

# [Analysis of marketing structure and evaluation of micro economic factor of sugar ...](https://assignbuster.com/analysis-of-marketing-structure-and-evaluation-of-micro-economic-factor-of-sugar-industry-assignment/)

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Royal Agricultural College Title: Analysis of marketing structure and Evaluation of Micro economic factor of Indian sugar industry Submitted to: Submitted by: John Nixon Nitesh Kumar Pandey Economic Lecturer MBA wine business management Content: Introduction……………………………………………………………… Sugar production and consumption……………………………..

Sugar and Gur price in domestic market………………………. Price Elasticities…………………………………………. Government Intervention…………………………………………… Sugarcane production and pricing Policy: Sugar Production and Marketing: Ethanol Program: Conclusion……………………………………………………………….. Introduction: India is the largest producer of sugar in the world and produces around 18. 5 million tones of white plantation sugar per annum.

Sugar industry is the second largest agro-processing industry in the country after cotton textiles with more than 600 operating sugar mills in different parts of the country. [ Indian sugar exim corporation: 2005] Indian sugar industry has been focal point for socio-economic development in the rural areas. About 50 million sugarcane farmers and a large number of agricultural laborers are involved in sugarcane cultivation and ancillary activities, which constituting 7. 5% of rural India.

The sugar industry provides employment to about 2 million skilled/semi skilled workers and others mostly from the rural areas. This industry is contributes about $328. 5 mn to the Central and State exchequers in India. It is said that the Sugar industry is the growth engine of Indian rural economy. Although sugar can be produced either from sugarcane or sugar beet, mainly sugarcane is used for production of sugar in India. The sugar industry consists of two stage production processes – first, farm level sugarcane production and second, processing of sugarcane into sugar.

The by-products which is derived form Sugarcane processing, can be used for many value-added products in downstream industries (producing mainly bagasse and alcohol based products). Sugar Production and consumption: Indian sugar production are typically follows a 6 to 8 year cycle, wherein 3 to 4 years of higher production are followed by 2 to 3 years of lower production . Two consecutive years (2005/06 and 2006/07) of record sugar production resulted in abnormally large stocks and low prices, setting in motion the downtrend in sugar cycle in 2007/08, which is continued to downward in the upcoming year 2008/09.

The dispute with the state government, cane crushing by sugar mills has delayed in cane price payment to farmers; consequently former has coupled with relatively higher prices of food grains (wheat, rice, maize, and pulses) vis-a-vis sugarcane, and resulted the sugarcane production area has declined sharply about 16 percent from 2007 to 2008/09. Due to this reason the domestic sugar production has sharply dropped. Heavy rains and floods during July-August in the northern states have also adversely affected cane yield prospects. Consequently, 2008/09 centrifugal sugar production is decline to 24. 3 million tons, nearly 16. 11 percent lower than last year. The Centrifugal sugar production in 2008/09 is revised lower to 24. 83 million tons on higher diversion of cane for production of alternative sweeteners (khandsari [1] and gur [2]). Further, stronger gur prices encouraged gur manufacturers to compete with mills for cane during the peak crushing season. [1] Khandsari sugar: a low recovery centrifugal sugar prepared by open-pan evaporation method. [2] Gur: a crude non-centrifugal sugar in lump form produced by open pan evaporation method. [pic]Figure-1 Supply and demand of sugar in India

Despite relatively tight domestic supplies and expected strong prices, the sugar consumption has been gradually increased from 24. 30 mill tones in 2008/09, which is 2. 18 percent higher than domestic sugar production [3]. The processed food products manufacturers (soft drinks, fruit drinks, dairy, confectionary, traditional sweets, etc) are also growing the derived demand of sugar. This demand is being further fueled by Bulk consumers such as bakeries, makers of candy and local sweets, and soft-drink manufacturers account for about 60 percent of the milled sugar demand [4].

While the expected high sugar prices may not impact the demand for sugar at the household level, it may temper the demand and use of sugar by bulk consumers. According to market report that overall consumption by both bulk and household consumers may be impacted if sugar retail prices cross Rs. 40 (Less than 0. 50 Pound) per kg level. [3] Sugar being an “ essential commodity”, demand for the growing population (about 1. 8 percent per annum) and economy (6 percent in Indian fiscal year 2009/10) is relatively price inelastic. 4] Most bulk consumers use only cane sugar as India does not produce any significant quantity of high fructose corn syrup (HFCS). High import duty (30 percent basic duty) precludes imports of HFCS for commercial use. Indian Centrifugal Sugar Supply, production and distribution (Million tonnes Raw Value): Figure: 2 | Mktg Year | Beginning | Total Sugar | Total | Total | Total | Domestic consumption | Ending | | | Stocks | Production | Imports | Supply | Exports | | Stocks | | 2004/2005 | 9. 0 | 13. 77 | 0. 20 | 24. 87 | 0. 02 | 18. 80 | 6. 05 | | | | | | | | | | | | | | | | | | | | 2005/2006 | 6. 05 | 18. 34 | 1. 00 | 25. 39 | 0. 02 | 19. 30 | 4. 8 | | 2006/07 | 4. 18 | 30. 78 | 0 | 34. 95 | 2. 68 | 22. 11 | 10. 16 | | 2007/08 | 10. 16 | 28. 93 | 0 | 39. 09 | 3. 70 | 23. 20 | 12. 19 | | 2008/09 | 12. 19 | 24. 83 | 0 | 37. 02 | 1. 30 | 24. 30 | 11. 42 | Source: USDA World Centrifugal Sugar Production, Supply and Distribution

Sugar and Gur price in domestic market: The tight domestic supplies have not affected sugar prices. The sugar price has been on the rise since July 2008. The sugar Prices have surged significantly since December 2008 after the shortage of sugarcane. Gur is used as substitute/ alternative sweetener in rural India. Due to this reason the Gur prices have kept pace with sugar prices and have reached on record levels in January 2009(See Figure 3). Current sugar prices in major domestic wholesale markets range from $410 to $450 per ton, nearly 45 percent higher than last year’s level.

Thus, it is presumed that sugar Prices in domestic market are expected to gain in the coming months and remain firm during 2009/10. [pic] Source: USDA Price Elasticities The Estimates are suggested that the price elasticities for sugar indicates lower elasticities with rising incomes. The proportionate change in consumption demand is lowering greater than the proportionate change in prices, as income levels increase. In both rural and urban areas, the own price elasticity declines in absolute terms with income levels. Price elasticity of demand for sugar in rural areas increases marginally from 0. to 0. 8, before declining to 0. 6 for the non-poor. In urban areas, however, the elasticity shows a gradual decline with higher incomes. Own-price elasticities for sugar | | Very poor | Moderately Poor | Non-poor, low high | Non-poor, | All | | Rural |-0. 7 |-0. 7 |-0. 8 |-0. 6 |-0. 7 | | Urban |-0. 7 |-0. 4 |-0. 3 |-0. |-0. 3 | Source: FAO Government Intervention: Due to the up surging in sugar prices, the Government of India (GOI) decided to liquidate the MY 2006/07 buffer sugar stocks. On July 15, 2008, the government allowed the sale of the first tranche of 2. 0 million tons of buffer stocks in the domestic market during May 1 through September 30, 2008. Twenty five percent of the second tranche of the 3. 0 million tons of buffer stock was allowed for sale in the domestic market from August 1 to September 30, 2008.

On October 13, 2008, the government ordered sugar mills to sell the remaining 75% in four tranches ??? 30% by end December 2008, 20 percent by the end of March 2009, 30 percent by the end of June 2009 and 20 percent by the end of September 2009. On February 17, 2009, the government relaxed the norms for duty free imports of raw sugar under the advance license scheme. The changed norms allow local mills to import raw sugar, refine and sell white/refined sugar in the domestic market, and meet future export commitments from domestic sugar when sugarcane and sugar supplies improve in the next 1-2 years.

The central government issued a notification empowering on March 12, 2009 to state governments which impose stock limits and turnover limits on sugar held by traders to prevent hoarding of sugar. Although the state governments will determine the exact quantum of stocks, the central government advised that traders should sell sugar stocks within one month of acquisition from mills and the stock limit should be less than 200 tons at any given point of time. However, government agencies, government recognized dealers and importers have been exempted from the stock limits.

While the order is effective for four months from the date of issue, industry sources expect that the government may extend it further depending on the price of sugar and the supply situation. On the other hand, to control the domestic price of sugar the government has proposed duty free imports of raw sugar with no export obligation and duty free imports of white sugar by government agencies to cap the galloping domestic sugar prices. Sugarcane production and pricing Policy:

The Government of India (GOI) supports research, development and transfer of new varieties and improved production technologies to growers in its endeavour to raise cane yields and sugar recovery rates. This will support to enhance the sugarcane production and control the pricing. The Indian Council of Agricultural Research (ICAR) also conducts sugarcane research and development at the national level. State agricultural universities, regional research institutions, and state agricultural extension agencies support these efforts at the regional and state levels.

The central and state governments also support sugarcane growers by ensuring finances and input supplies at affordable prices. Although the GOI establishes a minimum support price (MSP) for sugarcane on the basis of recommendations by the Commission for Agricultural Costs and Prices (CACP) and after consulting State Governments and associations of the sugar industry and cane growers. This will really promote the farmer to increase the sugar cane cultivation. Sugar Production and Marketing: The GOI has taken following step to partial control and dual pricing for sugar.

According to that all local sugar mills are required to supply ten percent of their production to the government as “ levy sugar” at below-market prices, which the government distributes through the Public Distribution System (PDS) to its below-poverty line population at subsidized rates. Apart from that rest ninety percent of sugars are allowed to sell as free sugar in market prices. However, the sale of free-sale sugar and levy sugar is administered by the government through periodic quotas designed to maintain price stability in the market.

Since the government approved futures trading in sugar in May 2001, three national exchanges have been given permission to engage in sugar futures trading. The GOI levies a fee of $6. 08 per ton of sugar produced by mills to raise a Sugarcane Development Fund (SDF), which is used to support research, extension, and technological improvement in the sugar sector. Furthermore, the SDF is also used to support sugar buffer-stocks operations and provide a transport subsidy for sugar exports.

The SDF is further provided an interest subsidy on loans for the installation of power generation and ethanol production plants. In March 2008, the GOI enacted the Sugar Development Fund (Amendment) Bill, 2008 that enables the government to include the use of the funds for debt restructuring and soft loans to the sugar mills. Ethanol Program: The Indian government has made ethanol program to increase the profit of sugar industry. That would be best utilisation of by-product (molasses) of the sugar industry.

In this context the government launched a program in January 2003 which is mandated the blending of 5 percent ethanol in gasoline in nine select states and four Union Territories. In September 2006, the GOI launched the second stage of the ethanol blending program (EBP) targeting five percent blending of petrol with ethanol, if commercially viable, across 20 states and four Union territories with effect from November 2006. However, the slowdown in MY 2007/08 and 2008/09 of sugar production and consequent low molasses production has raised molasses prices to levels at hich the sugar industry cannot supply ethanol at the pre-negotiated prices (0. 45$ per litre). Conclusion: Finally it can be said that the Sugar industry is hovering at the beginning of the upturn in the sugar cycle. Uptrend in sugar cycle starts with increased availability of sugar, decline in sugar prices, lower profitability for mill owners, delayed payment to farmers, high sugarcane arrears & thus farmers switch over to other crops resulting in lower cane production. All these factors result in higher sugar prices and again cycle turns around.

In 2008-09 (Sugar Season), production is expected to fall by 16. 51 per cent to 24. 83 million tonnes on account of a decline in area under sugarcane cultivation. Sugarcane arrears that started building up since the middle of the 2006-07 SS (sugar season) will have caused farmers to switch to other crops such as wheat and Paddy. The country’s sugar production in October – April (2007-08) has declined 6. 39% to 28. 93 million tones on account of delayed crushing and diversion to gur and khandhsari units, particularly in Uttar Pradesh (UP).

So the government of India (GOI) has taken some severe steps to mitigate the problem which occurred in past years. The government of India made advance license scheme to promote duty free imports of raw sugar in domestic market. Which help local mills to import raw sugar, refine and sell white/refined sugar in the domestic market, and meet future export commitments from domestic sugar. For increasing the sugarcane production Indian government has made a scheme of minimum support price (MSP) which supports the farmer toward higher sugarcane production.

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