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ASIA

India, Buried in Sugar, Tries to Dig Out

Government price controls have created an unsustainable glut, with 13 million tons stockpiled

By [Vibhuti Agarwal](#)

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RAJPURA, India—The Indian government's price controls have created an unsustainable sugar glut, and now New Delhi wants to dump it on the already struggling world market for the commodity.

India is the world's second-largest producer and biggest consumer of sugar. Thanks to strict controls of imports, exports and prices, the country generally produces all it needs.

In a holdout from an era of central planning, New Delhi sets the minimum price for cane, and to keep sugar-cane farmers sweet with the government, it keeps raising that price. But end-user sugar prices are free to fluctuate and currently are so low that refiners say they lose money on every teaspoon they sell.

"Stocks get added every year, but there are not as many takers," said refiner Amit Agarwal, who runs sales operations in a sugar mill in the northern state of Uttar Pradesh. Pointing to a warehouse packed with 77,500 metric tons of sugar he can't sell, Mr. Agarwal said his mill is under pressure to pay farmers on time. "But where is the money to pay them?" he said.

Refiners are required to buy everything the cane farmers bring them at a government-set price. But because they only have to pay the farmers after they sell it, they are hoarding the sugar and waiting for a better price—or better incentives.



Piles of sugar bags are storage in the Rajpura Unit of Dhampur Sugar Mills Ltd., in Uttar Pradesh, India, on May 22, 2018.



Workers of the Rajpura Unit of Dhampur Sugar Mills Ltd., in Uttar Pradesh, India, load a truck with sugar bags on May 22, 2018.

PHOTOS: ELENA DEL ESTAL FOR THE WALL STREET JOURNAL(2)

The result: piles and piles of sugar, in warehouses all over India. Mr. Agarwal's five warehouses all have sugar bags piled 34 feet high. At last count, in late May, Indian refiners had a stockpile of 13 million tons of sugar—more than all the sugar consumed in the U.S. last year.

India's sugar output is expected to rise to 31.5 million tons in the 12 months that began on Oct. 1, exceeding the annual demand by 6.5 million tons, according to latest estimate by the Indian Sugar Mills Association, a New Delhi-based industry group.

India's roughly 50 million sugar-cane farmers say they deserve a living wage for their hard work, and acknowledge that government guarantees have improved their lives. But they are desperate to get paid.

"We invest our entire earnings in the crop. If we don't get paid on time, how will we eat?" said Bansi, a farmer in Rajpura who goes by one name and owns a 6-acre plot. He says the mills owe him 150,000 rupees (\$2,213).

New Delhi is pressuring the refiners to sell so they have the cash to pay off the cane farmers and is even offering refiners an extra incentive to export their extra sweetener.

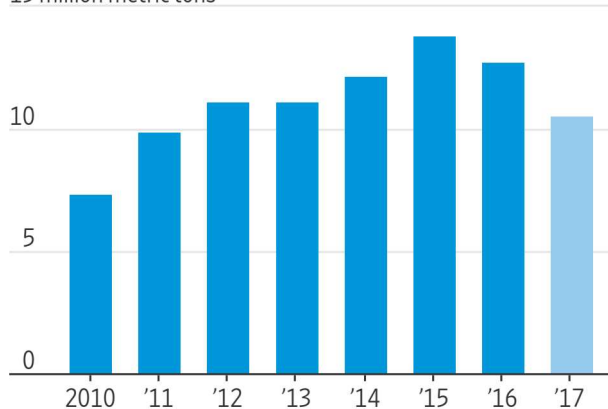
The government wants to placate farmers since they are a large and politically influential lobby, forming a huge voting bloc. With national elections due next year, the government is trying to court the cane farmers and secure their votes.

Bitter Sweet

India is urging refiners to unload inventory, pushing world prices down.

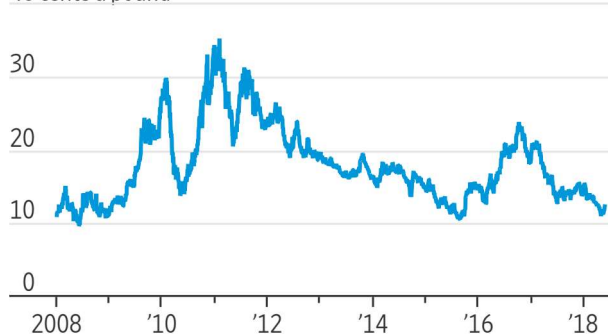
India sugar stocks*

15 million metric tons



Raw sugar futures price, daily†

40 cents a pound



*2017 stocks through May 20 †Most active Sugar No. 11 contract

Sources: India Commerce Ministry (stocks); Thomson Reuters (futures)

India hopes to get rid of around 2.5 million tons of its excess sugar on the international market. While refiners lose money on the global market just as they do at home, the government is creating incentives, such as the elimination of sugar export taxes, to help them offset more of their losses through exports. In March, the Indian government discarded a 20% export duty, hoping mills would sell excess supplies in the overseas markets.

New Delhi is also working to subsidize a part of cane payments made by mills to farmers. Earlier this month, India's cabinet permitted a payment of 5.5 rupees a kilogram of sugar to be paid directly to the farmers on behalf of the mills. New Delhi is also considering

building a buffer stockpile of three million tons to help lift domestic prices, which it hopes will in turn get the refiners to sell and pay what they owe to cane growers.

Refiners say these measures don't go far enough. "If the government wants to keep the mills alive and running, it should stop raising the cane price. That is the only solution," Mr. Agarwal said.

As new cane starts coming in for the next harvesting season beginning in October, Mr. Agarwal plans for his mill to either sell sugar on the local market at lower prices or keep stocks until next season.

Sugar traders are watching India's plans closely.

Appeasing the huge bloc of restive cane farmers remains a major concern for Prime Minister Narendra Modi's Bharatiya Janata Party as the country goes to the polls next year, analysts say. Simply because there are so many of them, cane farmers' support is crucial for political parties to gain power in state and national elections.



A truck driver look at a truck loaded with sugar bags in the Rajpura Unit of Dhampur Sugar Mills Ltd., in Uttar Pradesh, India, on May 22, 2018.



Ramesh Chandra Sharma, a sugar cane farmer that owns 15 acres of land, poses for a portrait in a sugar cane farm in Rajpura, Uttar Pradesh, India, on May 22, 2018.

PHOTOS: ELENA DEL ESTAL FOR THE WALL STREET JOURNAL(2)

But the world's sugar market is already hurting. A global glut has pushed sugar prices close to a three-year low, amounting to a big kick in the gut for countries like Brazil and Thailand that depend on export revenues.

Adam Sarhan, chief executive of Orlando, Fla.-based investment firm 50 Park Investments, said he has been betting on lower sugar prices since early 2017. He and others are unlikely to change that view while India sits on its surplus, he said.

“The surplus continues to grow like The Blob,” Tobin Gorey, an agricultural commodity strategist at Commonwealth Bank of Australia, said of India’s sugar supplies. “Larger every time you look.”

With a possible trade war brewing, any blatant dumping of sugar could trigger a backlash, with politicians around the world particularly sensitive to unfair trade and more likely to react.

If India floods the market with its sugar surplus, other producing countries like Brazil, Thailand and Australia would “worry about losing money and complain to the WTO,” said Michael McDougall, a New York-based commodities analyst at ED&F Man Capital Markets Ltd., a financial-brokerage firm.

“The WTO really can’t send police and stop them from exporting sugar. But in the long-term, India might have trade-support issues with the WTO,” Mr. McDougall said.

—*Benjamin Parkin contributed to this article.*

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