

GLOBAL OPPORTUNITY: SHIPPING OUT TROUBLE

India's sugar exports are set to hit a record high this year, providing some respite to the beleaguered industry.

Although the current 2019-20 sugar year (October-September) has opened with record stocks of over 14 million tonnes (mt) — equivalent to six-and-a-half months of domestic consumption — the ray of hope is from tightening global supplies, making large-scale exports from the country a viable proposition.

In 2018-19, India's sugar output as well as closing stocks hit all-time-highs of 33.16 mt and 14.27 mt, respectively (see table 1). This, in ordinary circumstances, would have spelled disaster both for mills (already burdened by low sugar realisations) and farmers (not receiving full or timely payment for their cane). Mills in Uttar Pradesh (UP), as on November 19, are to still pay Rs 3,660.90 crore out of the total Rs 33,048.03 crore worth of cane bought from growers in 2018-19, even as they have commenced crushing for the new 2019-20 season.

TABLE 1: INDIA SUGAR BALANCE SHEET (LAKH TONNES)

| Year* | Production | Imports | Consumption | Exports | Stocks** |
|---------|------------|---------|-------------|---------|----------|
| 2010-11 | 243.94 | 0 | 207.69 | 26.00 | 57.29 |
| 2011-12 | 263.43 | 0 | 220.00 | 33.90 | 66.82 |
| 2012-13 | 251.41 | 7.25 | 230.00 | 3.48 | 92 |
| 2013-14 | 243.6 | 11.77 | 244.27 | 27.82 | 75.28 |
| 2014-15 | 283.13 | 12.36 | 256.55 | 23.02 | 91.2 |
| 2015-16 | 251.25 | 0 | 248.5 | 16.70 | 77.25 |
| 2016-17 | 202.62 | 4.48 | 244.48 | 0.46 | 39.41 |
| 2017-18 | 323.28 | 2.24 | 254.50 | 6.32 | 104.11 |
| 2018-19 | 331.61 | 0 | 255.00 | 38.00 | 142.72 |

*October-September; **Year-end. Source: National Federation of Cooperative Sugar Factories

But this gloomy domestic glut scenario — compounded by near-flat consumption in recent years, apparently reflecting growing health consciousness and reduced offtake by industrial users, including beverage, sweetmeat, chocolate, confectionery, biscuit and ice-cream makers — is being partly offset by a developing global deficit.

The US-based commodity analytics firm Tropical Research Services has projected world raw sugar production in 2019-20 to fall short of consumption by 11.90 mt, a marked turnaround from the surplus of 10.52 mt only two years ago. Moreover, closing stocks, at 43.2% of consumption, would be the lowest since 2010-11 (see table 2).

TABLE 2: GLOBAL SUGAR BALANCE SHEET (MILLION TONNES)

| Year* | Production (1) | Consumption (2) | Gap (1-2) | Stocks-to- Use% |
|---------|-------------------|--------------------|--------------|--------------------|
| 2010-11 | 166.827 | 166.142 | 0.685 | 42.9 |
| 2011-12 | 174.190 | 168.893 | 5.297 | 45.1 |
| 2012-13 | 183.318 | 172.779 | 10.539 | 49.8 |
| 2013-14 | 181.533 | 176.388 | 5.145 | 51.6 |
| 2014-15 | 181.853 | 179.350 | 2.504 | 51.7 |
| 2015-16 | 175.082 | 181.330 | -6.248 | 47.7 |
| 2016-17 | 178.329 | 181.807 | -3.479 | 45.6 |
| 2017-18 | 193.702 | 183.177 | 10.524 | 50.7 |
| 2018-19 | 185.110 | 185.089 | 0.021 | 50.2 |
| 2019-20 | 175.682 | 187.582 | -11.899 | 43.2 |

Source: Tropical Research Services

“This is a great opportunity for us to export and it couldn’t have come at a better time, when we are saddled with so much of stocks,” says **Prakash Naiknavare, Managing Director of the National Federation of Cooperative Sugar Factories.**

Sugar exports from India amounted to 3.8 mt in 2018-19, lower than the targeted 5 mt. For the current sugar year, the Narendra Modi government has allocated export quotas to mills aggregating 6 mt, apart from granting a three-month extension till December 31 to discharge their balance 1.2 mt commitment for 2018-19. Together, they add up to 7.2 mt, way above the highest-ever shipments of 4.96 mt achieved in 2007-08.

“It is a stiff target,” admits **Naiknavare**, “but the good thing is that the international market looks much more conducive and the government has announced an adequate export incentive well before the start of this season”. The Modi government, on September 12, notified a new ‘World Trade Organisation (WTO)-compatible’ scheme providing a lump-sum assistance totaling Rs 10,448 per tonne towards marketing, internal transport, port handling and ocean freight expenses incurred on export of sugar. The scheme, limited to the maximum admissible export quantity of 6 mt for all mills, would entail a fiscal cost of about Rs 6,269 crore.

Last year, the notification for facilitating exports was issued only on October 5. Further, the incentive package included an assistance of Rs 13.88 for every quintal of cane crushed and a payment to defray expenditure towards internal transport, freight, handling and other export-related charges. The latter payment was up to Rs 1,000 per

tonne of sugar for mills located within 100 km from ports and Rs 3,000/tonne for those beyond 100 km in non-coastal states.

"It was too complicated, with procedural hurdles and excessive documentation requirements for making claims. The new scheme is simple: You simply export and get a flat incentive of Rs 10,448 for every kg of sugar going out. Also, what is being given is a lump-sum assistance and not reimbursement of actual expenses, which can be challenged at the WTO. And it has been announced early enough to plan our production for exports," notes a UP-based miller.

Indian mills, it is learned, have already contracted 1.3 mt of sugar for exports during this season. A significant quantity of it is raw brown, as opposed to white refined, sugar. The normal crystal white sugar produced by Indian mills has an 'ICUMSA value' of over 100. The market for it is limited, unlike the more widely traded highly-refined sugar of 45 ICUMSA grade (the lower the ICUMSA, the more the whiteness).

"Our raw sugar from fresh cane, crushed within 12 hours of harvesting, is free of dextran (an undesirable compound resulting from microorganism-induced biodeterioration) and with 600-1,000 ICUMSA. There is a good demand now for it, especially from refineries in United Arab Emirates, Indonesia, Malaysia, Bangladesh, China and South Korea that largely source Brazilian raw sugar. Since the Brazilian sugar season starts only in April-May, we have a six-month time window to leverage," points out **Naiknavare**.

Iran, too, is reportedly buying significant quantities from India. The Islamic republic, which has been blocked from the global financial system due to US-imposed economic sanctions, is using the rupees earned from sale of oil to import sugar, rice, tea, soyabean meal and other commodities from India.

"Everything's falling in place. Not only are we in a better position to export, but the government also deserves credit for coming out with a practical and well-timed incentive scheme. It allows us to begin the season by producing raw sugar and enter into back-to-back contracts with importers," observes the earlier-quoted UP miller. Even in Maharashtra, the delayed start due to heavy unseasonal rains — mills will crush only from November 22 — may be a blessing of sorts, as it gives leeway to take up production of raw sugar straightaway for dispatching to the ports rather than storing in factory godowns.

Raw sugar is currently trading in New York at roughly 12.8 cents per pound. The rate would be higher, at 13.3 cents or Rs 21/kg, for Indian sugar, which fetches a 4.05% 'polarisation premium' for extra sucrose content. Adding the Rs 10.5 incentive and deducting Rs 2-2.5 towards bagging, transport and port handling charges, mills would realise Rs

29-29.5 per kg from exports. This is below the domestic ex-factory price of Rs 31.5-32.5 for white sugar. But raw sugar production costs are also lower by Rs 1/kg or so, as mills save on lime, sulphur and additional steam-cum-processing charges. Besides, the government fixes monthly quotas for sales in the domestic market, whereas there are no such restrictions on export of sugar. Faster liquidation translates into savings in interest and carrying costs as well.

The improved prospects for exports, however, do not translate into an end to the industry's woes. The state advised price (SAP) for sugarcane in UP has gone up only marginally from Rs 300-315 to Rs 310-325 per quintal between 2016-17 and 2018-19, with mills struggling to pay even that. The Yogi Adityanath administration has not declared the SAP for the current season, despite 87 out of the state's 119 mills already crushing 5.85 mt of cane and producing 0.58 mt of sugar till now.

In Maharashtra, drought in the Marathwada-Solapur-Ahmednagar region till August, alongside unprecedented flooding in the main southern sugar belt of Sangli-Kolhapur during late-July/early-August and heavy unseasonal rains across the state after September, has taken a heavy toll on production itself. Maharashtra's sugar output is likely to plunge to 5.5-6 mt in 2018-19, from last year's record 10.72 mt.

For the moment, exports are the sole bright spot for Indian sugar.

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