acreage remaining at 5.1 million hectares. Post revises its sugarcane production estimates upward to reflect an increase in average cane productivity to 67.7 MT per hectares from 66.4 MT per hectare anticipated previously. Sugarcane yields in some areas of Uttar Pradesh were moderate, due to late planting and excessive rain. However, western and southern Indian states tended to benefit from timely and evenly distributed monsoon rains, which increased cane productivity in those regions. With the rise in cane production, total centrifugal sugar production in MY 2013/14 is also revised up from 25.4 MMT to 27 MMT, mostly due to higher than expected sugar production levels, particularly from Maharashtra and Karnataka. Additionally, favorable monsoon conditions have improved India's overall sugarcane recovery to 10.25 percent, an increase of 0.25 percent over last year.

Based on MinAg's second advance estimate for crop season 2013/14, the 'final' sugarcane production estimate for MY 2012/13 was revised up from 338.9 MMT to 341.2 MMT. Total centrifugal sugar production has also been marginally revised up to reflect current estimate of 27.3 MMT.

Figure 1. India: Sugarcane and Sugar Production



Source: Industry and trade sources

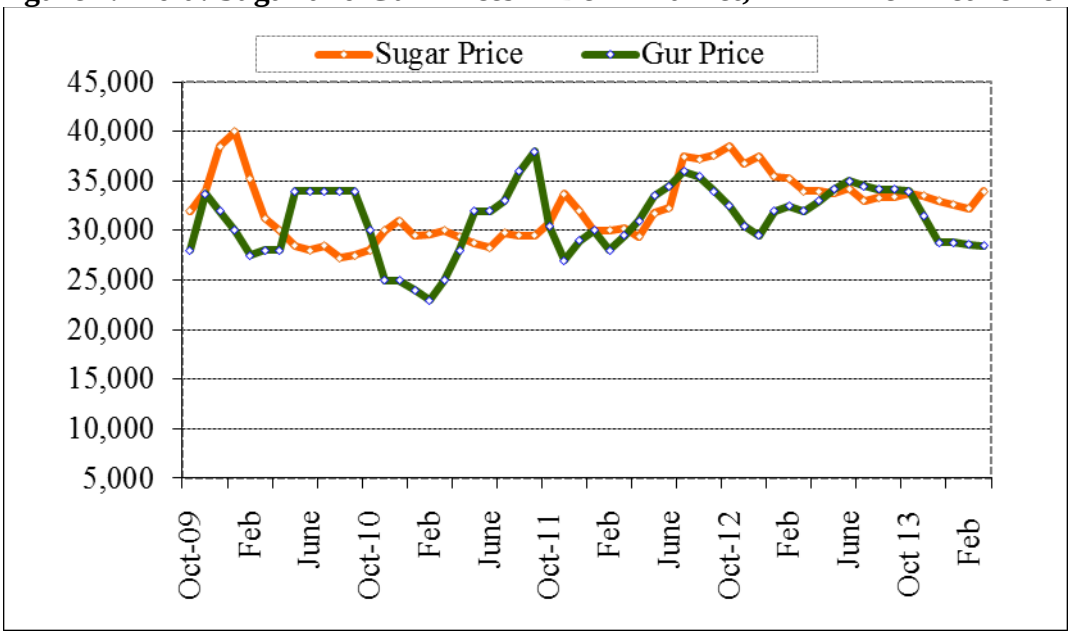
Consumption:

Indian sugar consumption in MY 2014/15 is forecast to rise to 27 MMT because of continued strong domestic demand. Forecasts from the Reserve Bank of India, the World Bank, and other private institutions predict that the Indian economy will grow at a rate between five to six percent in Indian fiscal year 2014/15 (April-March). Relatively steady economic and population growth (average rate of over 1.7 percent) suggests that sugar consumption will continue to increase. Bulk end users, like soft drink manufacturers, bakeries, hotels and restaurants, and confection manufacturers, account for nearly 65 percent of the total consumption. Most *khandsari* sugar is consumed by local sweet and dessert shops. *Gur* is mostly consumed in rural areas for household consumption and feed use.

Market Prices

Although sugar and *gur* prices were relatively stable during the last three quarters of MY 2012/13, they fell eight percent in first-half of MY 2013/14 due to abundant supplies (Figure 2). Currently, Indian wholesale sugar prices range from $540 to $557 per MT and are likely to remain stable through MY 2013/14. A higher stock-to-use ratio of 33.1 percent (over most recent five year average of 29.5 percent) will keep sugar prices in check. Concerns over a weak 2014 southwest monsoon due to a possible 2014 *el Niño* weather pattern, and international price volatility will be domestic sugar price drivers. Although *gur* prices have softened in the first half of MY 2013/14, prices are likely to increase during the second half of the year.

Figure 2. India: Sugar and Gur Prices in Delhi Market, In INR Per Metric Tons



Source: Industry and trade sources

Trade:

In MY 2014/15, India is likely to be a net sugar exporter with about 1.5 MMT of exportable stocks. About 1.0 MMT of exports will consist of raw sugar, the vast majority of which will be shipped to

African and Asian countries. These markets tend to prefer raw sugar as to support their own sugar refining industries. Despite higher production and stable stocks carried forward into MY 2014/15, India's total sugar supply is likely to remain close to current year levels. Imports in MY 2014/15 are forecast to be negligible, but with an upward bias.

During the first half of MY 2013/14, India exported about 1.4 MMT of sugar, aided by an uptick in international demand and the GOI's recent implementation of an export subsidy for raw sugar (for current and forecast year). The current pace of exports suggests that India will likely export another 400,000 MT through April and May 2014, with total MY exports reaching 1.8 MMT. The Indian media reported that through March 31, 2014, Indian sugar mills produced 1.54 MMT of raw sugar, of which 850,000 MT was exported. The intent of the export subsidy is to provide funds to cash-strapped sugar mills so they can pay debts to farmers, and to dispose of excess inventories on the world market. Southern and western state millers are better positioned to benefit from exports, given their lower production costs and better cane recovery compared to mills in north India. These millers will do especially well if the GOI continues its export subsidy. Imports in MY 2013/14 will be negligible. In MY 2012/13, India exported less than one million MT (mostly re-exported sugar under the Advance License Scheme) and imported 837,000 MT of mostly raw sugar.

Trade Policy

Imports

On July 8, 2013, the GOI raised the import duties for raw and refined sugar from 10 percent to 15 percent in an effort to protect domestic sugar prices and to help millers clear their debts to farmers. The relevant notification is available through the following link: Customs Notification No. 34/2013. The local sugar industry association continues to push for additional, increased duties on sugar.

Exports

Currently, sugar exports are under the Open General License (OGL), subject to prior registration with the Directorate General of Foreign Trade. For additional information on the OGL, please refer to GAIN IN3122 for more information.

In February, 2014, the GOI approved the aforementioned export subsidy of INR 3,300 (roughly $54.00) per MT for raw sugar exports. The Indian Ministry of Consumer Affairs, Food and Public Distribution formally published the new export subsidy in the February 28, 2014, edition of *The Gazette of India*. The duration of the subsidy is for two years and will be reviewed every two months. Any changes in the rate of the subsidy will be based on international prices and the prevailing rupee-dollar exchange rate (see GAIN Reports IN4006 and IN4011). The initial rate of $54.00 per MT (February-March) was reviewed at the end of March and was maintained through the end of May, at which point it will be reviewed again. Although the GOI argues that its sugar exports are not sufficient enough to seriously disrupt the international market, Australia, Brazil, Colombia, and other countries lampooned the export subsidy during the WTO's March 2014 Committee on Agriculture meeting.

Stocks:

Ending stocks for the current sugar marketing year are revised up from 7.5 MMT to 8.6 MMT to reflect increased sugar production. However, ending stock in MY 2014/15 are forecast lower at 8.0 MMT, just sufficient to meet three month consumption requirement.

Policy:

Sugarcane Production and Pricing Policy

The GOI supports research, development, and extension to growers as to raise cane yields and recovery rates. The Indian Council of Agricultural Research (ICAR) conducts sugarcane research and development at the national level. State agricultural universities, regional research institutions, and state agricultural extension agencies support these efforts at the regional and state levels. The GOI and state governments also support sugarcane growers through cash and input subsidies.

To increase the area of cultivation and production in the country, the GOI has implemented its "Sustainable Development Fund of Sugarcane Based Cropping System Area under Macro Management Mode of Agriculture" program in various sugarcane growing states. Additionally, under the *Rashtriya Krishi Vikas Yojaana* (National Agriculture Development Program), state governments are authorized to choose priorities for targeted crop development projects, including sugarcane.

The GOI collects INR 240 ($3.93) per MT of sugar produced by mills in support of the Sugarcane Development Fund (SDF). SDF is essentially a check-off type program which is used to support research, extension, and technological improvement in the sugar sector. The SDF is also used to maintain buffer-stocks, provide transportation subsidies for sugar exports, and subsidize interest on loans for ethanol production plant inputs. In March 2008, the GOI amended the SDF and authorized the use of SDF funds for debt restructuring and soft loans to sugar mills.

Every year, the GOI sets an annual minimum support price (MSP) for sugarcane based on recommendations by the Commission for Agricultural Costs and Prices (CACP) and consultations with State Governments and sugar industry and cane grower associations. Five years ago (since MY 2009/10), the GOI announced a new fair and remunerative price (FRP) system that links cane prices with miller's sugar price realization. Several state governments augment the MSP/FRP, typically by 30-40 percent, due to political compulsions rather than market pricing. Sugar mills are required to pay the "state advised price" (SAP) to sugarcane farmers irrespective of the market price of sugar. A forecast of a smaller cane crop normally encourages sugar mills to pay higher cane prices, resulting in prices exceeding the MSP/FRP in most of the growing states.

Sugar Marketing Policy: Government Approves Partial Market Decontrol

On April 4, 2013, the Cabinet Committee on Economic Affairs, chaired by Prime Minister Manmohan Singh, abolished the sugar levy on mills and deregulated the sale of sugar in the open market. Under the sugar levy, mills were obligated to sell 10 percent of their sugar production at below-market prices to the GOI. The GOI distributed this sugar at subsidized rates to poor consumers through the public distribution system (PDS). Under the new system, the GOI continues to supply subsidized sugar for the poor by procuring sugar from the open market through tenders. The difference between the open market price and PDS sale price is borne by the GOI. The sugar industry continues to be subject to production

controls by state governments, including sugar industry licensing, specified cane procurement areas for sugar mills, and cane pricing. Decontrol of sugar marketing is reviewed in two years after assessing its effect on farmers and market prices. (For more information please refer to GAIN report IN3036). More information on post-decontrol of sugar and release mechanism is available through the following link: India Food Ministry

Ethanol Program

India's ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry and not directly from sugarcane or corn as in most countries. For more on India's ethanol program, please refer India's Biofuel Annual 2013 GAIN report IN3073.

Production, Supply and Demand Data Statistics:

Table 1. India: Centrifugal Sugar (Raw Value Basis), In Thousand Tons

Sugar, Centrifugal India	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	7,350	7,163	10,425	9,373		8,618
Beet Sugar Production	0	0	0	0		0
Cane Sugar	27,200	27,337	25,450	27,045		27,890

Production						
Total Sugar Production	27,200	27,337	25,450	27,045		27,890
Raw Imports	1,778	810	1,800	0		0
Refined Imp.(Raw Val)	22	27	0	0		0
Total Imports	1,800	837	1,800	0		0
Total Supply	36,350	35,337	37,675	36,418		36,508
Raw Exports	190	61	750	1,100		1,000
Refined Exp.(Raw Val)	1,050	903	1,250	700		500
Total Exports	1,240	964	2,000	1,800		1,500
Human Dom. Consumption	24,685	25,000	26,200	26,000		27,000
Other Disappearance	0	0	0	0		0
Total Use	24,685	25,000	26,200	26,000		27,000
Ending Stocks	10,425	9,373	9,475	8,618		8,008
Total Distribution	36,350	35,337	37,675	36,418		36,508
TS=TD		0		0		0

Note: Stocks include only milled sugar, as all *khandsari* sugar produced is consumed within the marketing year. Virtually no centrifugal sugar is utilized for alcohol, feed, or other non-human consumption.

Table 2. India: Sugarcane, Centrifugal, Area In Thousand Hectares And Others In Thousand Tons

Sugar Cane for Centrifugal India	**2012/2013**		**2013/2014**		**2014/2015**	
	Market Year Begin: Oct 2012		**Market Year Begin: Oct 2013**		**Market Year Begin: Oct 2014**	
	USDA	**New**	**USDA**	**New**	**USDA**	**New**

	Official	Post	Official	Post	Official	Post
Area Planted	5,060	5,060	5,120	5,120		5,030
Area Harvested	5,060	5,060	5,120	5,120		5,030
Production	338,960	341,200	340,000	346,810		350,810
Total Supply	338,960	341,200	340,000	346,810		350,810
Utilization for Sugar	252,000	251,500	233,600	242,000		245,350
Utilizatn for Alcohol	86,960	89,700	106,400	104,810		105,460
Total Utilization	338,960	341,200	340,000	346,810		350,810
TS=TD		0		0		0

Note: Virtually no cane is utilized directly for alcohol production. 'Utilization for alcohol' in the PS&D includes cane used for gur, seed, feed and waste. 'Utilization for sugar' data include cane used to produce mill sugar and *khandsari* sugar

Table 3. India: Sugarcane Area, Production, and Utilization

Sugar Cane	Area[1]	Yield[1]	Product[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	68.98	10.48	71.62	20.60
1990/91	3.69	65.39	241.05	122.32	13.18	76.63	28.93
1995/96	4.15	68.02	282.09	174.76	10.00	67.27	30.06
2000/01	4.32	69.35	299.32	176.65	11.00	75.75	35.92
2001/02	4.41	67.09	295.95	180.32	10.50	69.62	35.51
2002/03	4.52	63.58	287.38	194.33	9.50	49.07	34.49
2003/04	3.94	59.39	233.86	132.51	10.00	63.29	28.06
2004/05	3.66	64.74	237.08	124.77	9.50	74.36	28.45
2005/06	4.20	66.93	281.17	188.67	8.50	50.26	33.74
2006/07	5.15	69.03	355.52	222.00	10.00	80.86	42.66
2007/08	5.06	68.81	348.18	249.91	7.00	49.49	41.78
2008/09	4.44	64.19	285.02	145.00	6.50	99.32	34.20
2009/10	4.18	70.01	292.30	185.55	6.50	65.17	35.08
2010/11	4.89	70.09	342.38	240.00	7.50	53.79	41.09
2011/12	5.04	71.66	361.03	257.00	7.00	53.70	43.32
2012/13	5.06	67.38	341.20	251.50	7.00	41.75	40.94
2013/14	5.12	67.74	346.81	242.00	8.00	55.19	41.62
2014/15	5.03	69.80	350.81	245.43	6.50	56.78	42.10

Note: Figures for 2013/14 and 2014/15 are FAS estimates.
Source: [1] Directorate of Economic and Statistics, Ministry of Agriculture
[2] Indian Sugar Mills Association except 2013/14 and 2014/15

Table 4. India: Mill Sugar Production by State, in thousand metric tons, crystal weight basis

State / MYs	2011/12	2012/13	2013/14	2014/15
	Final	Revised	Estimate	Forecast
Andhra Pradesh	1,140	990	950	966
Bihar	450	503	530	560

Gujarat	1,000	1,130	1,180	1,170
Haryana	490	408	571	615
Karnataka	3,870	3,402	4,200	4,490
Maharashtra	8,980	8,002	7,731	8,580
Punjab	390	430	344	359
Tamil Nadu	2,380	1,906	1,551	1,534
Uttar Pradesh	6,970	7,465	6,784	6,208
Others	670	906	970	1,200
Total	26,340	25,142	24,811	25,682

Sources: MYs 2011/12 and 2012/13 - Indian Sugar Mills Association; MYs 2013/14 and 2014/15 – FAS/New Delhi Estimate.
Note: Excludes *khandsari* sugar, as state-wise breakout is not available.

Table 5. India: Commodity, Centrifugal Sugar, Price Table, in INR per metric ton

Year	2012	2013	2014	Percent Change
January	30,000	35,500	32,600	-8
February	30,000	35,250	32,250	-9
March	30,250	34,000	34,000	0
April	29,400	34,000		
May	31,750	33,800		
June	32,300	34,250		
July	37,500	33,000		
August	37,200	33,300		
September	37,600	33,400		
October	38,500	33,800		
November	36,250	33,500		
December	37,500	33,000		
Exchange Rates:	52.73	58.48	61.57	
	Local Currency INR/US $			

Note: Exchange rates for 2012, 2013 and 2014 refer to respective Marketing Years (October–September).
Source & Contract Terms:
Indian Sugar Mills Association and NFCSF; month-end prices in the Delhi wholesale market.

Table 6. India: Commodity, Gur, Price Table
(Prices in INR per metric ton, actual weight basis)

Year	2012	2013	2014	Percent Change
January	30,000	32,000	28,800	-10
February	28,000	32,500	28,600	-12
March	29,500	32,000	28,500	-11
April	31,000	33,000		
May	33,500	34,200		
June	34,500	35,000		

July	36,000	34,500		
August	35,500	34,200		
September	34,000	34,200		
October	34,000	34000		
November	32,500	31500		
December	32,500	28800		
Exchange Rate:	52.73	58.48	61.57	
	Local Currency INR/US $			

Note: Exchange rates for 2012, 2013 and 2014 refer to respective Marketing Years (October–September).

Source & Contract Term:

Indian Sugar Mills Association and NFCSF; month-end prices in the Delhi wholesale market.

Table 7. India: Comparative Commodity Support Price Table, INR per metric ton, Minimum Support Price (MSP) or Fair Remunerative Price (FRP)

Marketing Year	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Wheat	11,200	12,850	13,500	14,000
Rice (Grade A)	10,300	11,100	12,800	13,450
Sugarcane	1,391	1,450	1,7001	2,100
State Advised Price (SAP) for Sugarcane, by State				
Uttar Pradesh	2,050-2,100	2,350-2,500	2,750-2,900	2,750-2,900
Haryana/Punjab	1,900-2,200	2,200-2,310	2,350-2,760	2,750-3,001
Southern States[2]	1,750-2,300	1,800-2,050	2,200-2,500	2,500-2,650

Exchange rate:

2012/13 (April-March) 1 US$ = 54.12 Indian Rupees

2013/14 (April-March) 1 US$ = 60.28 Indian Rupees

[1] FRP for 2013/14 at 9.5 percent recovery, subject to a premium of INR 2.21 for every 0.1 percent increase in recovery above 9.5 percent.

[2]: Sugar mills pay market price.

Source: Indian Sugar Mills Association

Note: The Commission for Agricultural Costs and Prices, GOI has recommended a FRP for sugar season 2014/15at INR 220 per quintal at 9.5 percent recovery level.

Table 8. India: Import Trade Matrix, Centrifugal Sugar, MY 2012/13, In Metric Tons

Period	**Raw Sugar**	**White Sugar**	**Total**
October	185,672	4,529	190,201
November	151,967	1,587	153,554
December	44,475	85	44,560
January	268,428	97	268,525
February	56,615	3,298	59,913
March	102,552	6,092	108,644
April	-	4,917	4,917

May	-	57	57
June	-	6,210	6,210
July	-	134	134
August	-	147	147
September	-	24	24
Total	809,709	27,175	836,884

Source: Industry and trade source.

Table 9. India: Export Trade Matrix, Centrifugal Sugar, MY 2012/13, In Metric Tons

Period	Raw Sugar	White Sugar	Total
October	4,299	60,179	64,478
November	5,320	50,260	55,580
December	17,706	16,329	34,035
January	2,452	75,538	77,990
February	4,652	117,373	122,025
March	26,421	34,577	60,998
April	0	96,290	96,290
May	0	122,730	122,730
June	0	93,691	93,691
July	0	114,292	114,292
August	0	63,838	63,838
September	0	57,373	57,373
Total	60,850	902,471	963,321

Source: Industry and Trade sources.