Reviving Sugar Prices

Why is the issue?

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- Sugar prices have been falling due to a bumper harvest in cane this year and last year’s large carry over stock.
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- The government is hence considering removing maximum stock limits for trades in order to arrest the fall in prices.
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What have the traders sought?

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- Currently, traders are allowed to store up 1000 tonnes of sugar in the north & north east regions and 500 tonnes in the other regions.
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- The industry representative have now requested doing away with this cap and also sought the removal of 20% export duty on sugar.
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- Notably, traders also raised the issue of accumulation of cane arrears (subsidy money that is paid by the government).
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What is the status in the industry?

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- The benchmark M-30 variety of sugar has declined by over 3% and is now trading at Rs 3,694 per quintal in Mumbai’s main markets.
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- **Production Costs -** ‘Indian Sugar Mills Association (ISMA)’ estimated the average cost of producing sugar in the 2017-18 at Rs 3,300-3,350 a quintal.
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- But many sugar mills in Maharashtra, are undertaking distress sale at Rs 3,275 a quintal, thereby suffering big losses.
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- **FRP Commitments -** Significantly, mills in parts of Maharashtra had committed to pay farmers Rs.200 more than the government announced “Fair & Remunerative Price (FRP)” of Rs.255.
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- Significantly, the government announced “Fair & Remunerative Price (FRP)” of Rs.255 for sugarcane farmers.
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- But mills in parts of Maharashtra had committed to pay Rs.200 more than the FRP, which will be difficult in the current situation.
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- The picture in UP is also only slightly better with sugar mills barely meeting the production costs.
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What is the Reason for price crash?

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- Falling prices are normal at the beginning of the crushing season.
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- But the situation this year is worrisome due to the huge 4 million tonnes of carryover stocks from the last season and a bountiful output in the current season.
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- Notably, total sugar availability in India this year is expected to be a 25% surplus.
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- While 29.5 million tonnes is the estimated availability, the projected consumption is only 23.5 million tonnes.
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What lies ahead?

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- The current downward spiral of Prices is expected to stabilise at around Rs 3,200 a quintal.
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- As the government has proposed the removal of stocking limits it will usher

in bulk purchases.
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- This is then expected to help in inverting price trends, which will probably happen towards the end of January.
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Source: Business Standard

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