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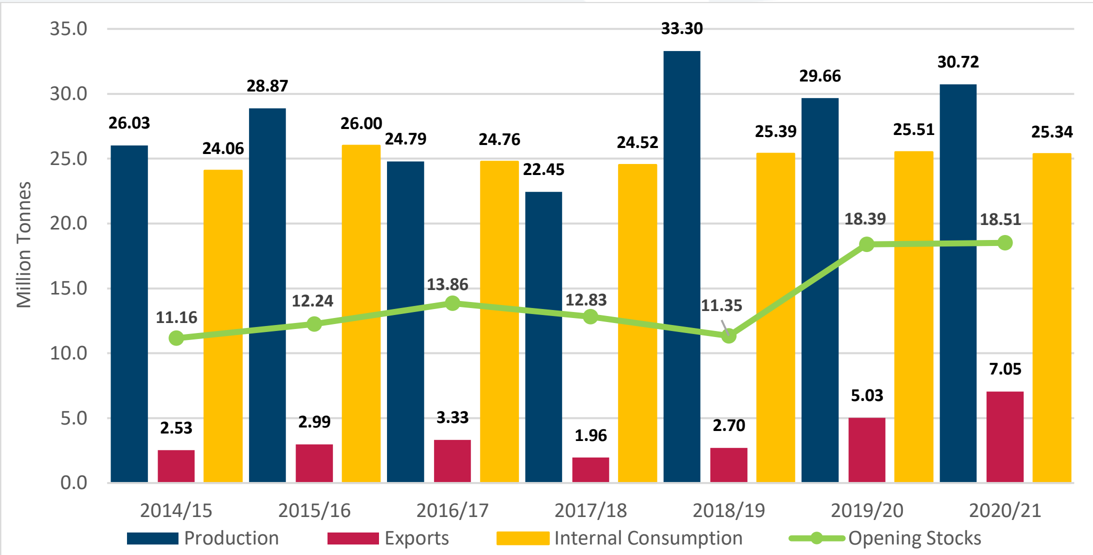
OVERVIEW

Since 2018 India has been a sugar net-exporting country, with sugar production now regularly exceeding 30 million tonnes and consumption stagnating around 25-26 million tonnes. Today India is one of the main players on the world sugar market with significant surpluses (both annual and accumulation of stocks) that weigh on global sugar prices.

Figure 1: India's sugar production, exports and internal consumption 2014-20, including opening stocks. Source: International Sugar Organisation



India is not a competitive sugar producer when measured against standard metrics such as cane yield, sugar content or sugar production per factory. But it has managed to expand its sugar sector thanks to a sugar policy that controls the production, supply, and distribution of sugar. This policy is openly defended by the authorities to enfranchise India's 50 million cane growers. It allows the public authorities to do "all such things as may be useful and necessary to control production, supply and distribution of sugar, as an essential commodity".[1]

In December 2021 the WTO Dispute Settlement Body condemned India's sugar policies.[2] It found that: (i) India implemented central and state level market price support programmes (including the centrally

[1] Commodity Act, 1955.

[2] Cf. "India – Measures concerning sugar and sugarcane raised by Brazil, Australia and Guatemala"

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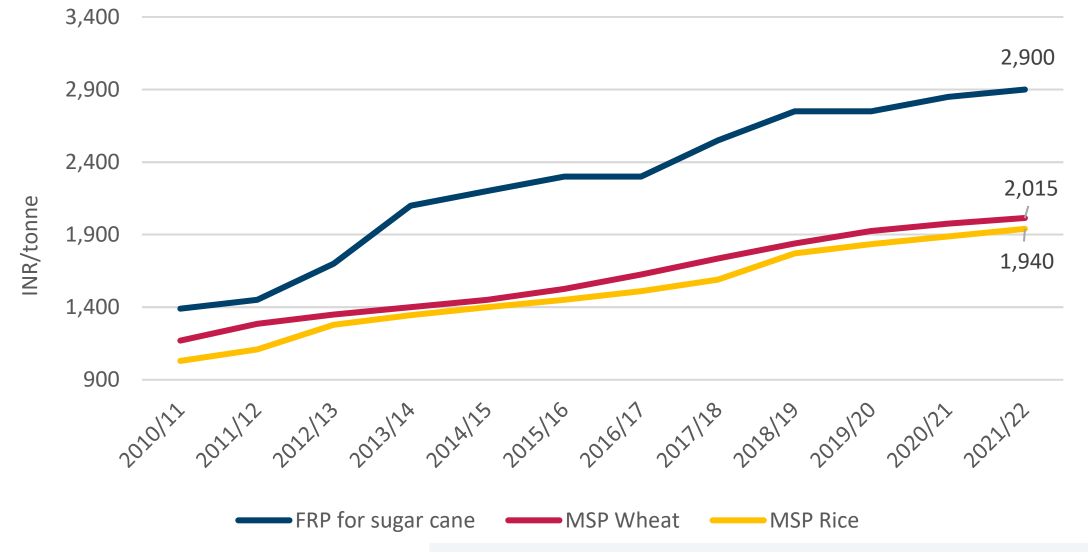
availed Fair and Remunerative Price and State Advised Price) in values greater than the amounts permitted under its WTO commitments (domestic support claims); and (ii) India provided export subsidies through certain support schemes inconsistent with its WTO obligations (export subsidy claims). The Indian Government has appealed the decision.

Considering Indian's position in the world sugar market, all interventions and support provided by the Indian Government have a significant impact on sugar prices at global level.

PRICES

India's sugar policy has enabled the expansion of cane areas even when sugar prices have been low. The mandatory minimum "fair and remunerative price" (FRP) that Indian sugar mills are required to pay cane farmers for their production disconnects cane farmers from sugar market signals. The system guarantees cane availability for the mills but puts a heavy burden on the sugar companies, which must pay these guaranteed prices to the growers. This policy generates huge arrears for the sugar mills when the prices obtained on the market are too low and do not allow them to pay the levels fixed by the State or Central Government. The same Governments who will later intervene to help the mills pay the arrears that they, in a certain way, contributed to create.

Figure 2 A comparison of the government-set FRP for sugar cane vs. the government-set Minimum Support Prices (MSPs) for wheat and paddy (INR/tonne). Source: Indian Ministry of Agriculutre and Farmers Welfare



In contrast to sugar prices, which have trended downwards since 2010/11, cane prices have increased steadily. Between 2010 and 2021 the FRP has increased by 109%.

FINANCIAL ASSISTANCE TO SUGAR MILLS

During periods of low sugar prices, mills are unable to afford the high cane prices mandated by the Government. This has led to a series of schemes to improve the liquidity position of sugar factories, enabling them to clear cane price arrears of the preceding sugar campaigns. These schemes range from soft loans to direct production subsidies. Below is a selection of the most recent government interventions:

- Scheme for Extending Financial Assistance to Sugar Undertakings: soft loans for the clearance of cane prices arrears through interest rate subsidy (up to 12% in 2014/15 and up to 10% in 2015/16)
- Scheme of Financial Assistance to Sugar Mills (2015/16 & 2017/18): programme extending assistance to clear the arrears for sugarcane farmers, with a production subsidy
- Scheme for Extending Financial Assistance to Sugar Mills (2018/19): financial assistance to help sugar mills to clear cane dues of farmers and to offset the cost of cane with a subsidy of INR 138.8 per tonne of cane crushed (US$ 2.0/t) to sugar mills
- Soft loans for the clearance of cane prices arrears through interest rate subsidy between 7-10% (2018/19)

Since 2018 the distribution of Federal Government funds occurs through the Sugar Development Fund (SDF). Below is a selection of the most important financial tools used by the Government, from 2013/14 to 2020/21, to support the sugar industry:

- Financial Assistance to Sugar Mills (Budget: US$ 1.192 billion): subsidy to enable mills to pay the cane price arrears owed to the growers: 83% of the financial assistance to sugar mills
- Market management tools (Budget: US$ 2.0 billion): creation and maintenance of stocks, measures to encourage transport for export, export subsidy scheme + MAEQ
- Diversification through energy production (Budgets: US$ 293 million): Increasing the capacity of ethanol production, development of biomass cogeneration

MARKET MANAGEMENT

Following the 2010/11 price spike many sugar-producing countries boosted their own production generating glut on the world market. During this period, Indian sugar exporters faced a situation where world market prices were falling faster than domestic prices and exports became less profitable. The Indian Government supported sugar mills through different schemes to cover storage costs, with the main one being the Buffer Stock Scheme, providing a buffer stock of 3 million tonnes in 2018 and 4 million tonnes in 2019.

EXPORTS

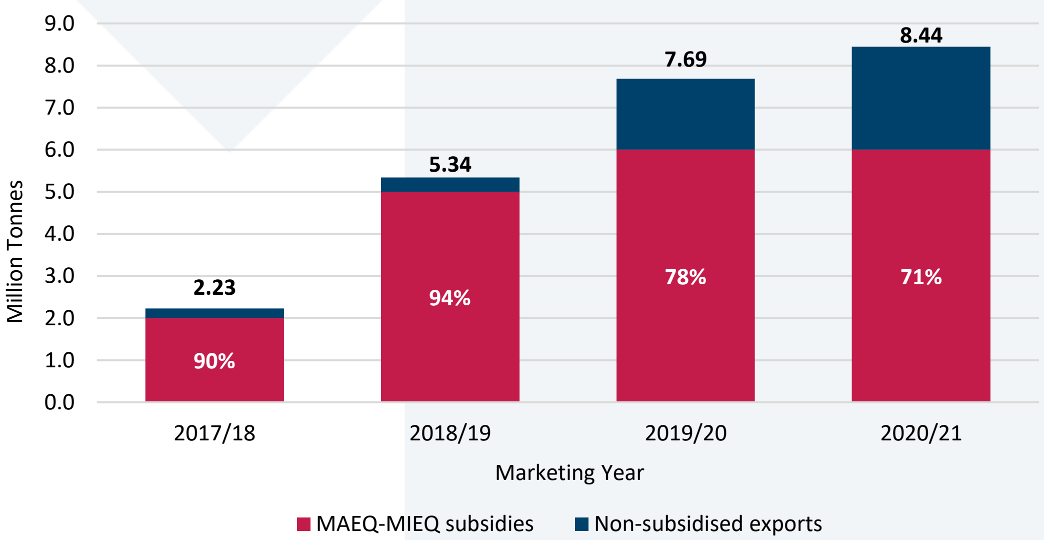
In recent years India has embarked on a blatant policy of export subsidies, which have had a serious negative impact on world sugar market prices. This policy is inconsistent with the country's WTO obligations, disrupting fair competition and distorting trade. Around 5 million tonnes of exports were subsidised in 2018/19 and 6 million tonnes in 2019/20 and 2020/21 respectively (see figure 3).

Since 2015/16 Indian authorities have favoured a set of schemes that operate in conjunction with Minimum Indicative Export Quotas (MIEQs) or Maximum Admissible Export Quantity (MAEQ). The MIEQ and MAEQ orders allocate sugar export quotas to sugar mills on a per-mill basis. While alone they do not provide subsidies contingent on export performance, the combined operation of the Production Assistance Scheme, Buffer Stock Scheme, and Marketing and Transportation Scheme with the MIEQs and the MAEQ constitutes subsidies contingent on export performance.

Specifically, compliance with MIEQ orders in an eligibility criterion for receiving assistance under all seasonal iterations of the Production Assistance Scheme and the Buffer Stock Scheme. Similarly, MAEQ orders are linked to the Marketing and Transportation Scheme (a sugar mill is required to export at least 50% of its MAEQ allocation to be eligible for the Scheme).

The Indian government discontinued its sugar export subsidies for MY 2021/2022 provided under the MAEQ programme. In May 2021 the Ministry of Consumer Affairs reduced the sugar export subsidy by 33% to INR 4 000 (US$ 55) per tonne. This gradual reduction in export subsidies aims to accelerate diversion of sugar toward ethanol production in support of increasing the blending rate to 20% by 2025.

Figure 3 India's sugar exports over the past five years. Source: IHS Markit, WTO



SUSTAINABILITY

Due to the importance of the sugar industry for India's rural economy, the growing environmental impact of the production process has been largely neglected for many years. Within India, the sugar industry ranks third for the amount of wastewater produced, after the pulp/paper and chemicals sectors.[3] A huge amount of water is required throughout the entire cycle, which starts with the production of sugar cane and ends with the release of effluent from the mills. This process has an impact on groundwater levels, with serious implications for human health, livelihoods and the ecology of local water bodies.

In terms of plant protection products, sugar cane farmers in India have the possibility to use about 40 pesticides that have never been approved or have been banned in the EU.

Finally, despite Indian authorities' efforts, sugar cane burning remains a widespread agricultural practice in the country. Sugar cane burning is responsible for air pollution via the emission of atmospheric particles and has a significant impact on the health of local populations and workers due to the presence of toxic components released in the combustion process (e.g. polycyclic aromatic hydrocarbons).

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[3] The Wire Science. 13 July 2021. A water crisis is hiding behind India's sugar dominance.

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