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## India Gets Caught Short as Sugar Prices Soar

By [VIKAS BAJAJ](#)

LONI KALBHOR, [India](#) — Sanjay Gujar's family has raised sugar cane for generations. But last year, after sugar prices fell by more than 40 percent, he replanted his six acres here in the sugar bowl of India with bananas.

A year later, after Mr. Gujar and thousands of other Indian farmers abandoned sugar, prices are surging. The price of refined sugar on international markets has jumped 60 percent since the end of last year, to 23 cents a pound, even as other food commodities have stabilized or fallen.

While all commodities move in cycles, sugar in India is a case study in feast-to-famine swings in which bountiful crops are followed by anemic harvests every two or three years.

Volatility is aggravated — some analysts say caused — by government efforts to control prices to balance the interests of farmers and consumers. When prices were rising, for instance, policy makers restricted exports, which helped create a glut. By the time the government reversed course and subsidized exports, many farmers like Mr. Gujar had switched crops.

"Sugar is a political commodity," said M. R. Desai, president of the National Federation of Cooperative Sugar Factories, and "the government is not ready to let go."

Even as India rushes toward a future as a technology and services powerhouse, there has been slow, halting progress in its agrarian economy, which still sustains more than half of its 1.1 billion people. Hobbled by small farm sizes, an intense reliance on fickle monsoon rains and extensive government control, Indian farmers are less productive and more vulnerable than their peers in other developing countries like Brazil and China.

Economists say India's approach to regulating sugar is an example of how populist policies can hurt the very people they were meant to help: farmers and the rural poor.

India, of course, is far from alone. The United States restricts imports and uses subsidies to help producers maintain domestic prices at about twice the level of world prices. (Sugar retails for 56 cents a pound in the United States, up 5 percent from December.)

Europe also protects its sugar industry. In 2006 the [European Commission](#) began changing the way it controls the commodity and started paying high-cost manufacturers to stop making sugar.

Sugar policies in the West are typically intended to bolster the incomes of politically powerful farmers and

factory owners, but here in India, policy makers try to walk the line between helping farmers and consumers. An estimated 28 percent of Indians still live below the poverty line.

Moreover, sugar is an Indian culinary and cultural touchstone. It is liberally mixed into everything from syrupy tea to dense sweets. (The country's sweet tooth also has a dark side. Diabetes is growing faster here than almost anywhere else in the world.)

Even now with sugar prices up sharply, demand is growing, because India's population is growing, said Sanjay Manyal, a sugar analyst at Icici [Direct.com](http://Direct.com), a securities firm.

To meet that demand, India will probably import 20 to 30 percent of the sugar it uses this fiscal year. Less than two years ago, the country exported 20 percent of the sugar it made.

To understand India's sugar problems, industry officials say it is important to consider what happened in 2006 when the government banned exports to bring down prices. Those efforts were almost too successful. Within a few months prices began falling as it became clear that farmers had planted too much cane.

Farmers said conditions were so bad in 2007 and 2008 that sugar mills, which usually arrange to have cane harvested, did not even bother to send out crews. Many farmers, including Mr. Gujar, burned their crop in the field.

"Government policy, well intentioned though it may have been, seems to have aggravated the cycle," said Samir S. Somaiya, president of the Indian Sugar Mills Association and a mill owner.

The government then tried to help by subsidizing exports. At the same time, farmers began switching to other crops. The ground was being laid for the current shortage.

Industry officials and analysts say the recent rise in prices has lured some farmers back to sugar cane, but India will not produce enough to satisfy domestic demand until at least 2011.

Officials at India's Agriculture Ministry, which regulates sugar, declined to answer questions.

In addition to controlling international trade, policy makers decide how much sugar each mill can sell every month, set the minimum price paid to farmers and require factories to sell 10 percent of their product at below-market prices for distribution to the poor. Recently, policy makers also banned futures trading in the commodity.

Some officials have recommended easing control over sugar, but politicians are reluctant to do anything that might be seen as driving up [food prices](#).

Brazil, the world's largest sugar producer, offers an interesting contrast to India's volatile industry. That country has steadily increased production and exports, and now stands to benefit from India's shortage.

In recent years Brazil has used more than half of its harvests to produce ethanol, which, when blended with gasoline, has become a profitable fuel. Brazilian factories and farmers grow sugar cane on plantations of hundreds or thousands of acres, while Indian farmers have an average of two acres. The small scale makes it prohibitively expensive for most Indian farmers to invest in efficient irrigation systems or mechanized

harvesters.

Some industry officials here say they are trying to do what Brazil has done on a smaller scale. Factories are installing distilleries to make ethanol from molasses, a byproduct of sugar production, to sell primarily to liquor companies and, to a lesser extent, for use as fuel. Demand for ethanol-blended fuels is low because the price of regular diesel and gasoline is subsidized by the government. Also, India does not require the use of blended fuels, as Brazil and the United States do.

Sugar factories are also investing in power plants that are fueled by the fiber, or bagasse, left over after juice is squeezed out of the cane. Electricity can fetch high prices because of India's chronic energy shortage, said Rajiv S. Kadapatti, director of Jamkhandi Sugars, which owns a factory in the southern state of Karnataka.

"Two years ago sugar gave us no profit," he said. "It was power generation that kept us afloat."

Farmers are also diversifying, growing bananas, vegetables and other unregulated cash crops. Residents of Loni Kalbhor, a village about 14 miles from the city of Pune, are eyeing other opportunities.

Mr. Gujar, the banana grower, expects that he will be able to farm for another decade before his land is swallowed up by the urban sprawl around Pune, which is home to many growing manufacturing and technology companies. Many of his relatives have already quit farming and his teenage son and daughter have no interest in growing bananas or sugar cane.

"They won't do this," he said. "They will change."

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