PRESENTATION TO CACP ON PRICING POLICY

FOR SUGARCANE FOR 2018-19 SS

INDIAN SUGAR MILLS ASSOCIATION

28.06.2017

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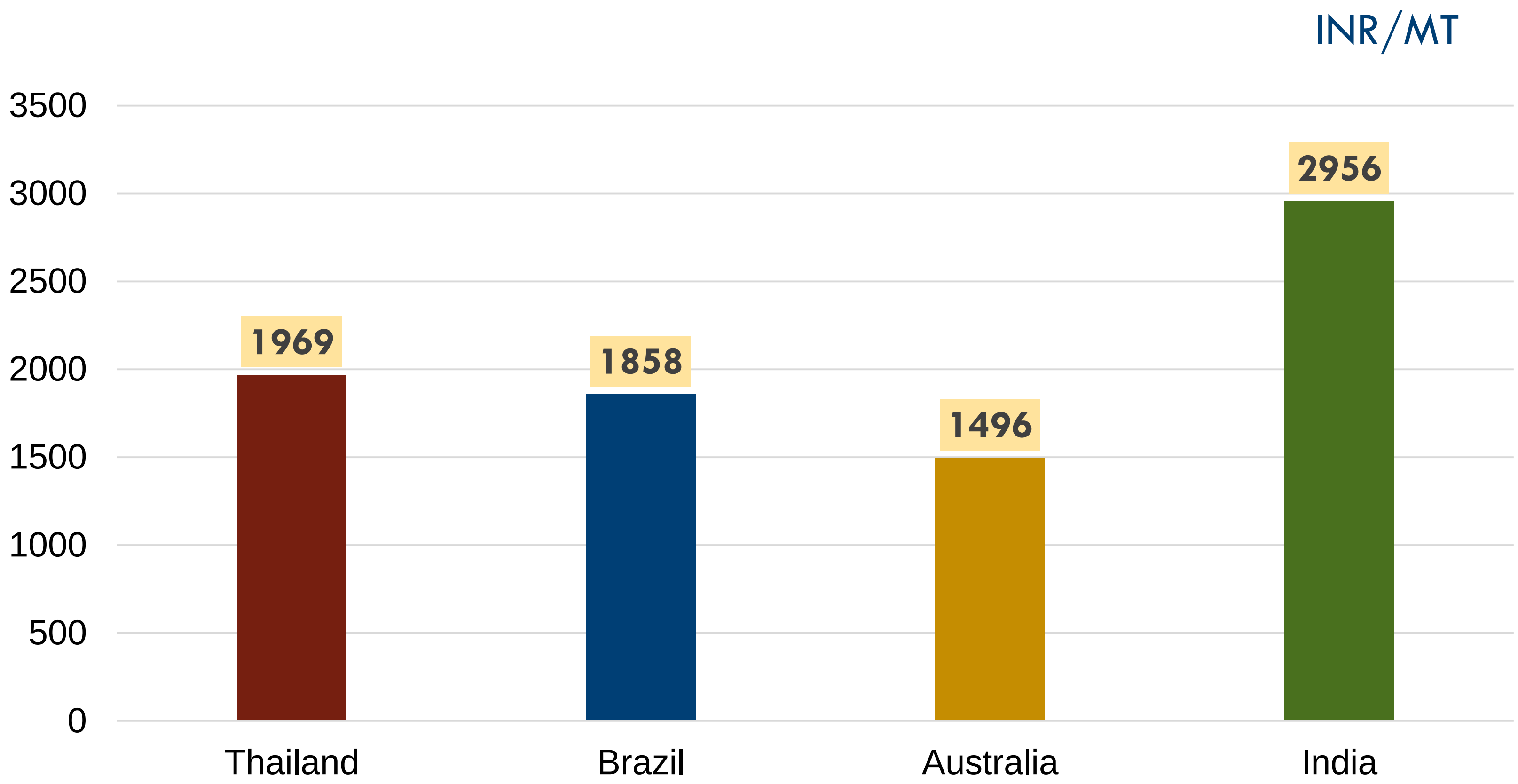
Sugarcane price in 2016-17 SS

- Central Government fixed FRP of Rs.230 per quintal, which was supposed to be uniformly applicable to all mills across the country
  - Yet 5 States fixed SAP (*on political considerations, without any transparent laid down criteria*)

	Centre	UP	Uttara - khand	Punjab	Haryana	TN
Cane price	230 @9.5%	305	307	290	315	275 + 10 H&T

- Dual cane pricing distorts cane and sugar economy, and is contributing majorly to cane price arrears and cyclicality
- There is an immediate need to ensure a uniform pricing policy across the country

Cane price in major sugar producing countries currently



Note: Prices include cost of harvesting & transportation

Source: Australia – Queensland Sugar Ltd.
Thailand – Office of Cane and Sugar Board
Brazil - CONSECANA
India – Weighted average of cane price paid by mills

FRP for 2017-18 much higher than CoP of cane

- Despite no increase in CoP over last three seasons
  - FRP for 2017-18 SS has been increased by 11% to Rs.255 per quintal at 9.5% recovery

In Rs. per quintal of cane	2015-16	2016-17	2017-18
C2 cost	224	226	227
FRP	230	230	255

* C2 cost includes all expense of farmers

- Increase in FRP of sugarcane over last 9 years by 97%
- MSP of competing crops not increased by same rate. For example, MSP for wheat and paddy increased by only 47% in 8 years
- Result is returns to farmers are 50-60% more from sugarcane as compared to returns from competing crops *(concluded by CACP itself)*

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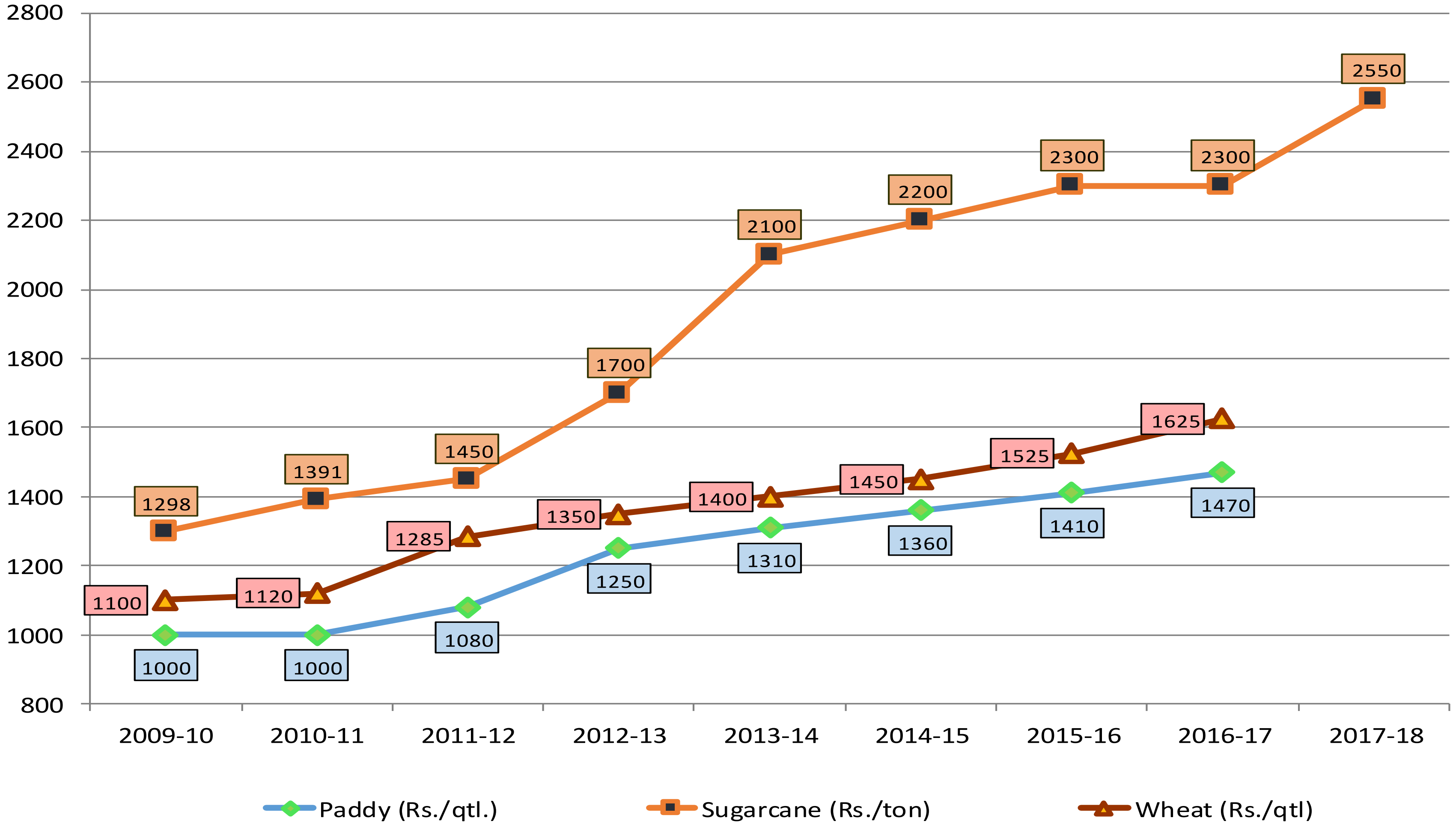
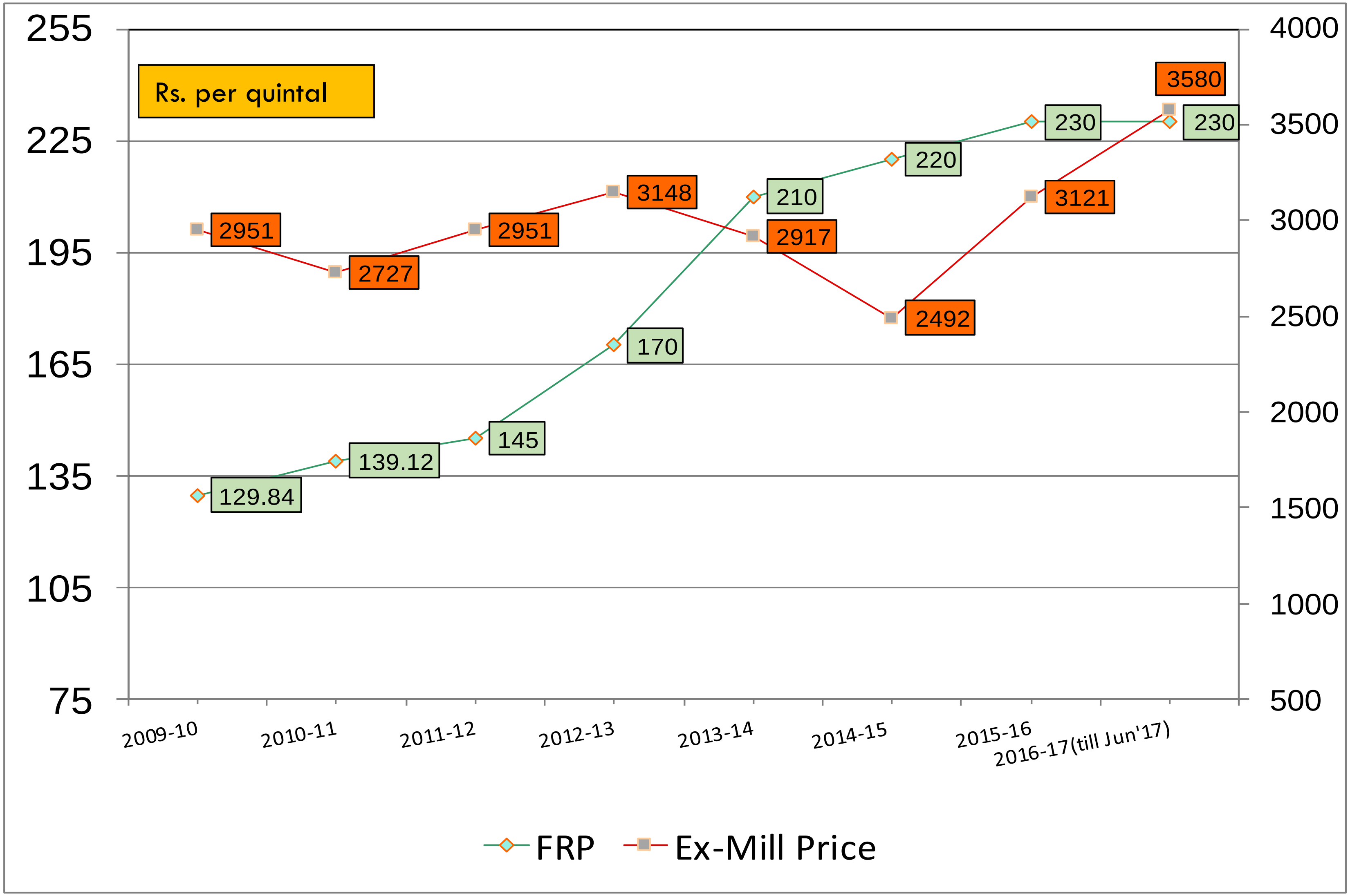
FRP of Sugarcane Vs MSP of Paddy & Wheat

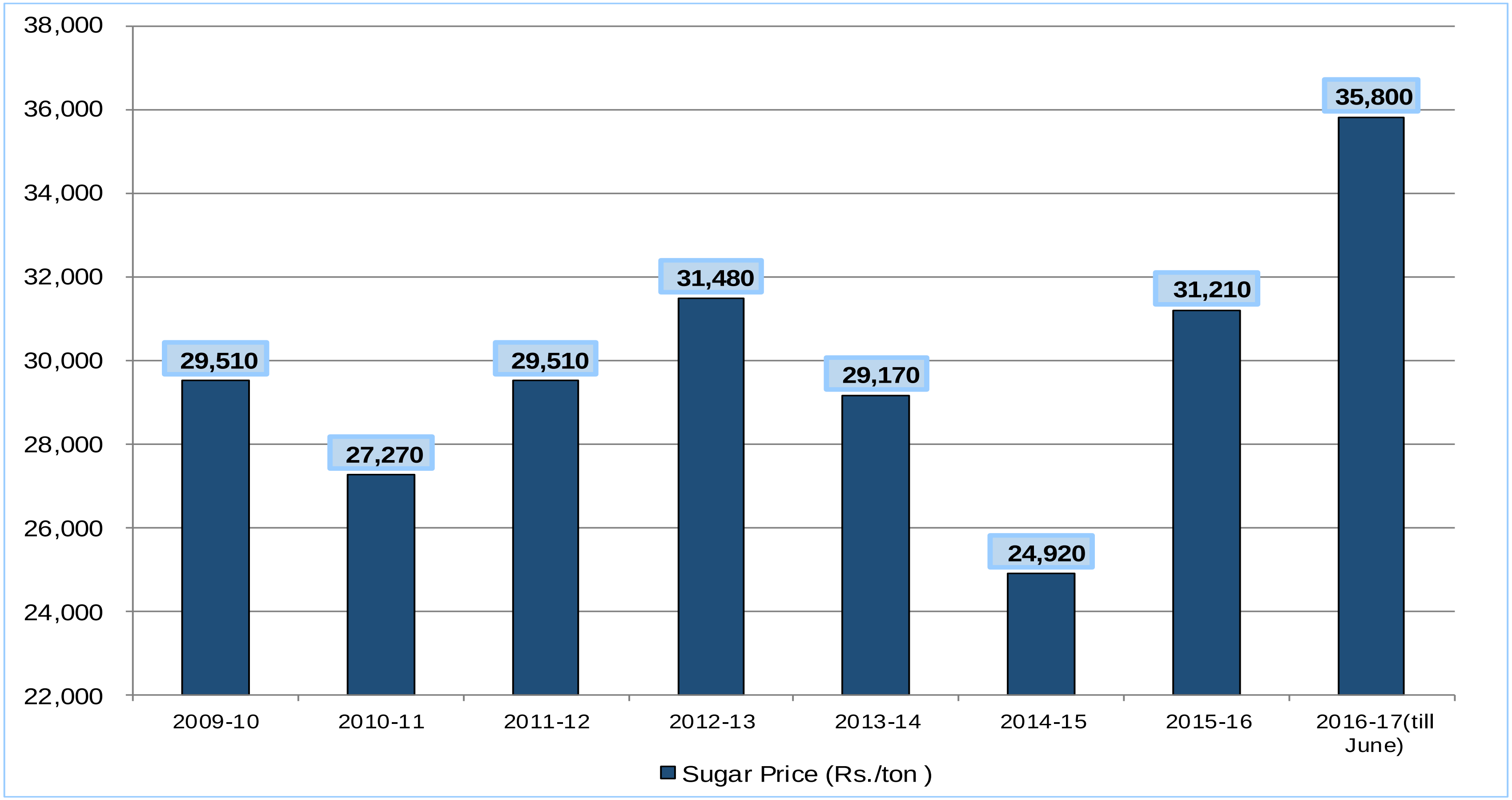


MSP of wheat and paddy increased by 47% in 8 years.
FRP of sugarcane increased by 97% in 9 years

FRP v/s average ex-mill price in last 7-8 years



Sugar prices fluctuate, but FRP only going up



- If the big increase in FRP in 2017-18 SS is based on expected sugar prices in 2017-18 alone, without accepting that sugar prices might fall in future years, and that there is no scope of reducing the FRP, we are making a grave mistake which cannot be corrected later.

Projections of sugar price have gone wrong ………

Years	Ex-Mill Projected by CACP	Actual Average Ex-Mill Price
2012-13	3000-3700	3148
2013-14	3000-3700	2917
2014-15	3000-3400	2492
2015-16	3000-3500	3121

- Difficult to make assumption of ex-mill price 14 to 16 months in advance
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- Sugar price projections were not done for 2016-17 and 2017-18 seasons
- Therefore, one does not understand why FRP has been increased by 11% for 2017-18, especially when cost of production of sugarcane, calculated by CACP, has not increased at all

- Hence, instead of having a fixed FRP, we should move to a linkage /revenue sharing formula for sugarcane price.

World sugar balance moving back to surplus again

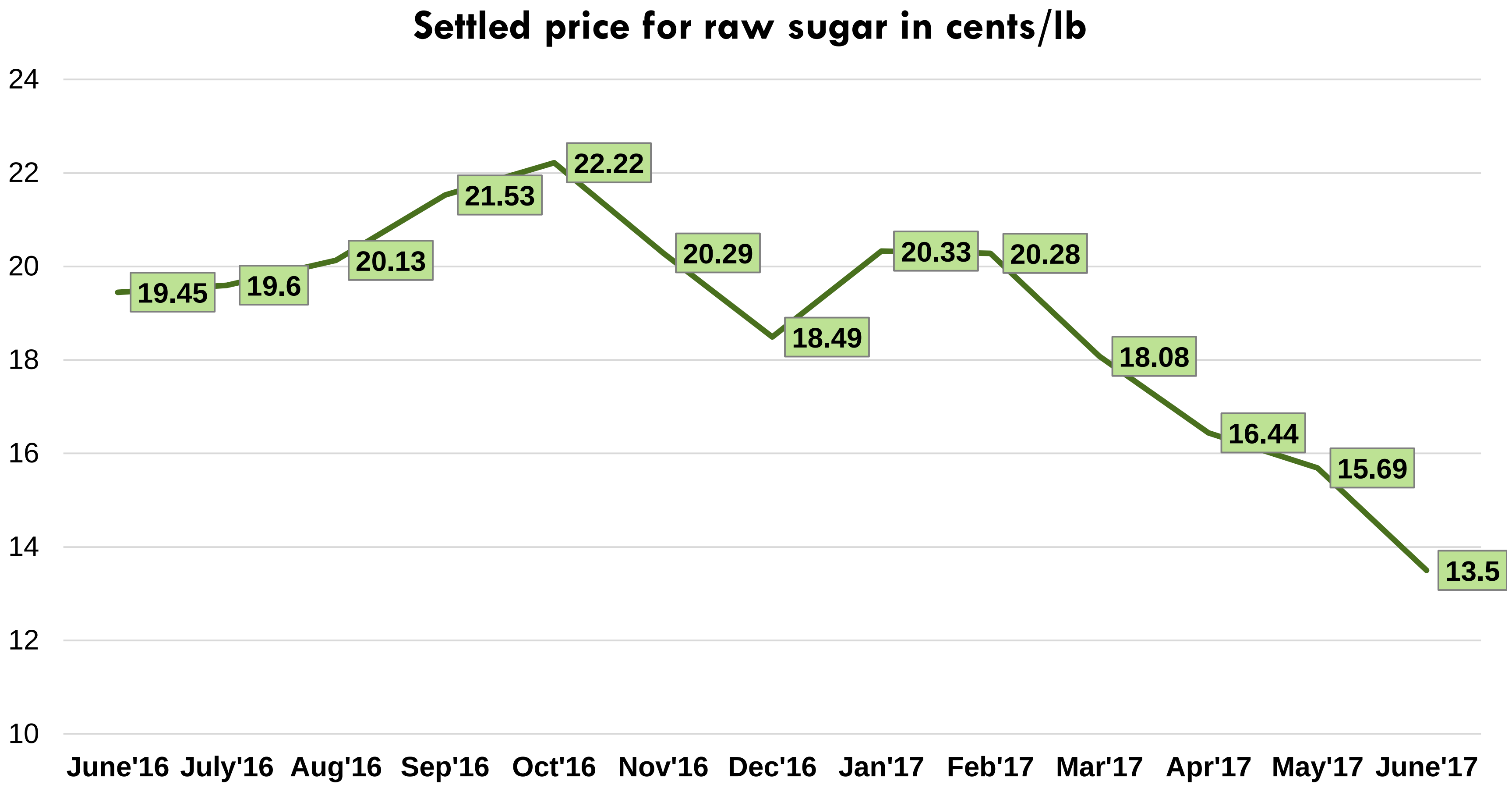
(Million tons)

Season	2013-14	2014-15	2015-16	2016-17	2017-18
Production	174.162	170.293	165.424	165.928	178.50
Consumption	165.312	167.085	170.323	172.393	175.25
Surplus/Deficit	**8.850**	**3.208**	**-4.899**	**-6.465**	**3.25**

Source: International Sugar Organization

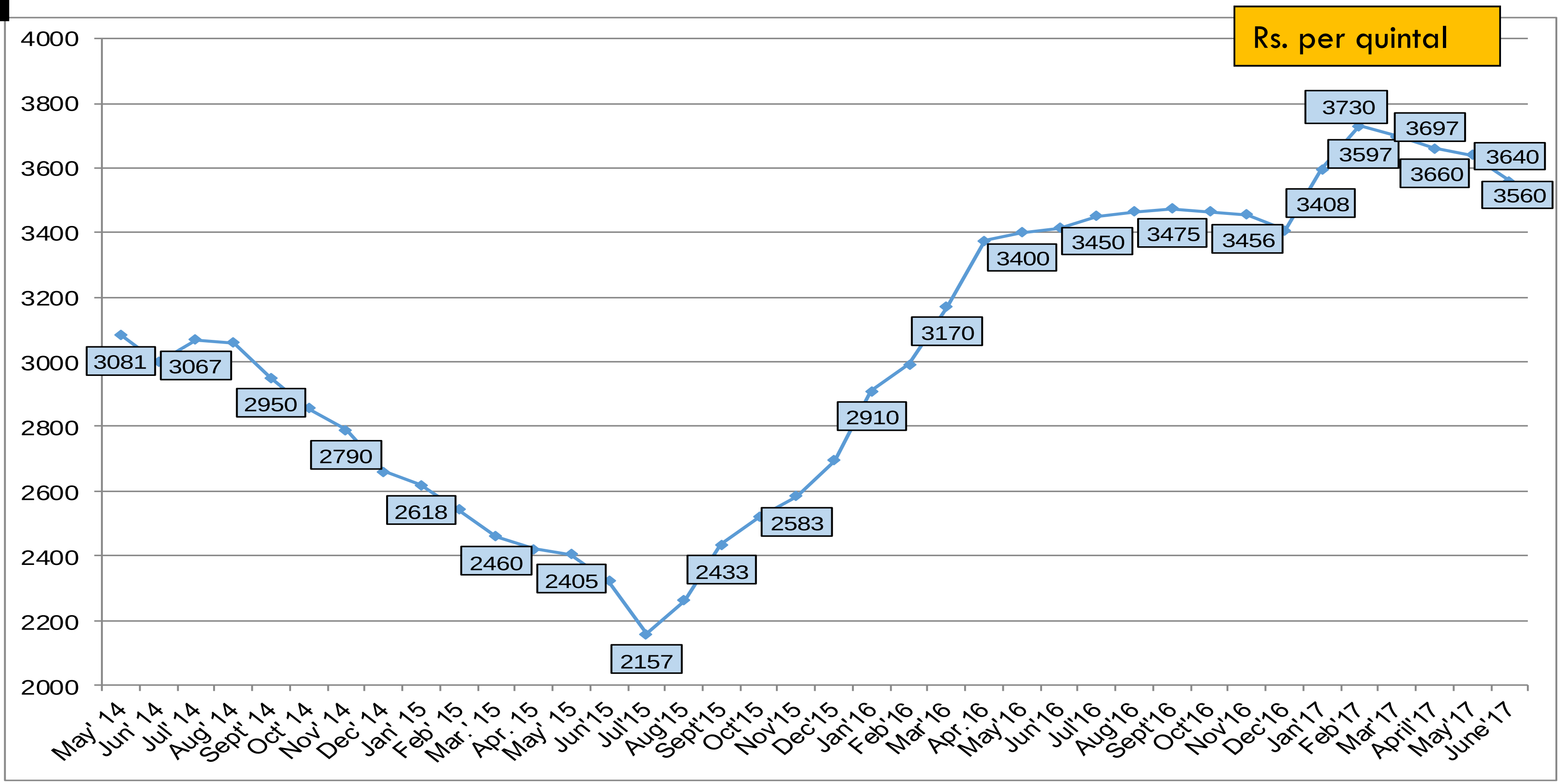
- With almost nil impact of El Nino, and normal weather, almost all countries expected to give normal to surplus sugar production
- Plus, with removal of EU quota system, EU is expected to become a net exporter instead of a net importer now, adding to world surplus
- All this will cause the global sugar prices to be depressed

Global raw sugar price trend (New York market)



- The current global prices have reached the lowest level of 12.53 cents for July delivery

All India ex-mill prices in the last 3 years



Ex-mill sugar prices in India have been falling since Feb, 2017 due to:

a) Estimated higher sugar production in next season
b) Above normal monsoon thereby indicating further higher sugar production in 18-19
c) Crashing world prices impacting market sentiments in India

Surplus production in coming years

- Field reports suggest increase in cane area in 2017-18
  - Sugar production to jump back to normal level; may even give surplus
- With good monsoon last year and expected again in 2017
  - Cane area to further increase for 2018-19 SS, along with better yields and recoveries across the country
- Similar reports about surplus global production
- Back to back estimated surplus sugar in India and globally
  - Will depress sugar prices domestically and internationally

CACP's recommendations to Govt. in last 3 seasons

- Cane price liability of sugar mills should be as per RSF
- Farmers should get minimum of FRP
- Gap, if any, between RSF and FRP be borne by Government
- A special fund viz. Price Stabilization Fund (PSF) be created

- However, CACP has not recommended how PSF be funded

Government already tested this system in 2015-16

- Sugar prices were depressed and mills were unable to afford FRP.
- Government adopted a system similar to PSF.
- Collected funds by increasing sugar cess by Rs. 100/qtl.
- Provided subsidy of Rs.4.50/qtl. of cane, for paying directly to farmers as part of FRP.

Revenue sharing arrangements in other countries

Country	Revenues to be shared	Revenue sharing % of Growers
Brazil	Sugar and ethanol	56 to 60%
Thailand	Raw/White/Refined sugar and molasses	70%
Australia	Raw sugar (millers retain molasses)	62 to 67%
South Africa	Raw/refined sugar and molasses	62-63%
Mexico	All sugar (mills retain molasses)	57%
India (Mah)	Sugar, molasses, bagasse & press mud	70%

Following needs to be done …..

1. By Central Government:

   a) ensure a uniform price for sugarcane across the country

   b) accept that liability of sugar mills be limited as per RSF

   c) form a PSF to fill the gap b/w RSF and FRP

2. By State Governments:

   a) accept RSF system of determining cane price

   b) no SAP, and uniform pricing to be accepted in toto

   c) if still wish to give SAP, the difference be borne from State budget (like wheat & paddy, where bonus given by States themselves)

Continue FRP only if PSF

- CACP should make it mandatory for Government to accept all its recommendations as a package, and not pick and choose
  - Such cherry picking distorts the whole economic package/ thought process behind the recommendations
- If PSF is not acceptable and not implemented
  - Govt. should refrain from fixing and announcing FRP
  - Cane price should then be determined as per RSF

Funding of PSF

- It was easier when a cess was collected on sugar
  - Govt. could tweak the quantum of cess, depending on reqt. of funds
  - Like it did in 2015-16 by increasing cess by Rs.100 per quintal on sugar
- Sugar cess has been decided to be subsumed in the 5% GST
- 2 ways still to collect funds for PSF
  - Either a part of 5% GST could be apportioned into PSF or
  - Empower Govt., through separate legislation, (outside GST ambit) to collect cess on sugar, exclusively for cane price, directly to farmers, as part of FRP
- Tea, coffee, rubber, tobacco, onion and potato have PSF, though with a different structure, but with same purpose

Conclusion: Request of Industry

- Liability of sugar mills to pay cane price be calculated as per revenue sharing formula (RSF)
- In case cane price/ FRP is higher than RSF, gap should be funded from PSF
  - If not, there should be no FRP at all
- CACP should recommend ways to fund the PSF
  - Either as part of 5% GST or cess collection through separate legislation
- Ensure that recommendations of CACP are accepted by the Govt. in toto

Thank you