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Government approves package of over Rs.5,500 crore for sugar industry

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The Cabinet Committee on Economic Affairs (CCEA) recently approved a package of over Rs.5,500 crore to support the sugar industry which is going through a tough phase of excess domestic supply situation. This, in turn, created pressure on sugar prices and pushed the cane arrears to about Rs.23,232 crore at the end of May 2018. The measures announced by the government are stated below:

Measure 1: To facilitate exports during sugar season 2018-19 by providing assistance towards internal transport, freight, handling and other charges. This would involve assistance of Rs. 1,000 per tonne for mills located within 100 kms from the ports, Rs. 2,500 per tonne for the mills located beyond 100 kms from the port in the coastal states and Rs. 3,000 per tonne for mills located in other than coastal states or actual expenditure, whichever is lower.

This assistance would be subject to export of 5 million tonnes of sugar and total expenditure of Rs.1,375 crore on this account would be paid by the government.

Measure 2: The government approved financial assistance of Rs.13.88 per quintal of cane crushed for sugar season 2018-19. This is more than double the financial assistance of Rs.5.5 per quintal of cane crushed provided by the government in sugar season 2017-18. The assistance shall be applicable to only those mills which fulfil the conditions as per Department of Food & Public Distribution and would involve assistance of about Rs.4,163 crore by the government.

It is to be noted that these assistance shall be provided to those mills which will fulfil the eligibility criteria decided by the government. The announcement of this package follows the assistance of about Rs.7,000 crore announced by the government on 6 June 2018.

Expected impact of the above measures

Trend in sugar prices

From the charts below, it can be seen that sugar prices in the domestic as well as international markets remained depressed and declined in most of the months on a sequential basis during the period January 2017 to September 2018. The fall in prices is primarily on account of sugar surplus situation in the global and domestic market.

Chart 1: Trend in international sugar prices

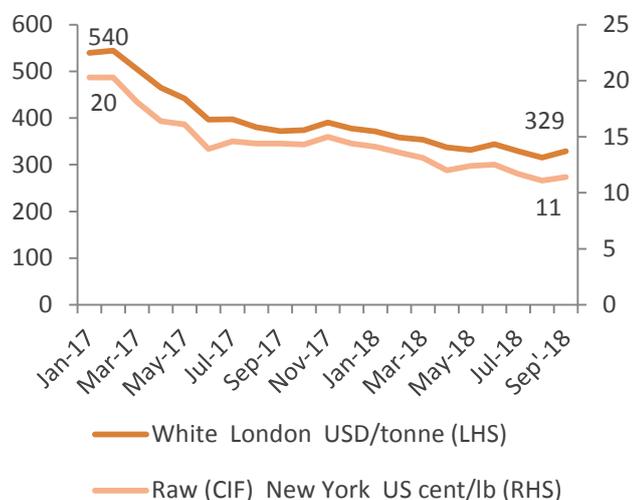
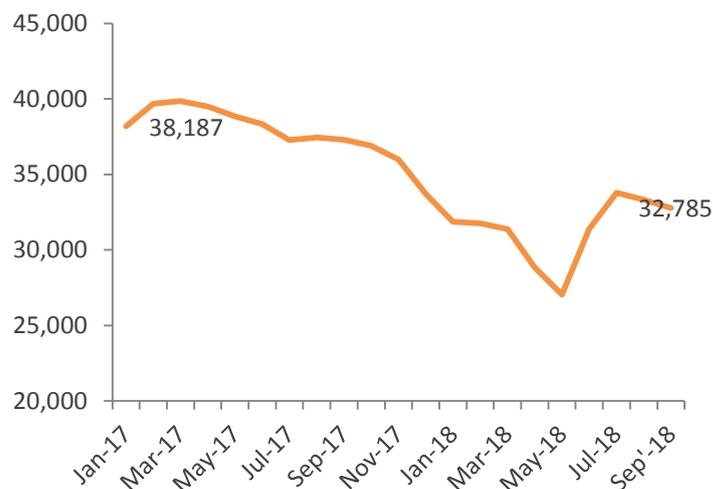


Chart 2: Trend in small grade sugar prices in Mumbai (Rs/tonne)



Source: CMIE

The white sugar prices in London that averaged at USD 540 per tonne in January 2017 declined by 39% to USD 329 per tonne in September 2018 and the raw sugar prices in New York that averaged at 20 cents per lb in January 2017 fell by a sharper 43.8% to 11 cents per lb in September 2018. The small grade sugar prices in Mumbai which stood at Rs.38,187 per tonne in January 2017 decreased by 14.1% to Rs.32,785 per tonne in September 2018.

During the period January 2017- September 2018, the white sugar prices in London and the raw sugar prices in New York averaged at Rs.26 per kg and Rs.21 per kg, respectively. The domestic prices on the other hand averaged higher at Rs.35 per kg during this period. Considering this, the assistance provided by government of Rs.1 to Rs.3 per kg on exports is unlikely to cover the price difference between the domestic and international markets.

Impact of measure 1: In order to understand how the export of 5 million tonnes of sugar can help reduce the domestic surplus stock condition, here we consider two situations: **a.** 5 million tonnes of sugar is exported **b.** 5 million tonnes of sugar remains in the domestic market. The two situations are detailed in the table below:

Table 1: Estimated sugar stock situation in India for 2018-19 (in million tonnes)

	a. 5 million tonnes is exported from India	b. 5 million tonnes remains in India
Opening stock	11.2	11.2
Production	~35	~35
Imports	-	-
Total Availability	46.2	46.2
Domestic consumption	25.8	25.8
Exports	5	-
Closing stock	15.4	20.4

It can be seen from the table above that even if exports of 5 million tonnes of sugar are undertaken by India during 2018-19, closing stock for the year remains high at 15.4 million tonnes compared to the normative requirement of 3 months stock which is approximately 5-6 million tonnes of sugar. However if this 5 million tonnes of sugar is not exported, the situation would even be worse with a closing stock of 20.4 million tonnes for the year 2018-19.

Nevertheless in order to reduce sugar glut, the government in June 2018 announced higher ethanol prices for the supply period 1st December 2018-30th November 2019 and allowed procurement of ethanol from B heavy molasses and sugarcane juice for the first time. Moreover, the prices were further increased in September 2018 for ethanol that would be derived from B heavy molasses and 100% sugarcane juice. Now, it remains to be seen how much sugarcane (and, in turn, sugar) gets absorbed and is diverted towards production of ethanol during 2018-19 season.

Cost of sugar production and minimum selling price of sugar

As per a sample of 46 sugar companies for 2016-17, the raw materials cost accounted for around 85% of the total expenses, primary raw material here being sugarcane. Considering this, Table 2 is prepared which provides an idea on sugar production cost.

Table 2: Cost of sugar production considering FRP and Uttar Pradesh SAP

	(in Rs./tonne)	Total cost of cane for producing one tonne of sugar (in Rs.)	Sugar price (in Rs./tonne) considering raw material cost at 85% of total expenses	Cost of producing sugar (in Rs./kg)
FRP (2018-19)	2,750	27,500	32,353	32
SAP (2017-18)	3,150	31,500	37,059	37

Note: Uttar Pradesh SAP for 2018-19 is yet to be announced

While the cost of sugar production is estimated to range between Rs.32-Rs.37 per kg, the minimum selling price of sugar at mill gate has been fixed at Rs.29 per kg which does not cover the cost of production.

Impact of measure 2: Observing the difference between cost of sugar production and its minimum selling price, the government is believed to have provided financial assistance of Rs.13.88 on per quintal of cane crushed for sugar season 2018-19. This implies an assistance of Rs.1.4 for producing 1 kg of sugar. **Thus subtracting this assistance from the cost of sugar production will bring down the manufacturing cost in the range of Rs.31-Rs.36 per kg which again is more than the minimum selling price of Rs.29 per kg.**

Concluding remarks

- *Even if exports of 5 million tonnes of sugar is observed, closing stock for the year 2018-19 remains high at 15.4 million tonnes compared to the normative requirement of 3 months stock which is approximately 5-6 million tonnes of sugar.*
- *While the financial assistance of Rs.13.9 per quintal of cane crushed for sugar season 2018-19 will help reduce the cane arrears to some extent, it will not help the sugar mills considerably as it does not bring down the cost of sugar production significantly.*

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