# NEWS FLASH – 11th April, 2016

## SUGAR

## Will sugar retain its sweetness in 2016-17?

Sugar prices surged in March and touched a 17-month high at 4.6 cents/lb at the ICE, US, after the International Sugar Organization (ISO) revised the figures for global production deficit upward. With domestic demand being relatively stable in India, sugar prices in the country are largely a function of net domestic availability (domestic production – export + import if any) and change in global supply situations or any perception about that.

Given a 14 per cent monsoon deficit and near-drought conditions (that adversely affected cane crops in Maharashtra and Karnataka), India was estimated to produce 28 million tonnes (MT) in the 2015-16 sugar season starting from October to September. However, till March end, Indian sugar mills have produced 23.7 million tonnes, down 1.1 million tonnes from last year. As on March 31, out of 366 sugar mills only 215 mills were operating, with adverse implications for overall sugar production.

With only 58 out of 135 mills operating, Maharashtra (largest producing State) has produced 8. 2 MT against last year's 9.36 MT. Another key producing State, Karnataka has produced only 4.01 MT against 4.24 MT last year.

According to revised government estimates and ISMA, sugar production for the current year will be 25.6 MT and 26 MT, respectively, compared to 28.3 MT produced in 2014-15 — i.e. a shortfall of 2.7 to 2.3 MT.

ISMA estimates that sugar stocks at the end of sugar season 2015-16 will be 7.5 MT compared to 9.1 MT a year back. Sugar analysts opine that lower-than-average rainfall will adversely affect sugarcane production in 2016-17 in major parts of Maharashtra and Karnataka. But this shortage is likely to be well compensated by higher production from UP and Tamil Nadu. UP has increased acreage under CO 0238 variety, which gives a much higher yield and sugar recovery.

**Export prospects**

Besides production deficit, things started looking brighter for sugar export as international sugar prices soared by over $50/tonne. The Maharashtra government has waived the 3 per cent tax on cane purchase for mills that are able to export 12 per cent of their sugar output in the October 2015-September 2016 period.

However, the relative strengthening of the rupee vis-à-vis currencies of Brazilian real (against $) has been playing spoilsport. Moreover, since September, domestic sugar prices surged by as high as 35-40 per cent, thereby reducing the attractiveness of export markets. Since October 1, India has shipped just 1.3 million tonnes of sugar against the target of 3.2 million tonnes. Thus, the prospect of sugar exports in the near future is bleak.

Government sources say that at the end of 2015-16 sugar season (October 2015-September 2016), it won't be surprising if India's sugar export doesn't cross the two MT mark.

**International situation**

Because of unfavourable weather condition, analysts have slashed their production estimates for most sugar producing regions, including India, Thailand, EU and north-east Brazil.

A dry El Nino has reduced agricultural yield and sugar recoveries in Thailand, which is estimated to produce 10.3 million tonnes in 2015-16, in the best case scenario — a shortage of over 6,00,000 tonnes. This trend is likely to continue in 2016-17.

Again, analysts have slashed their previous estimates for Chinese sugar production by over 3,00,000 MT, from 9.5 MT to 9.2 MT. A substantial portion of India's sugar exported to Myanmar finds its way into China informally. Hardening domestic prices mean that there will be less export of Indian sugar to China via Myanmar. On the other hand, ISO has raised its global (sugar) deficit forecast to 5 MT for 2015-16 on expectations of lower production from India, Thailand, north-east Brazil and the European Union. This is more than its November forecast of 3.5 MT. However, Brazil's centre-south region (which accounts for over 90 per cent of the country's production) is expected to have bumper cane production in 2016-17. Moreover, a depreciated real will make export attractive and lead to more cane diverted for sugar production than for ethanol.

El Nino-induced dry weather is expected to recede by May. A climate management company, Weather Risk Management Services has predicted above-normal and well-distributed monsoon for India after two successive droughts that will improve prospects for cane planting in 2016-17.

**Outlook**

Thus, prices are likely to see some correction on expectations of improved supply from Brazil, and forecast of above-normal monsoon for India in the 2016-17 sugar season. However, strong domestic demand will limit the extent of price correction. The IMD's forecast, expected on April 20, will provide a clearer picture on the June-September rainfall and help in arriving at a more accurate estimate for next season's sugar production.

**(Source- http://www.thehindubusinessline.com/todays-paper/tp-investmentworld/will-sugar-retain-its-sweetness-in-201617/article8459045.ece, article was published in the Business Line print edition dated April 11, 2016)**

## CO-GEN/ POWER

### With too much coal in stock, CIL gets friendlier than ever

Having produced more coal than it can sell, Coal India has now decided to become a consumer friendly company. In fact, its entire force of distribution managers are now doing the job of regional sales managers – selling coal.

"At a time when coal was scarce these officers used to do the job of distribution managers and would basically be managing the supplies depending on the requirement of the consumers," said a senior marketing official.

Rarely did they need to visit customers' offices as it was on the consumers' to make sure they get coal. The situation has now reversed.

"These officers are now regional sales managers who are visiting every consumers – large or small to find out their requirement of coal. They are primarily trying to find out the quality and the quantity of coal that each of them requires and iron out issues of supplies and logistics. The idea is to cater to the quality and quantity requirement of all these consumers in better way ," he said.

Coal India has also created a single window grievance cell that would take care of all issues of consumers in a time bound manner.

In a bid to offer coal to small consumers directly, the company has recently launched a portal -Coal Allocation and Monitoring System where consumers can directly book their required coal volume.

Small and medium sector consumers like, paper, rolling mills, cokeries, brick kilns, refractories, glass, electrical and machinery units, textiles, soft coke manufacturing units., having annual requirement up to 4200 metric tonnes and not having fuel supply agreement with coal companies can now source coal under through agencies and Coal India ear marked 8 million tonnes.

Earlier coal that could not be supplied due to the railway's failure was considered as delivered and if level of lifting by consumers were less than 30% of the contracted volumes fuel supply agreements were terminated. These two clauses have been terminated.

Now consumers can lift coal any time during their contract period which has been increased from one year to two years.

**(Source- http://indianpowersector.com/2016/04/with-too-much-coal-in-stock-cil-gets-friendlier-than-ever/)**

## ETHANOL

## Despite PM Modi's push, Haryana levies Rs 2 per litre on ethanol

In a surprise move, BJP-ruled Haryana has slapped a Rs 2 per litre levy on the supply of ethanol into the state, at a time when Prime Minister Narendra Modi has been vociferously promoting the use of blended petrol and even asking states to go for the blending of ethanol with petrol in 10:90 ratio, sources said.

Haryana has imposed a Rs 1 per litre levy on supplies of ethanol into the state and another R1 for issuing permit for this purpose, with effect from April 1, the sources told FE.

Ironically, in his recent speech in Belgium, Modi had spoken about ethanol production hitting an all-time high in 2015 following his government's push.

Haryana joins a number of states, including largest ethanol producer Uttar Pradesh and BJP-ruled Gujarat, Maharashtra and Madhya Pradesh, which impose a levy on supplies of ethanol, despite the suggestions from the food ministry to the contrary and opposition by the sugar industry. Sugar mills are the largest producer of fuel ethanol.

Haryana's move is also ironical due to the fact that the Lok Sabha has already passed a Bill that would make such levies on ethanol supplies by states illegal. The amendment made to the first schedule of the Industries (Development and Regulation) Amendment Act, 2015, will make ethanol a central subject for taxation. The Bill is pending in the Rajya Sabha.

A parliamentary standing committee has also voiced its opposition to such levies. The recent report of the parliamentary standing committee on petroleum and natural gas had suggested: "Since ethanol is not available in all the states, the Committee feels that there should be hassle free inter-state movement of ethanol for blending purposes" and that the Centre may ask states to remove/ease such restrictions.

**Levies on inter-state ethanol supply "illegal"**

Sugar analysts have been saying the levies on inter-state supplies by states are 'illegal'. According to the entry 8 of the state list, states can legislate on "intoxicating liquors", that is on production, possession, transport, purchase and sale of such alcohol. Bringing clarity to the issue, the Supreme Court, in a judgment in the Synthetics & Chemicals vs the state of Uttar Pradesh case, has ruled that once the denaturant has been added to alcohol, it becomes unfit for human consumption and hence "the state legislature has no authority to levy duty or tax on alcohol which isn't fit for human consumption, as that could only be levied by the centre".

Making a case for the levies, some states argue that producers may divert alcohol in the garb of ethanol, to which suppliers say the inspector deputed by the state at every distillery may check the substance and clear it. Moreover, it's the duty of the states to ensure compliance with the Supreme Court verdict and not to contravene law citing difficulty in compliance, they say.

Last year, Union food minister Ram Vilas Paswan had written a letter to states, asking them to scrap the levies. Subsequently, following the prime minister's directive to boost ethanol blending with petrol, the food department has also asked states to desist from such a move, but in vain.

Apart from reducing reliance on oil imports and cutting pollution levels, the decision was also expected to help cash-starved sugar industry improve liquidity so that its cane dues to farmers — a result of a flawed cane pricing policy by states like Uttar Pradesh — could be cleared at the earliest.

**(http://www.financialexpress.com/article/markets/commodities/haryana-slaps-levy-on-ethanol-supply/234337/)**

**Thought of the day**

"Don't stress about the closed doors behind you.
New doors are opening every moment
and you will see them if you keep moving forward."
~ Thema Davis