# Export Subsidy on Sugar

## Why in news?

The central government announced that it is not considering extending its export subsidy for the 2020-21 sugar season.

## What is the response?

- The sugar industry has reacted strongly to this announcement.
- It has warned of a 'vertical collapse' in the sector due to excessive stock, whose ramification can be felt in the years to come.

## Why is the industry supporting exports even before the start of the season?

- At the start of the (October-November) sugar season, the industry draws up its balance-sheet.
- It takes into consideration the expected production, the carry forward stock of last season, minus domestic consumption and exports, if any.
- This balance-sheet decides the availability of sugar for the next season.
- There is an unusually high opening stock available for the next season (season of 2021-22).
- Without an export incentive like a government subsidy, this will result in a vertical collapse of the sector.

## How will this inventory be corrected?

- One way of correcting this inventory is by **promoting export**.
- Sugar mills export both white as well as raw sugar.
- If export is promoted, the stock would be reduced, providing the mills a healthy inventory as well as liquidity from exports.

## Why are mills reluctant to export sugar without a subsidy?

- The mills' reluctance stems from the gap between cost of manufacturing and the current price of raw sugar in international markets.
- The **price mismatch** has ruled out any export prospects as this would lead to further loss for the mills.
- Ironically, mills are facing this problem at a time when Indian sugar has

made its mark in the international markets.

### How did the mills manage to export sugar last season?

- The record export level last season was possible only because of the **subsidy programme** offered by the central government.
- Mills got a transport subsidy of Rs 10.448 per kg of sugar exported.
- This subsidy had helped the mills bridge the difference between production costs and international prices.
- The Union Ministry of Food and Civil Supplies was strict about **compliance**, which led to mills toeing the line in terms of exports.
- A **higher demand in international markets** had also seen Indian mills reporting good exports.
- But now, the central government ruled out any extension of the subsidy scheme as the international sugar scenario is currently stable.

### What would be the impact?

- Industry watchers said that the delay in India's export subsidy scheme had seen sugar prices rallying.
- The benefit is largely being drawn by Brazil, which is the largest sugar manufacturer of the world.
- As a second Covid-19-induced lockdown looms large over Europe, Brazilian mills are considering diverting 48% of their cane towards sugar production.

### Have last season's exports helped mills generate enough liquidity?

- No, the central government is yet to release the export subsidy due to the mills and the total due is as high as Rs 6,900 crore.
- Individual mills had taken loans to facilitate exports and now they have to pay interest to the banks.
- Unpaid interest of Rs 3,000 crore for maintaining buffer stock has also hit hard the balance sheet of mills.
- The pandemic has further delayed the release of subsidy.
- This has led to many mills not having sufficient liquidity at the start of the season.

### But why can't mills concentrate on ethanol production?

- Recently, the central government has announced a Rs 1-3 per litre rise in the procurement price of ethanol.
- This is the second signal given by the government to mills to divert cane towards production of ethanol rather than sugar.
- In 2019, the central government had announced an interest subvention

scheme for mills to augment production of ethanol.
- But diversion to ethanol will require more capital and time to materialise.

**Source: The Indian Express**