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SUSTAINABLE GROWTH OF INDIAN SUGAR INDUSTRY

KEY WORDS:

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ABSTRACT

In an era where there is a need for inclusive growth, the sugar industry is amongst the few industries that have successfully contributed to the rural economy. It has done so by commercially utilizing the rural resources to meet the large domestic demand for sugar and by generating surplus energy to meet the increasing energy needs of India. In addition to this, the industry has become the mainstay of the alcohol industry. The sector supports over 50 million farmers and their families, and delivers value addition at the farm side. In general, sugarcane price accounts for approximately 70 percent of the ex-mill sugar price .The sector also have a significant standing in the global sugar space.

The Indian domestic sugar market is one of the largest markets in the world, in volume terms. India is also the second largest sugar producing geography. India remains a key growth driver for world sugar, growing above the Asian and world consumption growth average. Globally, in most of the key geographies like Brazil and Thailand, regulations have a significant influence on the sugar sector. Perishable nature of cane, small farm landholdings and the need to influence domestic prices; all have been the drivers for regulations. In India, too, sugar is highly regulated. Since 1993, the regulatory environment has considerably eased, but sugar still continues to be an essential commodity under the Essential Commodity Act. There are regulations across the entire value chain land demarcation, sugarcane price, sugarcane procurement, sugar production and sale of sugar by mills in domestic and international markets.

This research is an endeavour to study the International and domestic sugar industry This research is based on assumptions about general economic conditions, agricultural policies, population growth, weather conditions, and technological changes.

INTRODUCTION

Sugar is one of the oldest commodities in the world and traces its origin in 4th century AD in India and China. In those days sugar was manufactured only from sugar cane. But both countries lost their initiatives to the European, American andOceanic countries, as the 18th century witnessed the development of newtechnology to manufacture sugar from sugar beet. However, India is presently adominant player in the global sugar industry along with Brazil in terms of production. Given the growing sugar production and the structural changes witnessed in Indian sugar industry, India is all set continue its domination at the global level.

A cyclical decline in sugar production is shifting India, the world's second largest producer, from net exporter to net importer during 2009-10 (October/September) and contributing to the current run up in global sugar prices. The downturn in production is primarily due to a policy- induced cycle that has become increasingly pronounced. India is forecast to shift from net sugar exports of 5.8 million tons in 2007-08 to net imports of 2.8 million tons in 2008-09 and a record 6.0 million tons in 2009-10. Sugar production rebounded in 2010-11, as higher government price supports and open-market prices stimulated plantings and improves incentives to deliver sugarcane to sugar mills. In the longer term, India has the capacity to boost sugarcane output, and the government and the sugar industry are considering policy measures to moderate the increasingly sharp cycles in sugar production and trade.

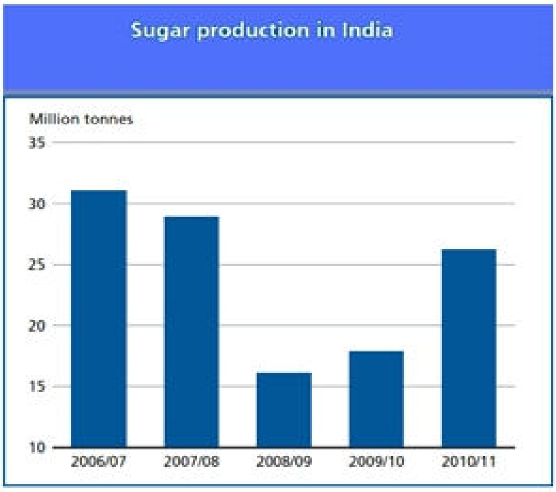
Sugar is highly fragmented with organized and unorganized players. The unorganized players mainly produce Gur and Khandari, the less refined forms of sugar. Sugar industry, one of the major agro-based industrial in India, has been instrumental in resource mobilization, employment generation, income generation and creating social infrastructure in rural areas. Indeed, sugar industry has facilitated and accelerated pace of rural industrialization. The government had a controlling grip over the industry, which has slowly yet steadily given way to liberalization. The production of sugarcane is cyclical in nature. Hence the sugar production is also cyclical as it depends on the sugarcane production in India. As the industry is a fragmented one, even leading players do not control more than 4 percent market in India. However, the situation is changing and players off late are striving to increase their market share either by acquiring smaller mills or by going for green field capacity additions.

Indian sugar industry can be broadly classified in to two sub sectors, the organized sector i.e. sugar factories and the unorganized sector i.e. manufacturers of traditional sweeteners like gur and khandsari. The latter is considered to be a rural industry and enjoys much greater freedom than sugar mills. The production of traditional sweeteners gur and khandsari is quite substantial.

Though the trends indicate a progressive shift from traditional sweeteners to white sugar over the years, they still account for about 37% of total sweetener consumption in India. Since the sugar industry in the country uses only sugarcane as an in input, sugar companies have been established in large cane growing states like Uttar Pradesh, Maharashtra, Tamil Nadu, Karnataka, Punjab and Gujarat. Uttar Pradesh leads the tally by contributing 24% of the country's total sugar production and Maharashtra stands next with 20% contribution. The farmer's co-operatives own and operate the largest chunk of the industry'stotal capacity.

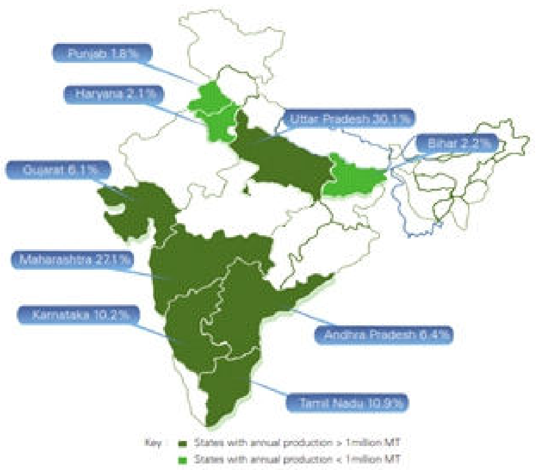
They are concentrated primarily in Maharashtra and eastern Uttar Pradesh. The largest number of sugar companies in the private sector is located in southern India, in the states of Tamil Nadu, Andhra Pradesh and Karnataka.

At present, there are 553 registered sugar factories having capital investment of Rs. 50,000 crores and annual production capacity of 210 lakhs metric tonnes (ISMA Report, 2008). The annual turnover of industry is to the tune of Rs. 30,000 crores. The central and state governments receive annually Rs. 5000 crores as excise duty, purchase tax, and cess. The sugar industry in the country uses only sugarcane as input, hence sugar Companies have been established in large sugarcane growing states like Uttar Pradesh, Maharashtra, Karnataka, Gujarat, Tamil Nadu, and Andhra Pradesh. These six states contribute more than 85% of total sugar production in the country; Uttar Pradesh and Maharashtra together contribute more than 57% of total production. Indian sugar industry has grown horizontally with large number of small sized sugar plants set up throughout the country as opposed to the consolidation of capacity in the rest of the important sugar producing countries, where greater emphasis has been laid on larger capacity of sugar plants. Sugar industry has brought socioeconomic changes in rural India by way of facilitating entrepreneurial activities such as dairies, poultries, fruits and vegetable processing, and providing educational, health and credit facilities.



Domestic Demand-Supply Scenario

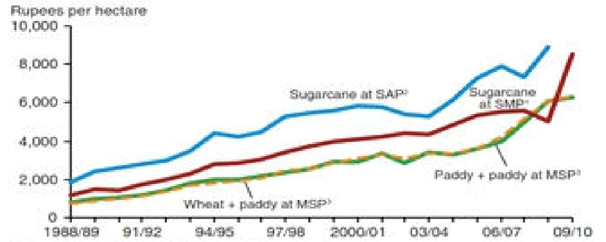
Million Tonnes	SY07	SY08	SY09	SY10	SY11(E)
Supply/Total Availability	**32.2**	**34.8**	**22.5**	**21.0**	**28.5**
- Opening Stock	3.9	8.5	7.8	2.5	3.5
- Production	28.3	26.3	14.7	18.5	25.0
Demand	**23.7**	**27.0**	**23.2**	**21.5**	**25.3**
- Domestic consumption	22.0	22.5	22.5	23.0	23.8
- Exports	1.7	4.5	0.2	-	1.5
Imports	-	-	-	5.5	-
Closing Stock	8.5	7.8	2.5	3.5	3.2
Months of consumption	4.6	4.2	1.3	1.8	1.6



SUGARCANE PRODUCTION POTENTIAL IN INDIA

India likely has significant potential to expand sugarcane production by increasing both planted area and yield. While India's area planted to sugarcane, averaging about 4.5 million hectares per year of primarily irrigated land, is the second largest in the world after Brazil, it accounts for a relatively small Share of India's cropped area (about 142 million hectares) and net irrigated area (about 60 million hectares). Sugarcane, however, is a year-round crop that typically remains in the field for 3 years, and returns to sugarcane production must be competitive for irrigated land on which two and in some areas three, crops are taken in one year.

Gross returns from sugarcane, wheat and paddy production in India



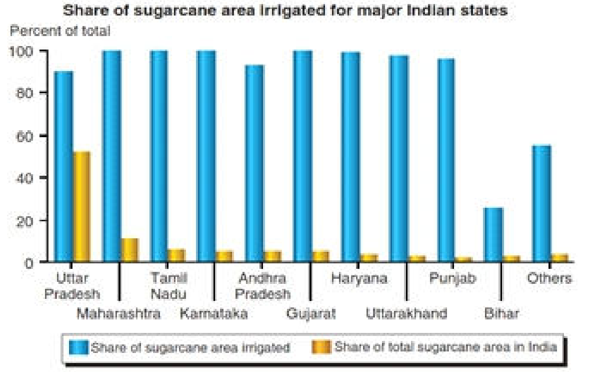
[1]Gross returns at Statutory Minimum Price.
[2]Gross returns at average State Advised Price.
[3]Gross returns at Minimum Support Price.

Sources: USDA, Economic Research Service using data from USDA, Foreign Agricultural Service, PS&D Online; and Government of India, Ministry of Agriculture, Directorate of Economics and Statistics.

Above figure provides gross returns from sugarcane, wheat-paddy double crops common in irrigated areas of north India, and paddy-paddy double crops common in irrigated areas of south India over a 10-year period. A comparison shows generally higher returns to sugarcane, based on both average SAPs and the lower SMPs, although there has been a convergence in recent years due to the relatively large increases in wheat and paddy MSPs. However, cost of cultivation data indicate that labour costs for sugarcane are roughly double those for wheat and paddy, suggesting that labour availability and costs may be constraints to growth in sugarcane area.

India also appears to have the potential to improve sugarcane yields, and the average sugar content of harvested sugarcane, through a continued shift of planted area from northern states, where the climate is subtropical, to southern states, where the climate is tropical and conducive to higher sugarcane yields and sugar recovery rates. Sugarcane yields in India average about 68 tons per hectare, about the same as China but below other major producers, such as Australia, Brazil, and Mexico. But, an increasing share of India's sugarcane is being planted in southern states, where yields average about 83 tons/hectare, rather than in north India, where yields average about 58 tons/hectare. Although the northern state of Uttar Pradesh the historical centre of the Indian sugar industry still accounted for about 46 percent of sugarcane area and 39 percent of output during 2005-06 and 2007-08, the southern state of Maharashtra, where both average yields and the sugar content of sugarcane are higher, is now the largest producer of sugar. Most Indian sugarcane is grown under irrigation in all major producing states, providing favourable conditions for improving average yields.

Share of sugarcane area irrigated for major Indian states



Source: USDA, Economic Research Service using data from Government of India, Ministry of Agriculture and Cooperation, Directorate of Economics and Statistics; and USDA.

SUGAR CANE PRICING POLICY

Sugar cane pricing is politically sensitive in India. Every year central government announces Statutory Minimum Price (SMP) for sugarcane. The sugar cane producing states also announce their own State Advised Price (SAP), which is many times much higher than SMP. The difference in SMP and SAP has resulted in market distortions and huge pile of arrears with sugar mills to be paid to farmers.

As per Sugarcane (Control) Order, 1966, sugar mills have to pay cane price to farmers within 14 days of delivery of sugarcane and any failure in this regard could attract penal interest rate of 15% per annum.

CONCLUSION

The government of India had allowed one mt of exports under open general licence so far.An increase in India's exportable surplus and strong production prospects in key Northern Hemisphere producers will limit the upside on prices. The important questions for the sugar market in 2016 will be whether cane output in Brazil recovers after a production setback, when and how much Brazilian cane will be converted into ethanol instead of sugar, and the outlook for Indian sugar exports.

According to Barclays, a key influence of the market outlook in 2012 will be the manner in which the price of ethanol will influence the decision of Brazilian mills to allocate cane to produce sugar or ethanol. The end of US government subsidies and trade barriers to Brazilian ethanol bodes well for Brazilian ethanol producers in the long term and could prompt renewed investment. But exports are unlikely to increase in the near term due to Brazil struggling to meet its domestic demand.

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