

Import duty on sugar hiked to 50%

According to a notification by Central Board of Excise and Customs (CBEC), the government increased the import duty on sugar to 50% from 40% earlier. This is however lower compared to 60% import duty demanded by the industry. The import duty is hiked primarily to keep the sugar prices stable.

In April 2017, the government had announced import of a restricted quantity of only 5 lakh tonnes (0.5 million tonne) of raw sugar at zero duty through open general license. The imports were allowed to increase the availability of sugar during the sugar year October 2016 - September 17.

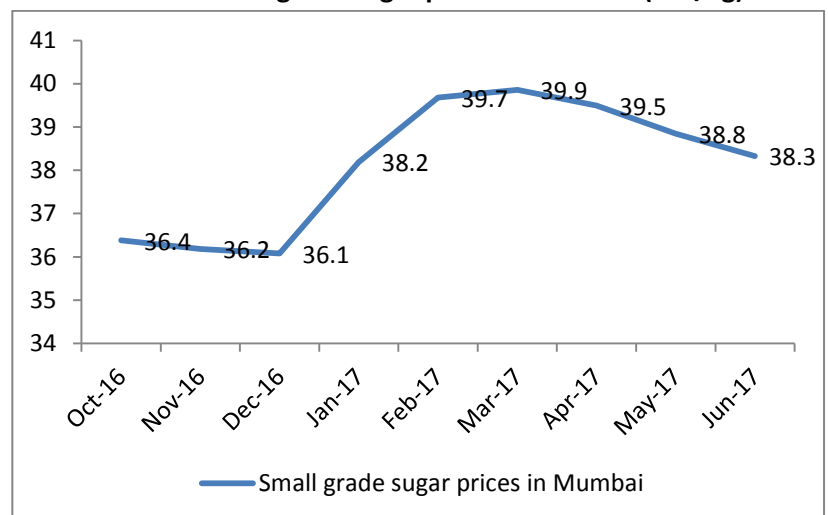
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Chart 1: Small grade sugar prices in Mumbai (Rs. /kg)



Source: CMIE

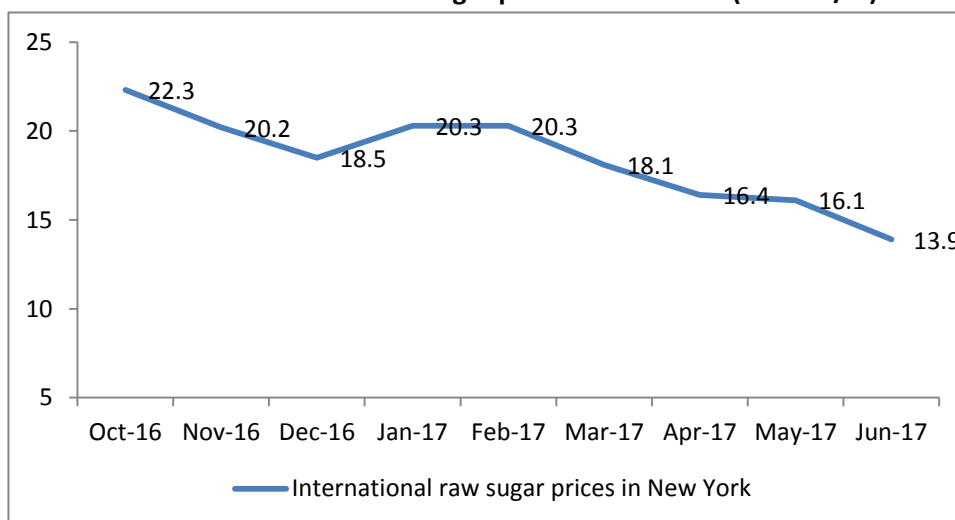
Sugar prices in the domestic market that averaged at Rs.36.2 per kg in the December 2016 quarter increased to Rs.38.2 per kg in January 2017, a growth of 5.5%. In February 2017, the prices rose by 3.9% to Rs.39.7 per kg on a m-o-m basis. The prices however stabilized from the month of February 2017 onwards and they hovered in the range of Rs.38.2-Rs.39.9 per kg during the period February-June 2017. In the initial few days of July 2017, the prices averaged at Rs.37 per kg.

The prices stabilized as domestic production was sufficient to meet consumption requirements in the country.

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While the sugar prices stabilized in the domestic market, raw sugar prices in the international market fell continuously in each of the months during March-June 2017. In the month of June 2017, the prices fell by a sharp 13.7% to US cent 13.9 per lb on a m-o-m basis. The fall in prices can be attributed to higher sugar production in Brazil, the largest sugar producing country in the world.

Chart 2: International raw sugar prices in New York (US cent/lb)



Source: CMIE

Lower international raw sugar prices could have prompted the millers to import sugar with a duty of 40% as this still keeps the sugar prices lower compared to (current) domestic prices in India. Also, the closing stock that India is likely to have for the sugar year 2016-17 is around 3.5-4 million tonnes of sugar which is sufficient to fulfill the domestic requirements for the first two months of the next sugar year 2017-18. Generally, India keeps a normative requirement of three months stock to meet the domestic requirements of the new sugar year.

CARE's view on hike on sugar import duty

- The government's move to raise import duty on sugar is likely to keep the prices stable. This step also points out that the government is constantly keeping an eye on the industry's situation and is expected to continue to take measures to keep the prices stable
- Imports if brought in would have resulted in an increase in domestic availability of sugar thus causing the prices to move downwards
- Also, the government has hiked the sugarcane price by 10.9% to Rs.255 per quintal on a y-o-y basis for the sugar year 2017-18. Thus it could not have afforded the fall in sugar prices as it would have resulted in higher sugarcane arrears.

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