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EDITORIAL ANALYSIS

Not Ethanol, But Policy: Reading the Sugar Price Spiral of 2026

INDIAN EXPRESS

29 August 2026 · ECONOMY · GS3

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The Indian Express 29 August 2026 GS3

INTERVIEW ANGLE

"When a commodity price spikes, governments reliably ban exports and impose stock limits, and economists reliably say this makes things worse. If the policy is so predictably counterproductive, why is it so predictably chosen?"

Source: Original editorial ↗ The Indian Express

Every fact web-verified against primary sources

THE LIFT LINE

The sugar diverted to ethanol this year was a tenth of production. Diversion at that level, and higher, happened in each of the last four years without a price spike. What changed was not the ethanol programme. What changed was that nobody noticed the crop was 3.5 million tonnes short until the shelves said so.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

This is a near-perfect GS3 case study because it contains a **testable causal claim** and the data to falsify it. Examiners increasingly frame agriculture questions around price formation, buffer policy and the trade-off between farmer income and consumer prices. The sugar sector packs administered input pricing, export controls, stock limits, biofuel policy and a famous deregulation committee report into a single commodity.

GS Paper 3: Issues of buffer stocks and food security; public distribution system; food processing and related industries; e-technology in the aid of farmers; government budgeting; effects of liberalisation on the economy.

BACKGROUND AND CONTEXT

Sugar in India is among the most comprehensively administered commodities in the economy, and every stage of that administration matters to this story.

On the input side, the Centre fixes the **Fair and Remunerative Price (FRP)** for sugarcane under the **Sugarcane (Control) Order, 1966**, on the recommendation of the **Commission for Agricultural Costs and Prices (CACP)**. Several States, notably Uttar Pradesh, additionally declare a **State Advised Price (SAP)** that is typically higher than the FRP. The mill therefore does not negotiate its principal raw material cost.

On the output side, the Centre operates a **monthly release mechanism**, determining how much sugar each mill may sell in the open market in a given month, and can impose **stock limits on traders under the Essential Commodities Act, 1955**. The mill therefore does not freely time its sales either.

On the by-product side sits the **Ethanol Blended Petrol (EBP) programme**. Ethanol may be produced from three sugar-side routes, in ascending order of sugar sacrificed: **C-heavy molasses**, the residual after three rounds of crystallisation; **B-heavy molasses**, an intermediate stage; and **direct cane juice or syrup**. It may equally be produced from **cereal grains**, principally maize and surplus or damaged rice. The **National Policy on Biofuels, 2018**, as amended in **2022**, advanced the **20 per cent blending (E20)** target to **2025-26**.

The **sugar year runs from October to September**, which is why the editorial's production figures reference the year ended September 2026.

THE ANALYSIS

The editorial's method is the part worth learning, more than its conclusion. It takes the popular explanation, states it precisely enough to be tested, and then tests it against three independent pieces of evidence.

First test: how much ethanol actually comes from sugar? Only **27.5 per cent** of ethanol supplied to **oil marketing companies (OMCs)** in **2025-26** was produced from **sugarcane juice and molasses**. The remaining **72.5 per cent** came from **cereal grains**. A programme drawing nearly three-quarters of its feedstock from grain cannot be the primary claimant on cane.

Second test: how large is the diversion relative to production? About **3 million tonnes** of sugar equivalent were diverted, against **gross production of 30.9 million tonnes**. That is **roughly a tenth**. A tenth is not trivial, but it is not the order of magnitude that moves retail prices by 45 per cent in a month.

Third test, and the decisive one: was diversion unusual this year? It was not. The preceding four sugar years saw diversions of **3.5, 2.4, 4.3 and 3.6 million tonnes**. Two of those four exceeded this year's figure. None produced a price spiral. **A constant cannot explain a change.** This is the single most transferable analytical move in the piece, and it applies to any question in which a long-standing factor is blamed for a sudden outcome.

Having cleared ethanol, the editorial identifies what did change: output. Gross production came in about **3.5 million tonnes below the 34.4 million tonne projection** made at the start of crushing in **November**. And critically, this was **knowable by February**, when mills in **Uttar Pradesh and**

Maharashtra, the two largest producing States, were struggling to procure cane and shutting down crushing operations early. Early closure of crushing is the most legible distress signal the sugar sector emits. It was emitted, and it was not acted upon.

The second failure is the response, and it is worse than the first. The government **banned exports in mid-May**. When **ex-factory prices soared from July**, amplified by **deficient June monsoon rains** raising fears for the **2026-27** crop as well, it moved to **stock limits of 400 tonnes on all dealers with a 30-day holding cap**, and directed mills to disclose every **bulk consumer purchasing 500 tonnes or more**.

Each of these measures communicates scarcity. In a market where the government already controls monthly releases, an abrupt tightening of trade rules is read by every participant as the state's own forecast of shortage. Dealers respond by holding what they can and buying earlier than they otherwise would. The editorial's verdict, that these were *knee-jerk panic actions* that *added fuel to the fire*, is the standard result in commodity economics: **interventions that ration existing stock redistribute scarcity without relieving it, and simultaneously signal that scarcity is expected to worsen.**

The instrument that would have worked was on the shelf and was not used. India levies a **100 per cent import duty on raw and white sugar**. Cutting it to zero by **April**, once crushing had ended and the shortfall was known, would have brought in physical supply. Instead the government did the reverse: it closed the export door, which affects a flow that was already small, rather than opening the import door, which affects the quantity actually available on the domestic market.

DATA AND INSTITUTIONS VAULT

The price move:

- Retail sugar: from about **Rs 45 to Rs 65 per kg** within a month, a rise of nearly **45 per cent**

Production and diversion (sugar year ended September 2026):

- Gross production: **30.9 million tonnes**
- Initial projection at start of crushing in November: **34.4 million tonnes**
- Shortfall: about **3.5 million tonnes**
- Sugar diverted to ethanol: about **3 million tonnes**, roughly **one-tenth** of production
- Diversion in the four preceding sugar years: **3.5, 2.4, 4.3 and 3.6 million tonnes**
- Share of ethanol supplied to OMCs from cane juice and molasses in 2025-26: **27.5 per cent** (balance from cereal grains)

Government interventions, in sequence:

- **Mid-May 2026**: export ban imposed
- **July 2026**: ex-factory prices surge; deficient June monsoon raises 2026-27 concerns

- **Stock limit** of **400 tonnes** on all dealers, with no holding beyond **30 days**
- Mills directed to disclose all **bulk consumers purchasing 500 tonnes or more**
- Import duty on raw and white sugar: **100 per cent**, left unchanged

Regulatory architecture:

- **Sugarcane (Control) Order, 1966**: basis of the **Fair and Remunerative Price (FRP)**, fixed by the Centre on **CACP** recommendation
- **State Advised Price (SAP)**: declared by States such as Uttar Pradesh, typically above FRP
- **Essential Commodities Act, 1955**: statutory basis for stock limits
- **Monthly release mechanism**: Centre determines each mill's open-market sale quota
- **Sugar year: October to September**

Ethanol and biofuel policy:

- **National Policy on Biofuels, 2018**, amended **2022**, advancing the **E20** target to **2025-26**
- Sugar-side feedstock routes, ascending by sugar sacrificed: **C-heavy molasses**, **B-heavy molasses**, **direct cane juice or syrup**
- Grain-side feedstock: **maize**, surplus and damaged **rice**
- **Oil Marketing Companies (OMCs)** are the designated purchasers of ethanol

Committee to cite:

- **Rangarajan Committee (2012)** on deregulation of the sugar sector: recommended a **revenue-sharing formula** between mills and farmers in place of an administered cane price, and abolition of the **levy sugar** obligation and the **release order mechanism**

Production geography:

- Largest producing States: **Uttar Pradesh** and **Maharashtra**, followed by **Karnataka**
- India is among the world's largest producers and consumers of sugar, and its export decisions are large enough to move world prices

THE DEBATE

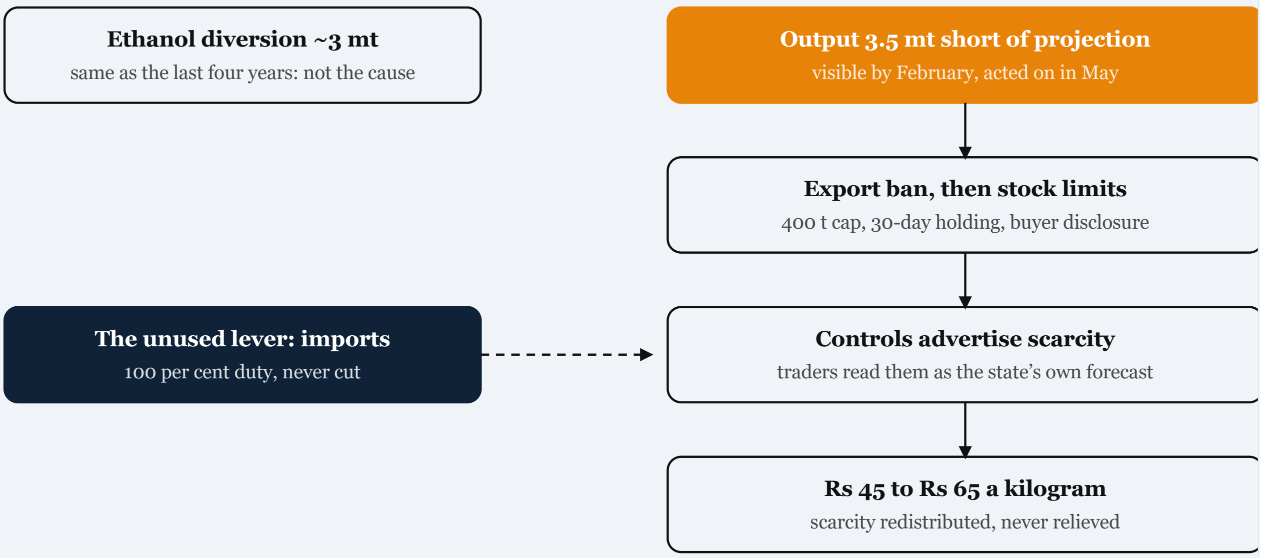
The case for the government's actions is not empty. A 45 per cent rise in the retail price of a staple is a political emergency, and stock limits under the Essential Commodities Act are the only instrument that bites in days. Imports take weeks to contract and months to land. A government that responded to a July price spiral only by cutting import duty would have faced two more months of rising prices with nothing visible to show.

There is also a deeper defence of the control regime. Because the State fixes the cane price, it has already assumed responsibility for the sector's economics. A government that administers the input price but declines responsibility for the output price is not practising liberalisation; it is practising selective intervention, with the mill bearing the residual risk in both directions.

The case against is that the controls destroyed the information the controls needed. In a market economy, a developing shortage announces itself through forward prices and inventory behaviour well before it reaches the retail shelf. Where the state sets the input price and rations monthly sales, those signals are suppressed, and the state must substitute its own crop intelligence. The editorial's sharpest charge is precisely this: the government neither invested in market intelligence nor allowed market forces to do the balancing. **Having disabled the thermometer, it did not buy a thermometer.**

On ethanol specifically, the honest position is more nuanced than the editorial's acquittal. Ethanol is not the cause of the 2026 spiral, and the data settle that. But a standing annual diversion commitment does reduce the buffer available in a bad year, because the diversion is contracted while the crop is uncertain. The correct criticism is not that diversion is too high, but that it is **inflexible**: it does not automatically shrink when the sugar balance tightens.

DIAGRAM-IN-WORDS



Banning exports moves a small flow. Cutting import duty adds actual supply.

The causal chain runs from an unnoticed shortfall to late, scarcity-signalling controls. The dashed line marks the intervention that was available throughout and never used: an import duty cut in April would have added physical supply, which is the only thing that lowers a price driven by a genuine shortage.

HOW TO THINK ABOUT THIS

Three transferable frames come out of this editorial, and all three recur across GS3.

First, the constant-cannot-explain-a-change test. When a long-standing factor is blamed for a sudden outcome, check whether that factor actually changed. Ethanol diversion was the same order of magnitude in four prior years without a spike, which eliminates it as the cause. Apply the same test to onion and tomato price spikes blamed on hoarding that is always present, to unemployment blamed on automation that has been advancing for decades, and to urban flooding blamed on rainfall in cities where drainage capacity, not rainfall, is what changed.

Second, the distinction between supply-adding and supply-rationing interventions. Import liberalisation, buffer releases and production incentives **add** supply. Export bans, stock limits and movement restrictions **ration** existing supply. Only the first class can resolve a genuine shortage; the second class redistributes it, usually towards whoever has storage and away from whoever does not. Governments prefer the second because it is fast and visible. Use this distinction on wheat, pulses, onions and edible oil.

Third, the information cost of price controls. Administered prices do not merely alter incentives; they destroy the data that markets otherwise generate about future scarcity. A state that suppresses the price signal must therefore invest heavily in independent crop intelligence, satellite and yield-based estimation, and inventory reporting. If it does not, it will be the last party to learn about a shortage it is responsible for managing. This is the argument's deepest layer, and it generalises to every administered market from electricity to fertiliser.

WAY FORWARD

Use the import window early and decisively. Cutting the 100 per cent duty on raw and white sugar by April, when crushing is over and the balance is known, adds physical supply months before it is needed. Reversal is straightforward once the crop recovers.

Rebuild independent crop intelligence. Estimates should rest on satellite acreage mapping, yield modelling and independent sampling, not solely on mill declarations. Early closure of crushing in Uttar Pradesh and Maharashtra should function as an automatic trigger for revision of the national estimate.

Make ethanol diversion flexible rather than fixed. Diversion should be indexed to the sugar balance, contracting in a deficit year and expanding in a surplus. The grain route, already 72.5 per cent of supply, gives the programme the headroom to absorb such flexing without missing blending targets.

Move cane pricing towards the Rangarajan revenue-sharing formula. Linking cane payment to a share of the realisation from sugar and by-products would transmit market information back to the farmer, aligning acreage decisions with actual demand instead of with an administered price fixed before the season.

Retire the reflex to ban exports. The export flow is small relative to production; banning it damages India's reliability as a supplier in world markets, invites reciprocal treatment, and buys very little domestic supply.

PYQ LINKAGE AND PRACTICE

Connects to standing UPSC themes on **minimum support prices and administered pricing**, **buffer stocks and food security**, **the Essential Commodities Act and its 2020 amendment**, and **biofuels and energy security**, and pairs naturally with questions on farm marketing reform.

Practice question: *"Price controls in agricultural commodities suppress the very information the state needs in order to manage them. Critically examine this proposition with reference to the sugar sector in India."* (250 words)

Sources: The Indian Express, Department of Food and Public Distribution

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Source: Not Ethanol, But Policy: Reading the Sugar Price Spiral of 2026 — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

The Indian Express argues that the near-45 per cent rise in retail sugar prices, from about Rs 45 to Rs 65 a kilogram in a month, has been wrongly blamed on the ethanol blending programme, and is in fact the product of a production shortfall the government failed to anticipate followed by panic interventions that worsened the shortage they were meant to relieve.

✓ SUPPORTING

- The arithmetic acquits ethanol: only 27.5 per cent of the ethanol supplied to oil marketing companies in 2025-26 came from cane juice and molasses, the rest from cereal grains, and the roughly 3 million tonnes of sugar diverted is barely a tenth of the 30.9 million tonnes of gross production in the year ended September 2026.
- Diversion at comparable or higher levels, 3.5, 2.4, 4.3 and 3.6 million tonnes, occurred in each of the preceding four sugar years without producing a price spike, so the variable that changed is output, not diversion.
- Gross output came in about 3.5 million tonnes below the 34.4 million tonne projection made at the start of crushing in November, and the shortfall was visible by February when mills in Uttar Pradesh and Maharashtra were struggling for cane and shutting down crushing.
- The government reacted late and then over-reacted: an export ban in mid-May, a 400-tonne stock limit on dealers with a 30-day holding cap, and a directive to mills to disclose all bulk buyers of 500 tonnes or more, measures that signalled scarcity and intensified hoarding rather than easing it.

⚠ COUNTER

A government facing a 45 per cent retail price rise in a politically sensitive staple cannot simply wait for imports to arrive, and stock limits under the Essential Commodities Act are the only instrument that acts within days rather than months; the deeper defence of controls is that cane pricing itself is administered, so the state has already assumed responsibility for the sector's balance and cannot selectively withdraw when the balance goes wrong.

→ WAY FORWARD

Cut import duty on raw and white sugar decisively and early rather than banning exports, rebuild independent crop forecasting through satellite and yield-based estimation instead of relying on mill declarations, move cane pricing towards the Rangarajan revenue-sharing formula, and make ethanol diversion a policy lever that flexes with the sugar balance instead of a fixed annual commitment.

✍️ MAINS ANSWER FRAMEWORK

QUESTION

The sugar economy in India is regulated at every stage from cane pricing to monthly release quotas. Examine whether the 2026 sugar price spiral was a supply shock or a regulatory failure, and evaluate the case for phased deregulation in the light of the Rangarajan Committee recommendations. (250 words)

INTRODUCTION

Retail sugar prices in India rose from roughly Rs 45 to Rs 65 a kilogram within a month in 2026, a nearly 45 per cent increase in a staple with high political salience. The popular explanation, that the Ethanol Blended Petrol programme diverted cane away from sugar, is testable against published supply data, and it fails that test.

BODY

Only 27.5 per cent of ethanol supplied to oil marketing companies in 2025-26 originated in sugarcane juice and molasses, with the balance from cereal grains, and the roughly 3 million tonnes of sugar equivalent diverted amounts to about a tenth of the 30.9 million tonnes of gross production. Diversions of 3.5, 2.4, 4.3 and 3.6 million tonnes in the four preceding sugar years passed without price spikes, which establishes that diversion is not the changed variable.

The actual cause is a production shortfall of about 3.5 million tonnes against the 34.4 million tonne November projection, detectable by February when Uttar Pradesh and Maharashtra mills were closing crushing operations for want of cane. The failure is therefore informational first and interventional second. Having missed the signal, the government banned exports in mid-May and, when ex-factory prices surged in July, imposed a 400-tonne dealer stock limit with a 30-day holding cap and demanded disclosure of bulk buyers. Each measure advertised scarcity, and in a market where the state controls monthly release quotas, such signals are read as a forecast rather than a remedy.

CONCLUSION

The correct instrument was the import window: cutting the 100 per cent duty on raw and white sugar to zero by April, when crushing had largely ended and the shortfall was known, would have added supply rather than merely redistributing anxiety. The episode is best read not as a failure of ethanol policy but as the recurring cost of a sector where the state prices the input, rations the output and then lacks the market intelligence that its own control regime has displaced.

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