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Buffer stock quantum can be modified

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Commodity Compass

The Cabinet Committee on Economic Affairs (CCEA) chaired by Prime Minister Narendra Modi has now given its go ahead to the proposal for creation of a buffer stock of 4 million tonne of sugar for one year at an estimated maximum expenditure of Rs 1,674 crore. However, based on the market price and availability of sugar, this may be reviewed by the Department of Food and Public Distribution any time for withdrawal / modification. CCEA also nodded the idea that under the scheme, the cost incurred by sugar mills for this purpose would be reimbursed on a quarterly basis and this would be credited directly into the farmers' account on behalf of mills, against cane price dues. The subsequent balance, if any, would be credited to the mills' account. Fair and remunerative price (FRP) for sugar season 2020 has been kept unchanged at Rs 275 per quintal. FRP is applicable for all states growing sugarcane except Uttar Pradesh and Punjab.

Interestingly, the Centre had last year announced the creation of buffer stock of 3 million tonne of sugar from July 1, 2018, to June 30, 2019. As the scheme announced in SS2018 was due to expire on June 30, 2019, a new notification regarding the creation and maintenance of buffer stock was released on June 15, 2019 and subsequently has been approved by CCEA.

A recent study by Icra pointed out that this latest development has to be seen in light of the fact that production in SS2020 is expected to be down 9-10 per cent because of smaller area under cane cultivation and delayed rainfall in key sugarcane-growing areas. "This is expected to trigger a price rise of 8-9 per cent to Rs 32-33 per kg this fiscal. With the provision for an additional buffer stock of 1 million tonne, a sharper rise of 3 per cent is expected in sugar prices from our previous estimate of 5-6 per cent," Icra said. Mind you that in sugar seasons (SS) 2018 (October to September) and SS2019, India had a bumper production.

On the exports front, analysts felt that India is likely to miss the target of exporting 5 million tonne of sugar, which was expected to reduce the glut in the market, notwithstanding the fact that the Centre offered flurry of incentives this year to boost exports amid sugar glut which included transport subsidies of between Rs 1,000 a tonne to Rs 3,000 a tonne to sugar mills, depending on the distance to ports.

Significantly, India has shipped out only 3.4 million tonne with less than two months left in the current season that ends on September 30.

The Modi government has also decided to keep its sugar export subsidies despite complaints to the World Trade Organization (WTO) from rival producers Brazil and Australia. The subsidies were designed to increase shipments from the world's second-biggest sugar producer and reduce their brimming inventories. Indian sugar industry aims to export 7 million tonne of sugar in the coming season amid possibility of shortage of global supply.