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