

## Oil Price Impact on Sugar Prices

### Why in news?

The prices of raw sugar for May 2020 delivery at New York crashed to 9.75 cents per pound, the lowest closing for a nearest-month futures contract since June 2008.

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### Why have global sugar prices collapsed?

- All commodities have taken a demand hit from subdued economic activity and lockdowns imposed to combat the COVID-19 pandemic.
- But sugar is one commodity that, until quite recently, was on growth phase.
- [Most estimates showed global production in 2019-20 (October-September) to fall short of consumption by 8-9 million tonnes (mt).]
- One reason for the collapse now is the closure of restaurants, weddings and other social functions not taking place.
- People are also avoiding ice-creams and sweetened cold beverages that might cause throat infections.
- The impact of coronavirus-induced lockdowns on out-of-home consumption and institutional demand for sugar is thus obvious.
- Sugar consumption in India alone is said to dip by 1.5-2 mt in 2019-20, from the normal 25.5-26 mt levels.

### Have oil prices played a role?

- The juice from crushing sugarcane can be crystallised into sugar or fermented into alcohol.
- When oil prices are high, mills (especially in Brazil) tend to divert cane for making ethanol (alcohol of 99%-plus purity) to be blended with petrol.
- In 2019-20 (April-March), only 34.32% of cane crushed by Brazilian mills went for manufacturing 26.73 mt of sugar.
- The rest was used to produce 31.62 billion litres of ethanol.
- But with oil prices falling, mills will not find it attractive to divert cane for ethanol.
- Brazil's mills are thus seen to produce up to 36 mt of sugar and hardly 26 billion litres of ethanol this year.

### **Will this affect India?**

- Before COVID-19 happened, the Indian industry was expecting to export 5.5-6 mt of raw sugar in 2019-20.
- Mills had already entered into contracts of some 3.8 mt, out of which 3.05 mt have been shipped out so far.
- The sugar industry's woes from excess stocks are thus slow to happen aided by both exports and lower production.
- However, dip in sugar consumption, together with higher Brazilian output, is unfavourable for both Indian sugar mills and cane farmers.
- Nevertheless, in Indonesia, there is an increased import requirement.
- Also, it decided recently to slash the duty on Indian raw sugar from 15% to 5%.
- Indonesian refiners are projected to import 3.3 mt of raw sugar this year, up from 2.6 mt in 2019.
- They buy mostly from Thailand but Thailand is experiencing a bad drought which could lead to its production falling.
- This offers an opportunity for India.

### **What is the situation with respect to cane farmers?**

- Decreasing exports and falling domestic use of sugar by institutional consumers has significantly undermined the mills' ability to make cane payments.
- E.g. Uttar Pradesh's factories have till now crushed cane worth roughly Rs 32,000 crore in the 2019-20 season.
- But they have managed to pay only around Rs 16,400 crore.
- The state government recently announced a scheme of mills giving "willing farmers" one quintal each of sugar for the next 3 months, instead of payments due.
- Moreover, the industry's problem is not from sugar alone.
- The lockdown has reduced off-take of alcohol, be it potable liquor or ethanol for blending with petrol.
- With cars and two-wheelers not running, oil market companies are not very keen to procure ethanol.

### **What are the other implications of oil price fall?**

- The oil price crash has affected other agri-commodities as well.
- Prices of corn, which is also used for making ethanol, fell to their lowest since 2009 at Chicago.
- Likewise, palm oil, again a feedstock for bio-diesel, ended 7.5% lower at the Bursa Malaysia futures exchange.

- Corn prices can, in turn, drag down other cereals, just as palm oil could do to soyabean and other oilseeds.
- All these are ultimately linked to oil, whose prices matter as much to farmers as petroleum companies.

**Source: Indian Express**

