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? India's Sugar Price Surge: Production Shortfall, Weather Stress, Ethanol Debate and Government Measures for Price Stabilisation

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Recent Developments:

- **Retail sugar prices** increased from **?48.18/kg on 20 July 2026 to ?55.70/kg on 20 August 2026**, representing a rise of about **15.6% in one month**; reports have indicated further increases in some markets.
- The **Ministry of Consumer Affairs, Food & Public Distribution** has rejected the claim that the recent price rise is primarily due to diversion of sugar for ethanol production and has instead identified **lower domestic production, weather-related crop damage, festive demand, tightening global supplies, speculation and hoarding** as the major factors.
- Government estimates now place **2025–26 sugar production at around 306 lakh metric tonnes (LMT)**, substantially below the initial estimate of about **343 LMT**, mainly because of crop diseases and excessive rainfall.

Why Sugar Prices Are Rising:

1. Lower Domestic Sugar Production:

- India's sugar production for **2025–26** is now estimated at around **306 LMT**, compared with the initial estimate of approximately **343 LMT**, creating a substantial downward revision in expected supply.
- The production decline has been associated with **Red Rot disease, Top Borer infestation and waterlogging** caused by excessive rainfall in major sugarcane-producing regions.

2. Weather and Climate Stress:

- **Excess rainfall and prolonged waterlogging** damaged sugarcane fields in important producing states, particularly **Maharashtra, Karnataka and Gujarat**, affecting cane growth and sugar recovery.
- Weather shocks demonstrate the vulnerability of sugarcane production because the crop has a **long cultivation cycle and high water requirement**, making production sensitive to rainfall distribution, irrigation availability and temperature conditions.

3. Pest and Disease Pressure:

- **Red Rot** and **Top Borer** have emerged as important biological constraints, particularly affecting sugarcane productivity in parts of **Uttar Pradesh**.
- The vulnerability of widely cultivated cane varieties highlights the need for **disease-resistant varieties, crop diversification, integrated pest management and stronger agricultural extension services**.

4. Festive-Season Demand:

- Sugar demand normally increases during the **August–November festive period**, when household consumption and demand from confectionery, sweets, beverages and food-processing industries rise.
- The approaching **Dussehra and Diwali** season has therefore intensified market expectations of tighter short-term availability.
- Higher seasonal demand becomes particularly inflationary when it coincides with **low inventories and delayed arrival of fresh-season production**.

5. Global Supply Tightness:

- International sugar prices increased from around **$474 per tonne on 30 June 2026 to $552 per tonne on 20 August 2026**, a rise of more than **16%**.
- The government has indicated a possible **global sugar deficit of around 33 LMT in 2026–27**, implying additional pressure on international prices and trade flows.
- Rising global prices can influence domestic market expectations even when India restricts exports because traders assess **opportunity costs, import parity and future availability**.

6. Speculation, Hoarding and Artificial Scarcity:

- The government has identified **hoarding, speculative transactions and paper trading without corresponding physical movement of sugar** as factors contributing to an artificial perception of scarcity.
- Physical verification of mill stocks reportedly identified cases where sugar sold to bulk consumers remained stored in mill warehouses and was not fully reflected in reported stock data.
- Such discrepancies can amplify price expectations even when aggregate stocks are theoretically adequate, demonstrating the importance of **market transparency and inventory monitoring**.

Ethanol Diversion Debate:

Government's Position:

- The government has stated that linking the present sugar price rise primarily to **ethanol diversion** is incorrect because the proportion of sugar diverted for ethanol has declined from around **12% in 2022–23 to about 9% in 2025–26**.
- Nearly **three-fourths of India's ethanol production now comes from grains, particularly maize**, reducing the relative dependence of ethanol production on sugar-based feedstocks.
- The government argues that ethanol diversion has historically helped manage India's **structural sugar surplus**, preventing excessive inventories from blocking mill working capital and contributing to delays in farmer payments.
- As of **20 August 2026, about 97% of sugarcane dues for the 2025–26 season had reportedly been paid**, indicating improved financial conditions in the sugar industry.
- Government support to the sugar industry has also declined, with no sugar subsidy required since **2021–22**, compared with approximately **?14,600 crore** provided between 2014 and 2021.

Ethanol Policy Context:

- Under the **Ethanol Blended Petrol (EBP) Programme**, India achieved an average **20% ethanol blending level in 2025–26**, reaching the target five years ahead of the original 2030 deadline.
- The **National Policy on Biofuels, 2018**, amended in 2022, advanced the 20% blending target from 2030 to **Ethanol Supply Year 2025–26**.
- The expansion of **grain-based ethanol**, particularly maize-based production, is strategically important because it reduces the conflict between **food availability, sugar availability and energy-security objectives**.

Government Measures to Stabilise Prices:

1. Stock Limits on Sugar Dealers:

- The government imposed a nationwide **400-tonne stock limit** on sugar dealers from **1 August to 30 November 2026** to discourage hoarding and speculative stocking.
- Dealers are also prohibited from retaining sugar for more than **30 days from the date of receipt**, thereby encouraging faster movement of stocks into the market.
- Dealers must declare their stocks through the **Department of Food and Public Distribution** portal and periodically update their inventory position.

2. Restrictions on Bulk Consumers:

- From **1 September 2026**, bulk consumers will not be permitted to hold sugar stocks exceeding **15 days of consumption**, thereby reducing the possibility of excessive inventory accumulation.
- The measure targets large institutional consumers whose stocking behaviour can significantly influence short-term market availability.

3. Duty-Free Sugar Imports:

- The government has permitted **10 LMT of raw sugar imports at zero customs duty** to augment domestic availability before the peak festive demand period.
- The normal import duty on sugar has been around **100%**, making the temporary duty-free window an important supply-side intervention.
- The measure represents a shift from relying exclusively on domestic stocks towards using **trade policy as an inflation-management instrument**.

4. Export Restrictions:

- India prohibited exports of **raw, white and refined sugar** with effect from May 2026 until **30 September 2026**, subject to specified exemptions and government permissions.
- The export restriction aims to preserve domestic availability and prevent international market opportunities from reducing supplies available to Indian consumers.
- The policy illustrates the recurring tension between **consumer price stability and export earnings for sugar mills and farmers**.

5. Physical Stock Verification:

- Joint **Central-State verification teams** have been deployed to physically examine sugar stocks at mills and identify discrepancies between declared and actual inventories.
- The measure seeks to prevent **artificial scarcity, stock misreporting and speculative manipulation**.

6. Monitoring of Bulk Consumer Purchases:

- Sugar mills have been directed to provide **consumer-wise details of bulk buyers purchasing 500 tonnes or more annually**, including large confectionery, beverage and food-processing consumers.
- The measure improves **traceability across the sugar supply chain** and enables authorities to reconcile reported sales with physical inventories.

7. Early Commencement of Crushing:

- States and sugar mills have been advised to begin the new **sugarcane crushing season from 15 October 2026**.
- The government expects October production to exceed **10 LMT**, compared with the usual **3–4 LMT**, thereby improving availability during the festive period.

Kamaraj IAS Academy
Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthi Colony, Anna Nagar, Chennai, Tamil Nadu 600040
Phone: **044 4353 9988 / 98403 94477** / Whatsapp : **09710729833**

Sugar Sector in India — UPSC Context:

Importance of the Sugar Industry:

- India is among the world's largest **sugarcane and sugar producers**, making the sector important for **agriculture, rural employment, food processing, ethanol production and regional economies**.
- The industry supports millions of farmers and workers and has a strong presence in **Uttar Pradesh, Maharashtra, Karnataka, Gujarat, Tamil Nadand Bihar**.
- Sugar mills are closely connected with the **rural credit system, cooperative institutions, transport networks and local employment**, giving the sector substantial socio-economic and political significance.

Sugarcane–Sugar–Ethanol Linkage:

- **Sugarcane ? juice/syrup ? sugar or ethanol**, while molasses generated during sugar processing can also serve as an ethanol feedstock.
- Diverting cane-derived feedstock towards ethanol can reduce the quantity available for crystallised sugar, creating a potential **food-versus-fuel trade-off** during supply shortages.
- Conversely, ethanol production can reduce structural sugar surpluses, improve mill liquidity and support timely **sugarcane payments to farmers**.
- Therefore, an optimal policy requires **counter-cyclical management of sugar diversion**, rather than a permanent preference for either sugar production or ethanol production.

Structural Challenges in India's Sugar Sector:

Water and Resource Intensity:

- Sugarcane is a **water-intensive crop**, making concentrated cultivation vulnerable to groundwater depletion, irrigation stress and changing rainfall patterns.
- In water-stressed regions, excessive dependence on sugarcane can create **inter-sectoral competition for water** and weaken long-term agricultural sustainability.
- **Micro-irrigation, water-efficient varieties, crop diversification and region-specific procurement policies** can reduce resource stress.

Regional Imbalance:

- Sugar production is concentrated in a limited number of states, increasing the impact of **regional weather shocks** on national supply.
- Maharashtra and Karnataka generally have higher sucrose recovery because of favourable agro-climatic conditions, while Uttar Pradesh has a very large cane area and remains a major contributor to national sugar production.
- Regional diversification and improved logistics can strengthen **supply-chain resilience**.

Farmer–Mill Price Linkages:

- The Central Government determines the **Fair and Remunerative Price (FRP)** of sugarcane, while some states additionally announce **State Advised Prices (SAP)**.
- For the **2026–27 sugar season**, the Cabinet approved an FRP of **?365 per quintal** at a basic recovery rate of **10.25%**, with corresponding adjustments for higher or lower recovery.
- Higher cane prices support farmer incomes but can increase the cost structure of mills and ultimately influence sugar prices if productivity and recovery do not improve.

Way Forward:

- Adopt a **dynamic sugar diversion policy** that links ethanol feedstock allocation to projected sugar production and closing-stock requirements.
- Develop stronger **early-warning systems** using satellite data, crop-health monitoring, weather forecasts and mill-level stock information.
- Promote **disease-resistant and climate-resilient sugarcane varieties** while strengthening integrated pest management.
- Encourage **micro-irrigation and water-efficient cultivation** in sugarcane-intensive regions.
- Expand **grain-based and second-generation ethanol** to reduce excessive dependence on sugarcane-based feedstocks.

Significance for the Indian Economy:

Inflation and Consumer Welfare:

- Sugar is a widely consumed food commodity, so a sustained price increase can contribute to **food inflation** and reduce real purchasing power.
- Price pressures are particularly significant during festive periods when household and commercial demand rises simultaneously.

Rural Economy:

- Sugarcane supports a large network of **farmers, mills, transporters, labourers and ancillary industries**, making sugar-sector policy directly relevant to rural incomes.
- Timely payment of cane dues improves rural liquidity and reduces dependence on government financial support.

Energy Security:

- Ethanol production supports **import substitution**, reduces dependence on crude oil and strengthens domestic biofuel capacity.
- India's achievement of **20% ethanol blending** demonstrates the strategic importance of the biofuel programme.

Food and Energy Security Balance:

- The episode demonstrates that agricultural commodities can simultaneously serve as **food, industrial raw material and energy feedstock**.
- Policy must therefore optimise the allocation of agricultural resources rather than treating food security and energy security as completely independent objectives.

Conclusion:

- India's sugar price surge reflects a combination of **lower production, climatic stress, crop diseases, seasonal demand, global supply tightness and market speculation**, rather than a single causal factor.
- The government's position that ethanol diversion is not the principal cause is supported by the declining share of sugar diverted to ethanol and the growing importance of **grain-based ethanol**.
- However, the episode highlights the need for a **flexible and evidence-based sugar–ethanol policy** that can respond rapidly to production shocks while protecting consumers, farmers, mills and India's energy-security objectives.

Value Addition for UPSC:

Key Concepts:

- **Sugarcane:** A water-intensive commercial crop and major raw material for sugar and ethanol production.
- **FRP:** Minimum remunerative price announced by the Central Government for sugarcane based on factors including recovery and production economics.
- **SAP:** State-determined cane price that may be higher than the Central FRP in some states.
- **EBP Programme:** Government programme promoting the blending of ethanol with petrol to strengthen **energy security and reduce crude-oil dependence**.
- **Food–Fuel Conflict:** Competition between agricultural resources used for food consumption and those diverted towards biofuel production.
- **Counter-Cyclical Policy:** Increasing sugar availability through reduced ethanol diversion or imports during shortage years and encouraging diversion when surplus stocks accumulate.
- **Buffer Stock:** A reserve maintained to moderate supply disruptions and reduce excessive price volatility.

Prelims Pointers:

- **Sugarcane is a C4 crop** with high water requirements and significant regional concentration.
- **Sugar season in India:** Generally follows the **October–September** cycle.
- **FRP:** Determined by the **Central Government**.
- **EBP Programme:** Implemented through **Oil Marketing Companies**.
- **20% ethanol blending:** Achieved in **2025–26**, ahead of the original 2030 target.
- **2026–27 sugarcane FRP: ?365/quintal** at **10.25% basic recovery rate**.
- **Current dealer stock limit: 400 tonnes**, applicable from **1 August to 30 November 2026**.
- **Bulk consumer stock limit: 15 days of consumption** from **1 September 2026**.
- **Duty-free raw sugar import: 10 LMT** to augment domestic availability.
- **Sugar export policy:** Exports of raw, white and refined sugar are prohibited until **30 September 2026**, subject to specified exemptions.

Mains Question:

- **"India's recent sugar price surge highlights the complex relationship between food security, farmer welfare, ethanol blending and market regulation. Examine the structural causes of the problem and suggest a balanced policy framework."**