Crisis in the Cane Industry

What is the issue?

\n\n

\n
- The union government's has announced a financial assistance for sugarcane growers, but it is too little to beat the distress in the sector.
\n
- Also, the government is pushing aggressively to increase exports of refined sugar at a time when external demand is not conducive.
\n

\n\n

How significant is the support that has been announced?

\n\n

\n
- Union government recently approved a financial assistance of Rs 5.50 per quintal (100 kg) of cane crushed by sugar mills for 2017-18.
\n
- The Centre's FRP of cane for 2017-18 is around Rs 287 per quintal (average).
\n
- **The Stress -** Centre's Sugarcane (Control) Order mandates mills to pay the FRP within 14 days of cane purchase from farmers.
\n
- If payments deadlines aren't met, they'll have to pay about 15% annual interest on the due amount for the period of delay.
\n
- But sugar mills have clearly stated that they cannot pay farmers beyond 75% of their realisations from sugar.
\n
- Hence, at the prevailing ex-factory sugar prices of about Rs 26 per kg, the net value would amount to merely Rs. 217 per quintal.
\n
- This leaves a shortfall of about than 70 rupees from the nationally mandated FRP, which will hardly be met with the Rs. 5.5 per quintal assistance.
\n

\n\n

\n
- **Implication -** The move to provide Rs 5.5 per quintal as subsidy is an admission that FRP requirements are very high.
\n
- This amount will get adjusted with FRP, thereby giving mills considerable leeway in paying even the amount mandated by law.
\n

\n\n

How have things come to this?

\n\n

\n
- Overproduction has been a persistent problem with sugarcane, and it has often messed up the calculation of millers, traders and governments.
\n
- The country's sugar output in 2017-18 is expected at a record 31.7 million tonnes (mt), a 56% jump over the last season's level.
\n
- Even more spectacular is the production rebound in Maharashtra, from a 12-year-low of 4.2 mt in 2016-17 to an all-time-high of 10.7 mt this year.
\n
- These projects have led to the crash of ex-factory prices by Rs 9-10 per kg since the start of the season as immense surplus has been projected.
\n
- Notably, the availability is projected at 35.5 mt (3.8 mt previous stock added), but the estimated domestic demand is just 25 mt.
\n

\n\n

How could the sugar subsidy influence markets?

\n\n

\n
- Cane arrears (to farmers) are currently Rs. 20,000 crores and the proposed Rs. 5.5 per quintal will account a pittance of just Rs. 1,630 crores.
\n
- But notably, this assistance is to be provided only to those mills which will fulfil the eligibility conditions as decided by the Government.
\n
- While there is no clarity on the "eligibility conditions", the expectation is that the payment would be linked to mills meeting export targets.
\n
- The Centre has already fixed mill-wise "minimum indicative export quotas"

totalling 2 mt for the current sugar season.
\n
- Forcing mills to export could be a part solution to the domestic glut, with the Rs 5.50/quintal assistance acting as a performance incentive.
\n

\n\n

How does the export scenario look?

\n\n

\n
- At current international rates, white sugar will have to be shipped out from India at around Rs 20.50 per kg.
\n
- That translates into an ex-factory price of Rs 18, which is way below what mills are realising from domestic sales.
\n
- Also, internationally, there is limited demand for India sugar which usually has an ICUMSA value of over 100 (lower the ICUMSA, greater the purity).
\n
- Global markets require a better refinement with ICUMSA values around 45.
\n
- “National Federation of Cooperative Sugar Factories” has stated that exporting the mandated 2 mt of white sugar before September won’t be easy.
\n
- They’ve rather asked the centre to target raw sugar exports of 4 mt before December 2018, which the mills would be able to meet.
\n
- Indian raw brown sugar from fresh cane is said to be dextran-free and with very high polarisation of 800-1,200 ICUMSA.
\n
- There is a good international demand for raw sugar, including refineries in West Asia, which currently sources Brazilian raw sugar.
\n

\n\n

What are the hopes for the future?

\n\n

\n
- Rising global oil prices may induce mills (particularly in Brazil) to divert cane juice for production of ethanol, as opposed to sugar.
\n
- **International Market -** Brazil’s ethanol output (as blend for fuel) might go

up from the currently 26.09 billion litres to 27.5 billion litres.
\n
- Consequently, its projected sugar production in 2017-18 (36.05 mt) might fall to 30.5 mt in the next crushing season.
\n
- This can open up the international market for Indian raw sugar.
\n
- **Fuel Blending -** It is also the right time for India to aggressively push domestic ethanol blending in fuel to reduce our crude import bills.
\n
- Notably, compared to Brazil's 26 billion-plus litres, India plans to blend just about 1.4 billion litres of ethanol to oil in 2017-18.
\n
- This is only 4.4% of the country's annual petrol consumption of 32 billion litres, while 10% ethanol-blending has already been mandated by law.
\n
- As petrol prices are touching Rs 75 per litre, there is headroom for enhancing the Rs 40.85/litre rate for ethanol.
\n
- Hence, there is a scenario in the fuel market which can enhance the profitability for sugar mills and also absorb the excess cane supply.
\n

\n\n

\n\n

Source: Indian Express

\n