16 October 2018

India, Pakistan, and the world market: the facts

India and Pakistan are indisputably the two most destructive players active on the world sugar market today.

Hiding behind their developing country status, in 2017/18 both countries have offered substantial, trade-distorting export support of questionable legality that could push more than four million tonnes of subsidised sugar onto the world market, 75 per cent more than in the previous marketing year.

These subsidies have had a deleterious effect on world sugar prices, resulting in a world sugar market that is at its lowest level in 12 years.

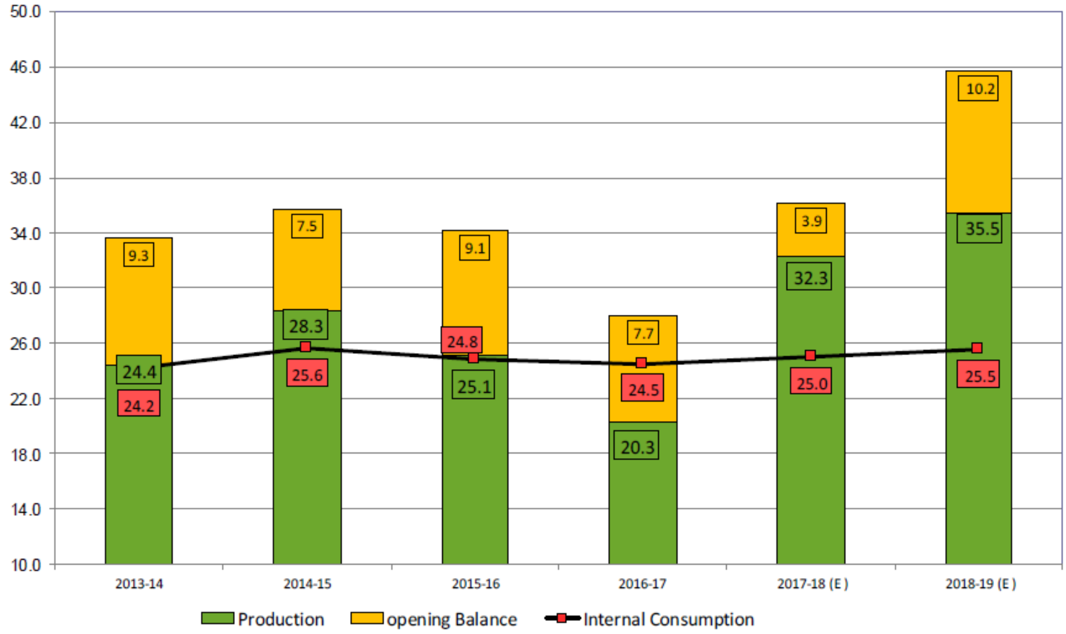
These subsidised exports harm EU sugar manufacturers who have undergone massive structural reforms to comply with WTO rules, as well as low-income sugar producers in Africa, Caribbean and the Pacific that are forced to compete on a skewed playing field.

The document that follows presents the facts of this situation, and aims to equip policy-makers with the information necessary to respond.

India & Pakistan – CEFS factsheet

India has a major and pernicious effect on the world sugar market. In previous years, the famous Indian production cycle, whereby the country's trade balance swung between net exporter and net importer, saw production vary massively, contributing to volatility on the world market. The situation today is different. India is currently transitioning from a 'sugar swing state' to a consistent net exporter, and in 2018/19 is set to overtake Brazil as the world's leading sugar producer.[1]

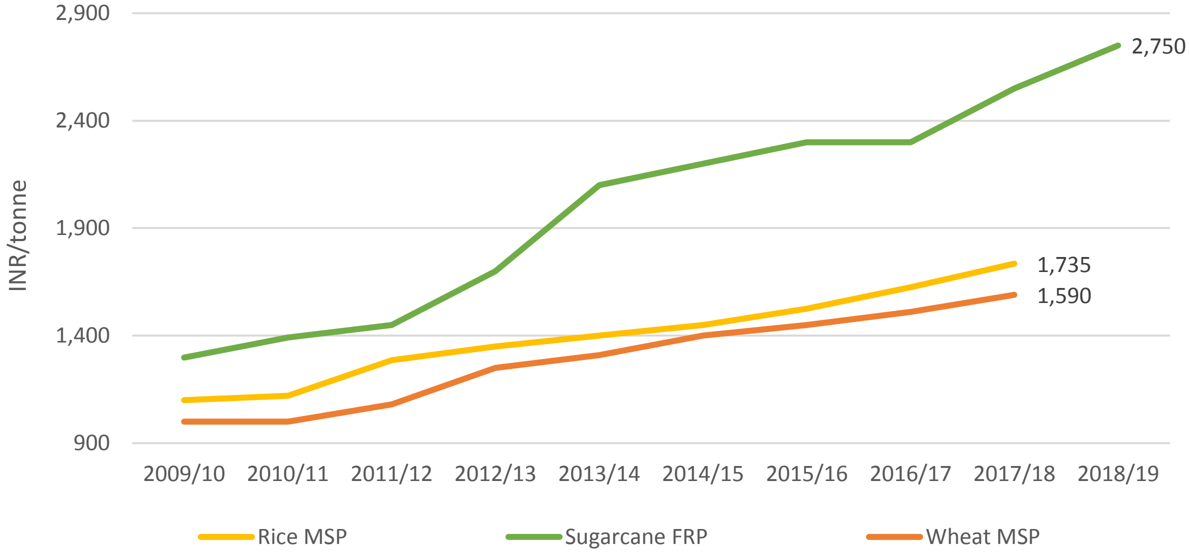
Figure 1: Indian sugar production and opening stocks, in comparison with domestic consumption. Abinash Verma (Indian Sugar Mills Association). August 2018. Policies and controls in sugar sector in India (presentation).



India's sugar market is distorted by government policies designed to play to the large voter base that depends on sugarcane. The government promotes sugar production in a number of ways, primarily by setting minimum prices for sugarcane that incentivise cultivation. High sugarcane prices mean high procurement costs for mills, which the government seeks to offset by setting a minimum domestic selling price for sugar (currently 29 INR/kg [340 EUR/tonne]).[2] Increases in the sugarcane price regularly outstrip increases in the minimum prices of competing crops like rice and wheat, which over the years has consistently augmented the attractiveness of the crop to farmers.

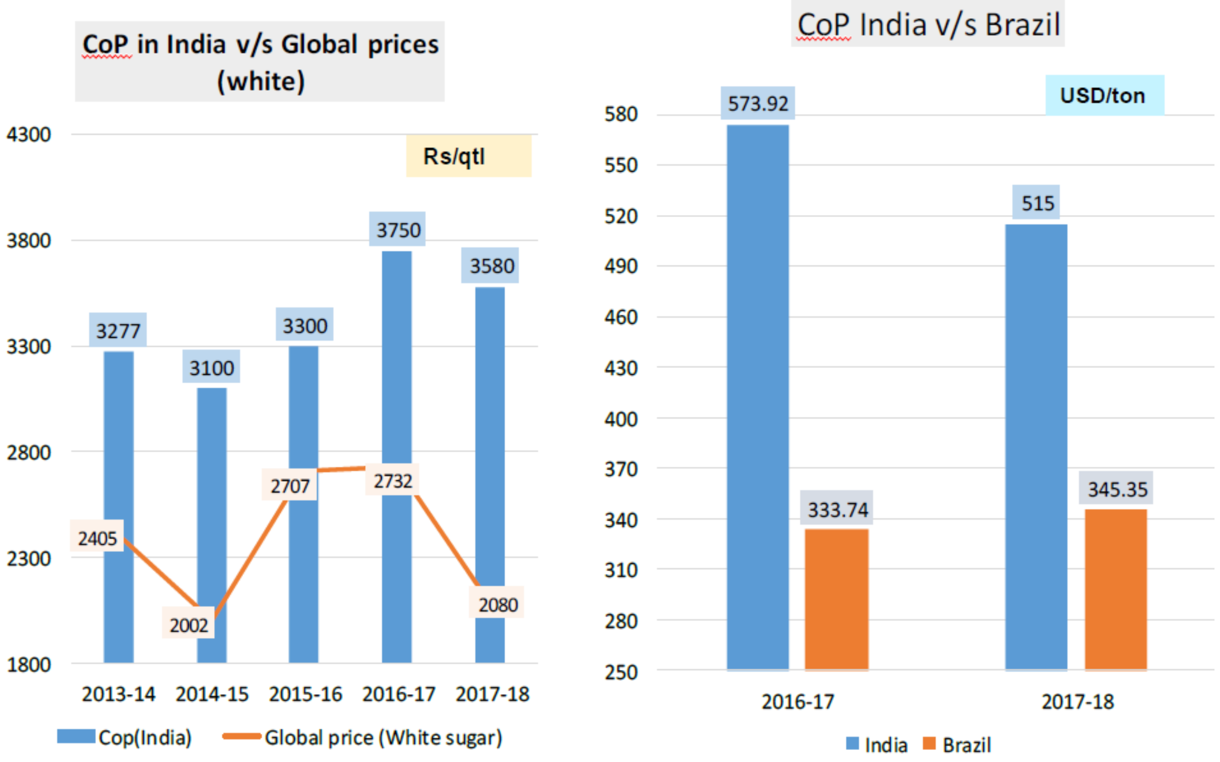
[1] Reuters. 5 September 2018. India to surpass Brazil as top sugar producer, eyes bigger export share.
[2] The Economic Times. 27 September 2018. Cabinet okays Rs 5,500-crore package to sugar industry.

Figure 2: A comparison of the government-set Fair and Remunerative Price (FRP) for sugarcane vs. the government-set Minimum Support Prices (MSPs) for wheat and paddy (INR/tonne). Source: USDA.



When sugar production exceeds domestic demand, which is increasingly the case, mills are forced to turn to the world market, where prices are lower and competition is intense. Ultimately, India's high costs of production mean that its sugar is not internationally competitive, which means a large exportable surplus can cause mills to fall into arrears with their cane payments. Instead of engaging in structural reform to improve productivity, the Indian government prefers to offer export subsidies to ensure farmers get paid.

Figure 3: Indian costs of production (CoP) versus global prices and Brazil. Abinash Verma (Indian Sugar Mills Association). August 2018. Policies and controls in sugar sector in India (presentation).



Mills' cane arrears are currently at their highest ever. In 2017/18 the Indian government has asked mills to export two million tonnes, extending the deadline by three months until December 2018.[3] The government has sought to incentivise exports by subsidising the purchase of cane, which translates to a subsidy for sugar of 7,700 INR/tonne (91.34 EUR/tonne).[4]

In September 2018 the government approved a 5,500 crore INR (652 million EUR) package for the sugar industry.[5] This includes an increase of production assistance to cane growers from 5.5 INR/100kg (0.65 EUR/tonne) to 13.88 INR/100kg (1.7 EUR/tonne) and a transport subsidy for mills to export up to 5 million tonnes during 2018/19, distributed as follows: 1000 INR/tonne (11.86 EUR/tonne) for mills located less than 100km from ports; 2,500 INR/tonne (29.66 EUR/tonne) for mills located more than 100km from ports in coastal states; and 3,000 INR/tonne (35.59 EUR/tonne) for mills located in non-coastal states.[6]

India has a consistent track record of offering support to sugar exports. Below is a selection of the most recent government interventions:

- In 2015/16 the state of Maharashtra waived a 3 per cent tax on cane purchases for mills that exported at least 12 per cent of their output.[7]
- In 2014/15 the Indian government granted an export subsidy of 4,000 INR/tonne (56 EUR/tonne) for up to 1.4 million tonnes of raw sugar.[8] The state of Maharashtra then approved an additional subsidy of 1,000 INR/tonne (14 EUR/tonne) for up to 800,000 tonnes of raw sugar exports.[9]
- Also in 2014/15 the federal government agreed to pay an extra 0.6 EUR/tonne of cane conditional on mills meeting their export targets.[10]
- In 2013/14 India offered a subsidy of 2,277-3,371 INR/tonne (27-41 EUR/tonne) for the production of up to 4 million tonnes of raw sugar for export in 2013/14.[11]

The Indian government sometimes offers low interest loan schemes to cane millers to help fund payments to cane farmers. Recent examples of this include: a zero interest loan of 810 million EUR in 2013/14, and a loan of 830 million EUR in 2014/15 that was interest free up to 10 per cent.[12]

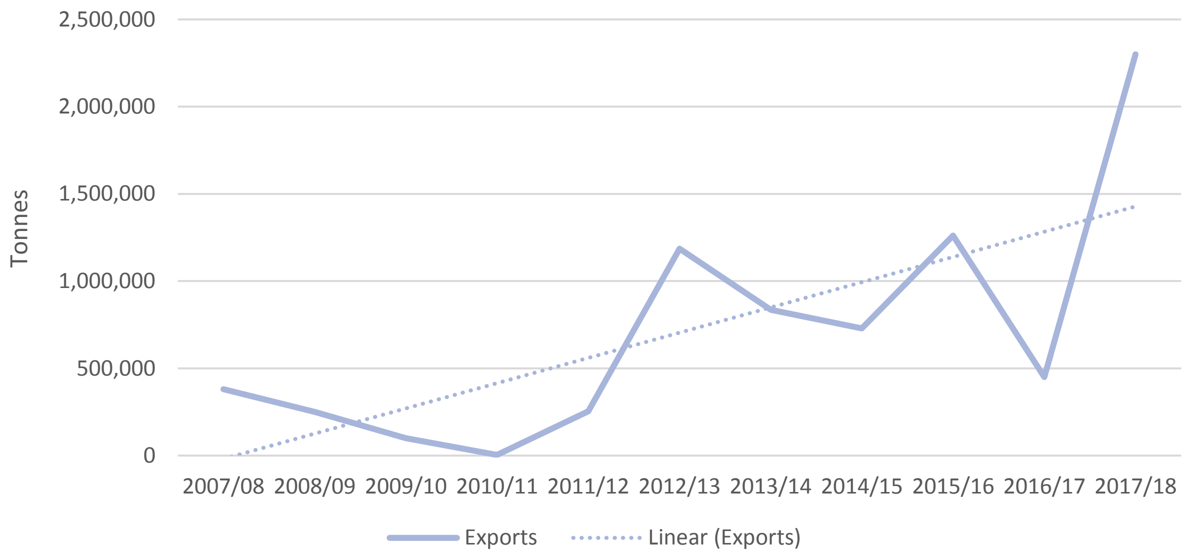
If the sugar policy of India is not challenged it will continue to dump its excess production onto the world market, disrupting fair competition and distorting trade.

[3] F.O. Licht's International Sugar & Sweetener Report. 28 August 2018.
[4] F.O. Licht's International Sugar & Sweetener Report. 7 August 2018.
[5] *The Economic Times.* 27 September 2018. Cabinet okays Rs 5,500-crore package to sugar industry.
[6] *Ibid.*
[7] *Reuters*. 4 March 2016.
[8] *F.O. Licht's International Sugar & Sweetener Report*. 31 July 2015.
[9] *F.O. Licht's International Sugar & Sweetener Report*. 20 July 2015.
[10] Antoine Meriot. August 2016. Indian government role in production expansion.
[11] *F.O. Licht's International Sugar & Sweetener Report*. 28 November 2014.
[12] Indian Government Press Information Bureau, Financial assistance to the sugar industry for payment of cane price arrears.

PAKISTAN

Pakistan's sugar exports in 2017/18 were up 500 per cent on the previous year. The country is probably the biggest single source of directly-subsidised exports on the world market today.

Figure 4: Pakistan sugar exports, 2007/08-2017/18. Source: F.O. Licht



In September 2017 the Pakistani Economic Coordination Committee of the Cabinet (ECC) authorised the export of 500,000 tonnes of sugar with a cash freight subsidy of 10,700 PKR/tonne (74 EUR/tonne), roughly equivalent to 25-27 per cent of their FOB value and 25-30 per cent of the world white sugar market price (London No. 5 front month contract). In November 2017 the quantity was increased to two million tonnes, which have now been fully subscribed. According to F.O. Licht:

> The amount of subsidy will be decided on a sliding scale between the current international white sugar price of $376 per tonne (London #5) and $499 per tonne - the internal sugar price which equals with the cost of production as calculated by the Ministry of Industries and Production (MoIP). The State Bank of Pakistan will stop providing the freight subsidy to exporters once the London #5 white sugar price touches $499 per tonne, according to a Ministry of Commerce order.[13]

Accounting for exchange rates, the total federal subsidy to exporters could come to 150 million EUR.

In December 2017 the Cabinet of Sindh province decided to grant an additional sugar export subsidy of 9,300 PKR/tonne (65 EUR/tonne) for the export of surplus sugar. The move came after millers complained that the federal subsidy was too low.[14] The province of Sindh accounts for around 25 per cent of the country's cultivated sugarcane area.

[13] F.O. Licht's International Sugar & Sweetener Report. 29 November 2018. 5 October 2017.
[14] F.O. Licht's International Sugar & Sweetener Report. 29 November 2018. 5 December 2017.