India’s Sugar Policy and the World Sugar Economy
Theme of the Presentation

- India’s place in world sugar
- Structural features of the sugar economy in India
- Evolution of Government policy regarding sugar
- Political Economy of sugar in India
- Key messages
In last five decades Indian Sugar production share has gone up from 5% to >15% in global sugar production.

Indian share is >20% in cane sugar production of globe
In last five decades Indian Sugar consumption share has gone up from 5% to >13% in global sugar production.

Indian share is >20% in cane sugar consumption of globe
Per Capita consumption of India vis a vis Global avg.

- Consumption in India is growing more (CAGR) as compare to Global avg.
- More disposable income, better life style and growth in GDP supports more consumption in India
- Whenever country produces surplus, have 5-6% in export availability in global sugar exports
- Have done exports of about 5 mln tons in one season, so capable of handling exports
Cyclical sugar trade in last 20 years........
Indian Sugar Export Destinations
The Indian Sugar Industry

- 2nd largest producer of sugar in the world
- 5 million hectares & 60 million cane farmers and dependants.
- Rs.80,000 crore (approx. US$ 16 billion) industry. Cane payment of Rs.55,000 crore (approx. US$ 10 billion) are directly paid to farmers without middlemen.
- Large number of sugar mills – 527 operated in 2011-12
- Competition for cane from jaggery manufacturers
- 65% of sugar consumed by bulk consumers

Located in rural heartland, directly contributes to rural economic development & employment
Indian Agriculture – An Outgrowers Model

- Outgrowers model
  - Average land holding 0.5 ha
  - Pricing of sugarcane Vis-à-vis other crops
  - Monsoon/Irrigation
  - Farm yield
  - Competition with other crops
  - FRP Vs SAP
  - Legal issues
  - Plant ratoon combination
  - 60 Million farmers
  - Farm Credit
  - Agro-climatic

- Outgrowers model is the central theme connecting various factors such as average land holding, pricing, competition, and other environmental factors affecting sugarcane production and yield in Indian agriculture.
The Infamous Indian Sugar Cycle

Production trend of last ten years

Sugar Production (lakh tons)

- 2001-02: 185.27
- 2002-03: 201.40
- 2003-04: 135.46
- 2004-05: 126.91
- 2005-06: 192.67
- 2006-07: 283.61
- 2007-08: 263.56
- 2008-09: 145.38
- 2009-10: 189.12
- 2010-11: 243.94
- 2011-12 (E): 260.00
The Infamous Indian Sugar Cycle

Production- Consumption trend of last ten years

- **Sugar Production (lakh tons)**
  - 2001-02: 185.27
  - 2002-03: 201.40
  - 2003-04: 185.00
  - 2004-05: 172.85
  - 2005-06: 135.46
  - 2006-07: 126.91
  - 2007-08: 283.61
  - 2008-09: 263.56
  - 2009-10: 199.00
  - 2010-11: 229.12
  - 2011-12 (E): 260.00

- **Sugar Consumption (Internal Releases) lakh tons**
  - 2001-02: 167.81
  - 2002-03: 183.84
  - 2003-04: 172.85
  - 2004-05: 185.00
  - 2005-06: 192.67
  - 2006-07: 199.00
  - 2007-08: 219.00
  - 2008-09: 213.28
  - 2009-10: 207.69
  - 2010-11: 189.12
  - 2011-12 (E): 220.00
Cane Price Arrears (as on 31st March in Rs. crore)
Cane Price Arrears vis-à-vis Sugar Inventory

**2010-11**

**2011-12**

- Cane Arrears (Rs. Cr)
- Sugar Inventory (lk tn)
- Sugar Inventory (lk tn)
- Cane Arrears (Rs. Cr.)
Controls on Indian Sugar Sector

GOVT. POLICIES

- Minimum Distance Criteria between mills
- Cane Area Reservation
- Dual Cane Pricing: Federal/Provincial
- Levy Sugar Obligation on mills
- Regulated Release Mechanism
- Import and Export
- Compulsory sugar packing in jute only

Provincial Govt. controls

Federal Govt. controls
Indian sugarcane prices are the highest in the world

![Chart showing average sugarcane prices from Oct-Mar 2011-2012 for various countries, with India having the highest price at $45/tonne, followed by USA at $40/tonne, Bangladesh at $37/tonne, Pakistan at $35/tonne, South Africa at $34/tonne, Brazil at $30/tonne, Mexico at $28/tonne, Thailand at $25/tonne, and Australia at $24/tonne.]
Indian sugar price amongst the lowest in the world

- Most of the benefits goes to bulk consumers, who consume 65% of total sugar
Sugar Industry: Little Control Over Its Own Fate!

- **Raw Material**: *Its Price and Availability*
- **Sales**: *Volume as well as Levy Obligation*
  - : Stock Limits on Traders, Bulk Consumers etc.
  - : Sugar Inventory
- **Selling Price of Sugar**: *Below cost of production*
- **Packaging Material of Sugar**: *Price and Quality*
- **Export-Import of Sugar**: *Quantity and Policy Restrictions*
- **Cash Flow Planning**: *Payment to Farmers and Lenders*
What is India’s Sugar Policy?

- **Mission Statement of Department of Food and PD**: Ensuring availability of sugar
- **Objective**: Development/Promotion of sugar industry
Legacy of control

- **Essential Commodities Act, 1955**: Both sugar and sugarcane included as Essential Commodities;
- **Sugar (Control) Order, 1966**
- **Sugarcane (Control) Order, 1966**

Sugar and sugarcane still ‘essential commodities’ in 2012
Political Economy of sugar

- Sugar price determined by Federal Government
- Sugarcane price decided by provincial governments.
- Consumer v/s Farmer debates
- Action or policy is reactionary
World sugar’s view of India?

- Trust deficit – Is India a reliable player?
- Long term sugar policy vs. Short term breathers
- Market or Competitor
- Opportunities for investment
Key messages

- Politics will override economics
- Deregulation?
- India – only relevant as a consumer!
- Good sugarcane prices may sustain levels to meet domestic consumption
- Exports only when production is surplus
Thank You