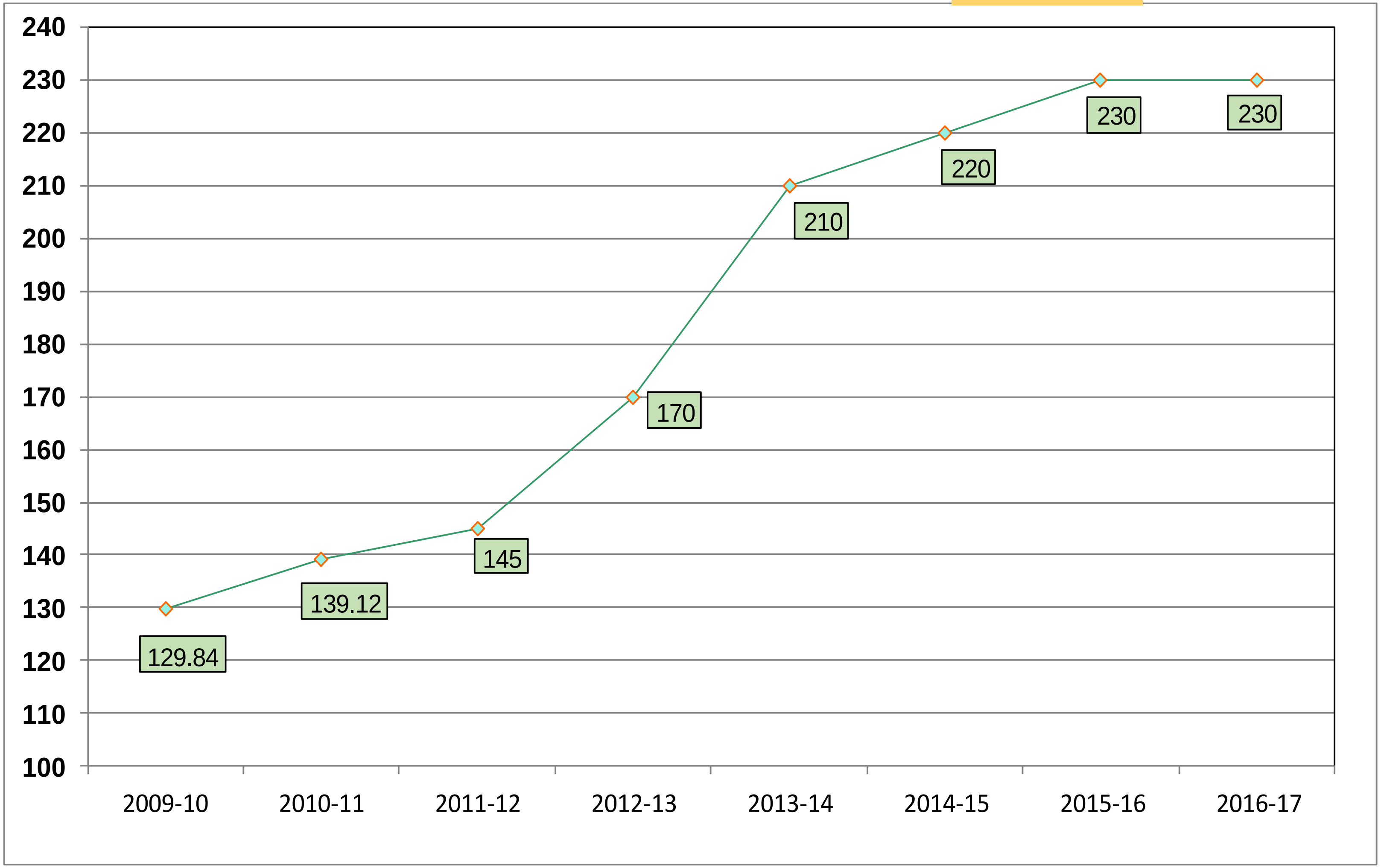
CANE PRICING POLICY 2017-18 SS

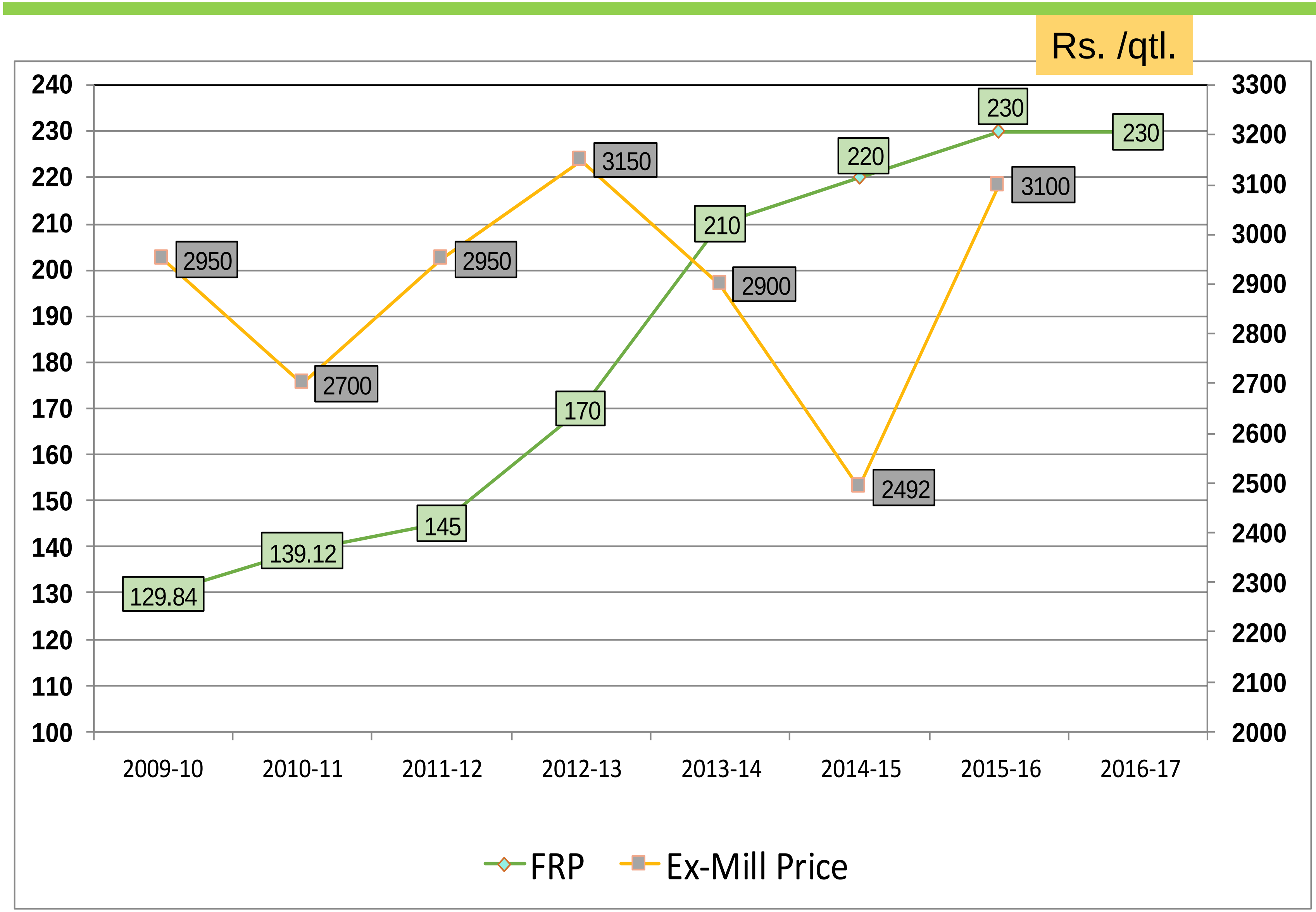
INDIAN SUGAR MILLS ASSOCIATION, NEW DELHI

FRP has increased by almost 77% in 7 years

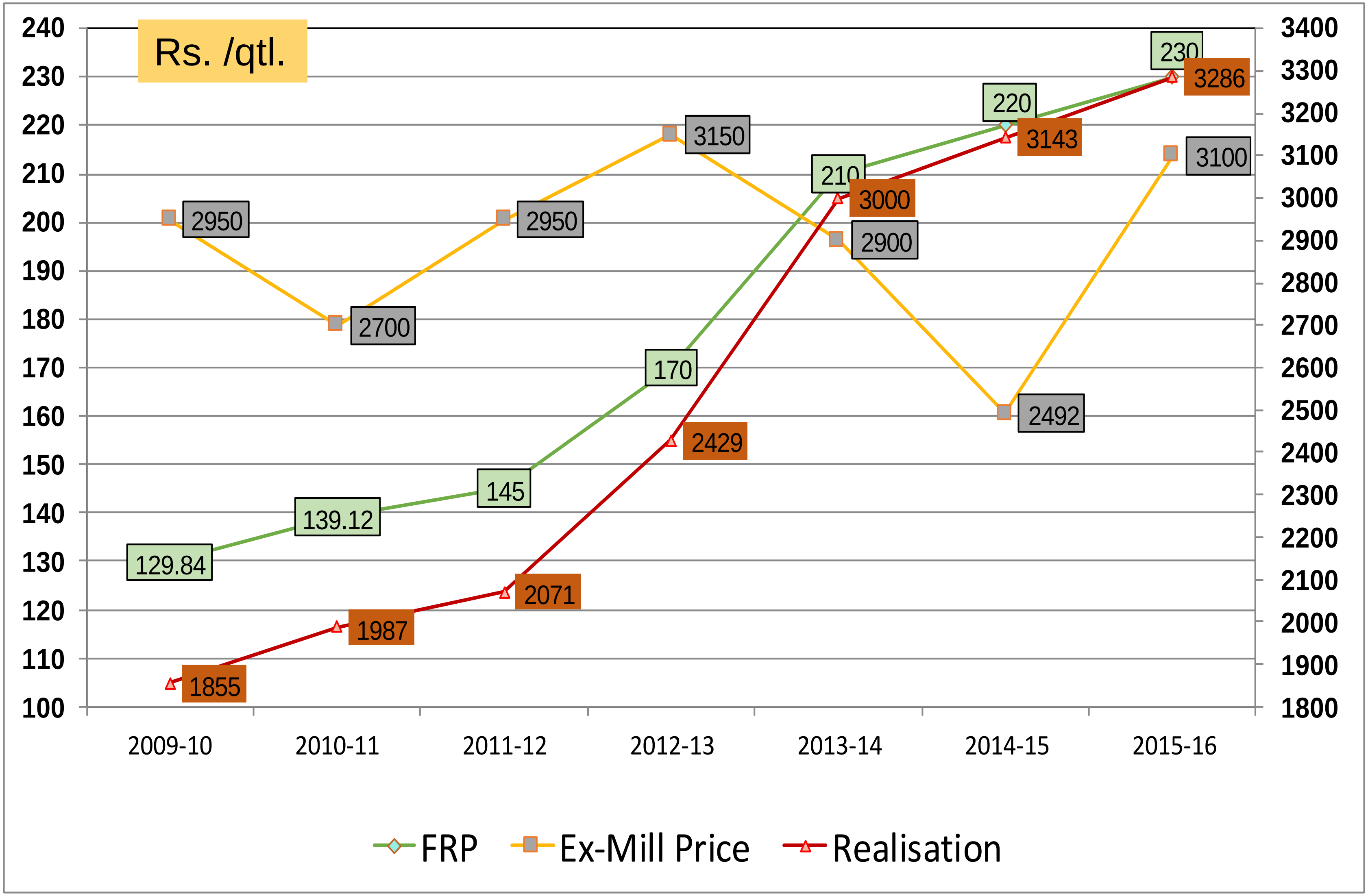
Rs. /qtl.



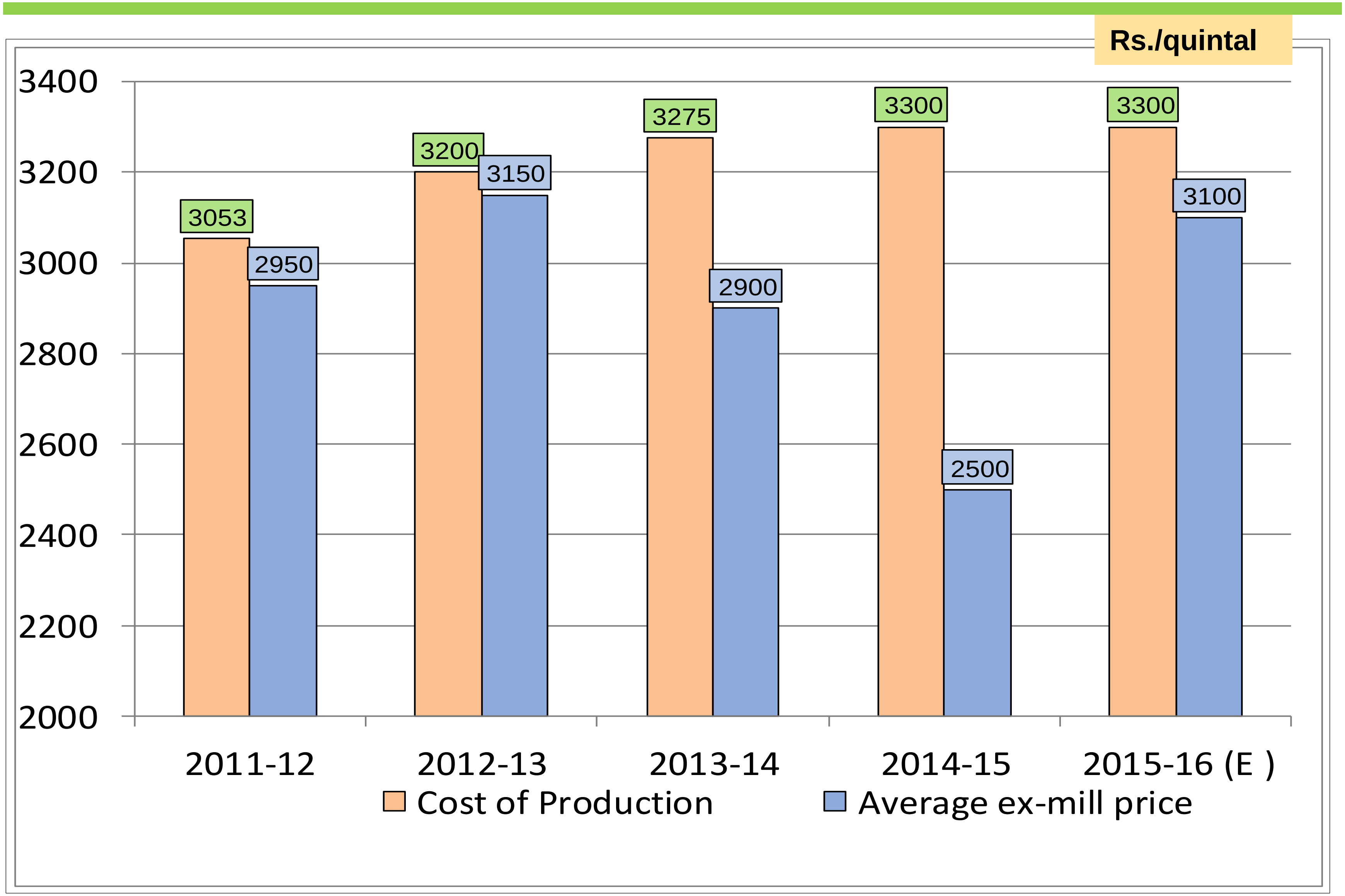
FRP versus avg. ex-mill sugar price



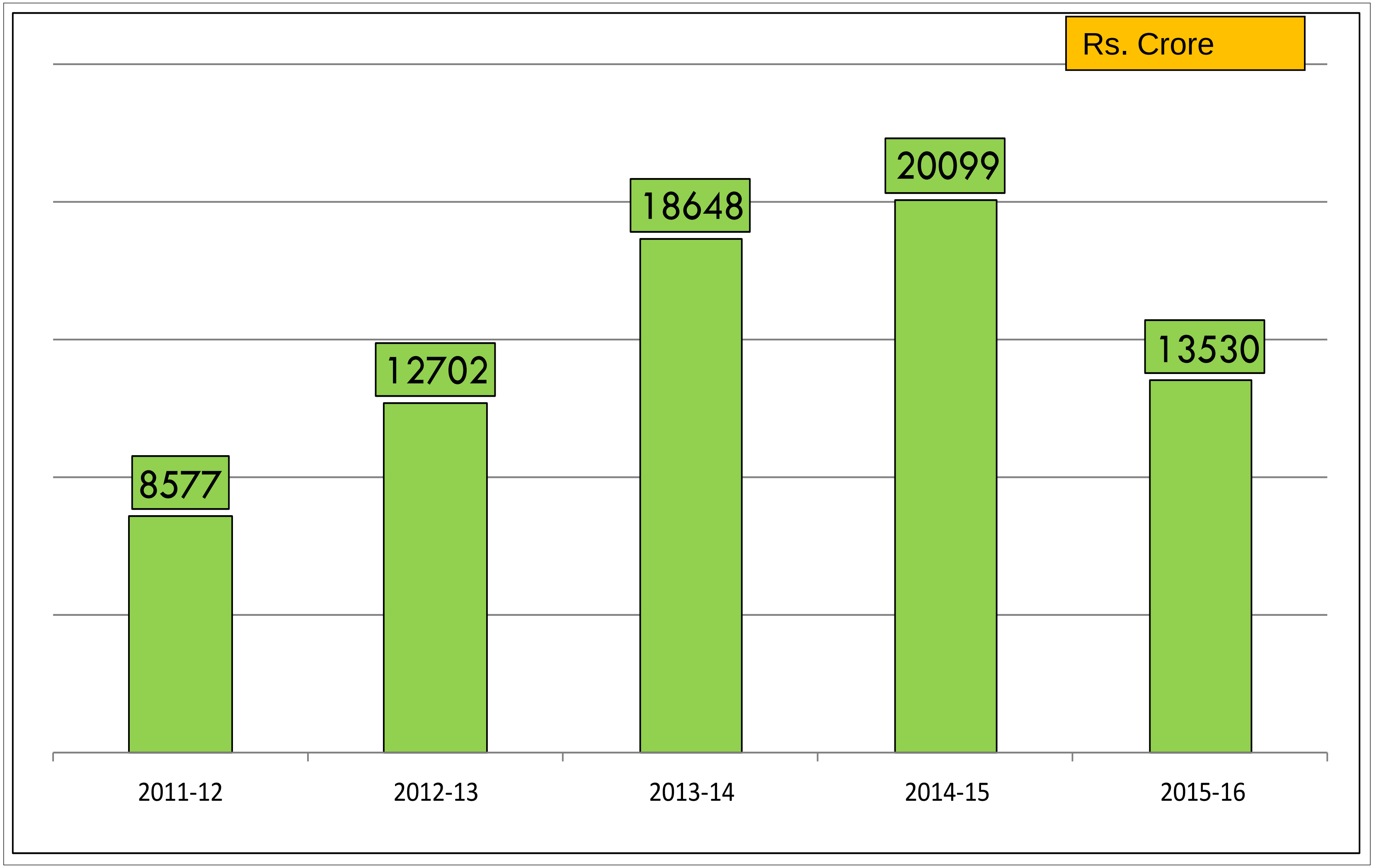
Sugar Price Realisation as per RSF



Production cost vs. Avg. ex-mill prices

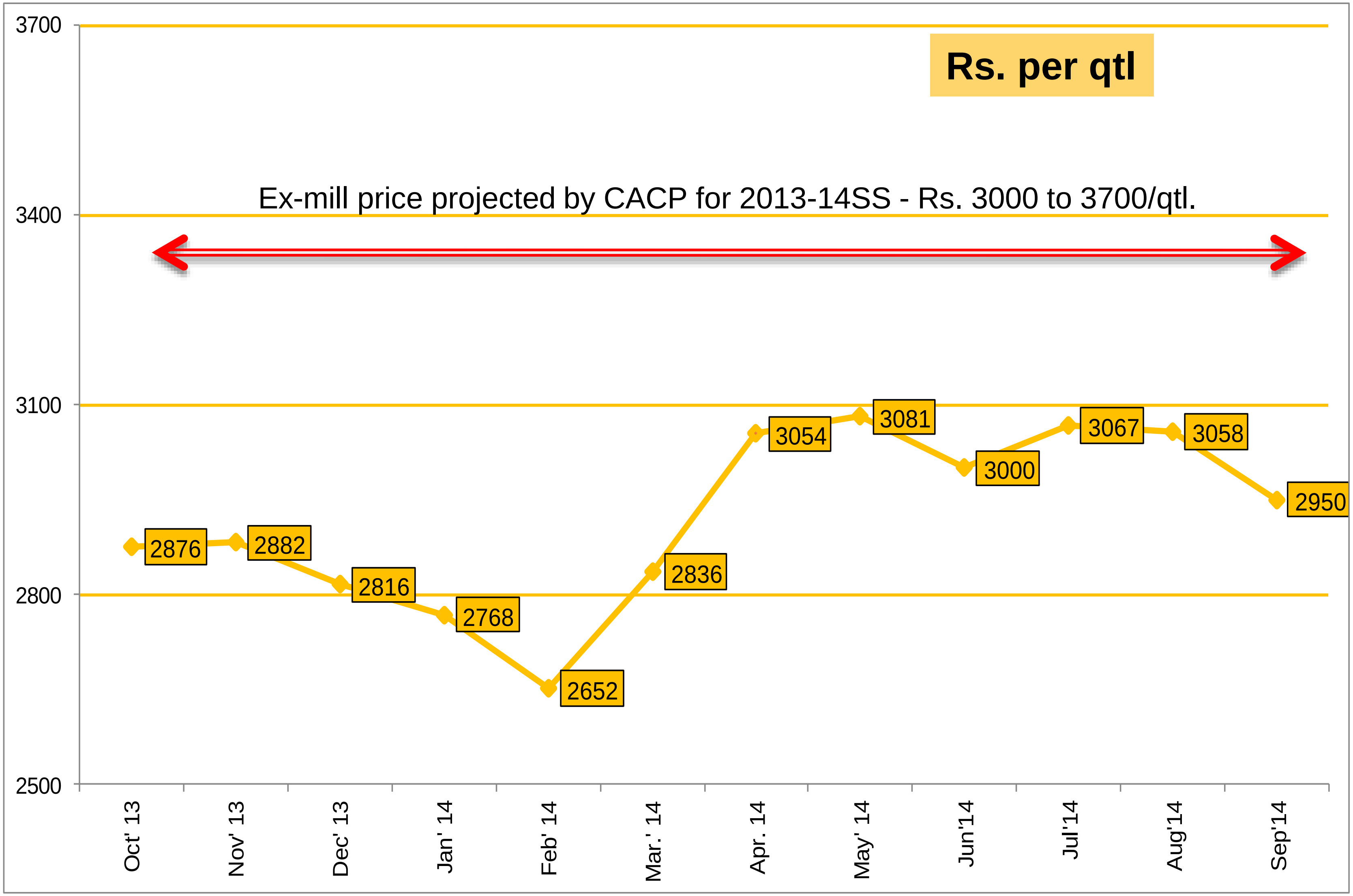


Resultant cane price arrears in March (last 5 years)



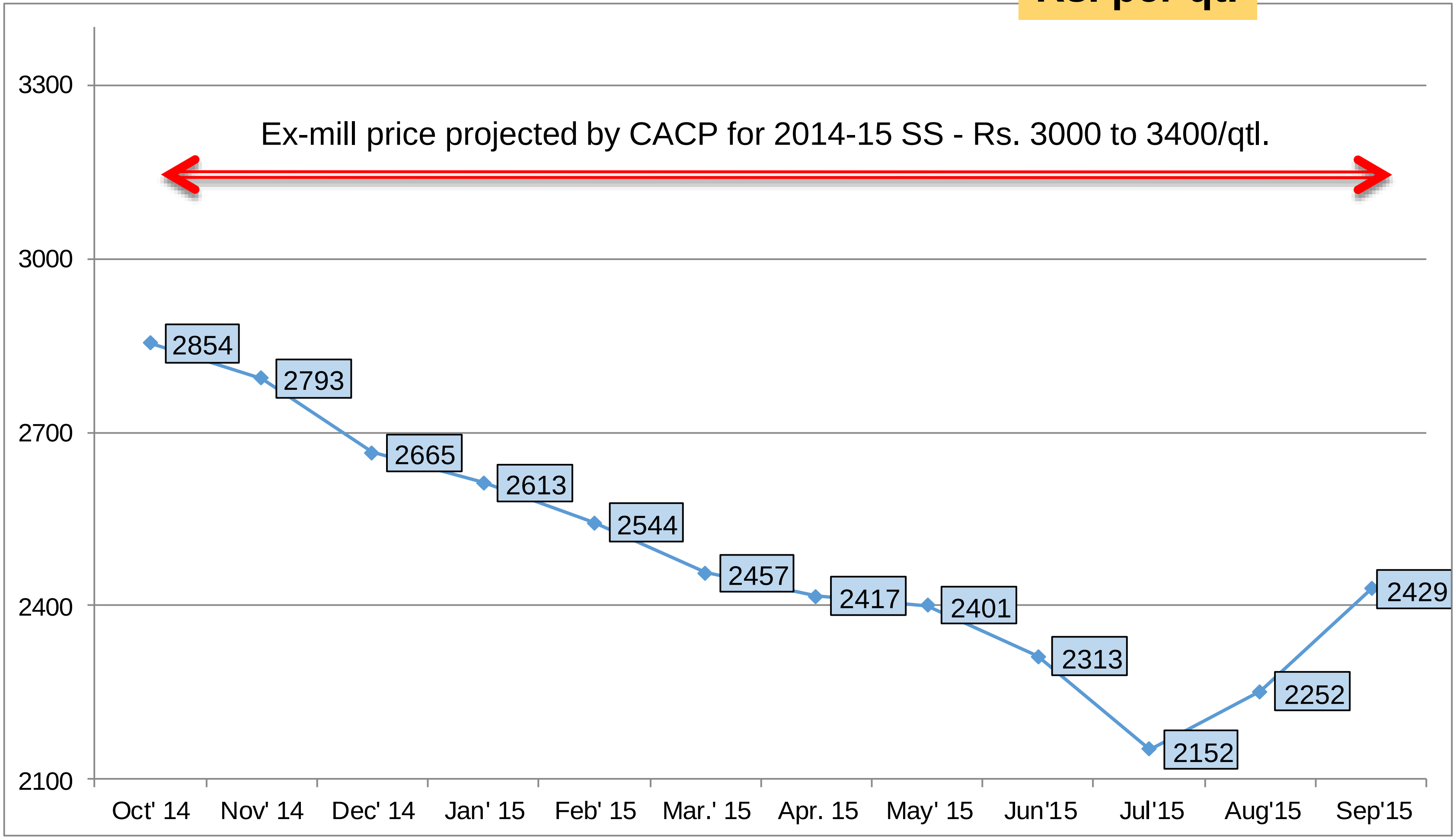
Source: Government of India

2013-14: Avg. sugar prices in v/s CACP projected prices

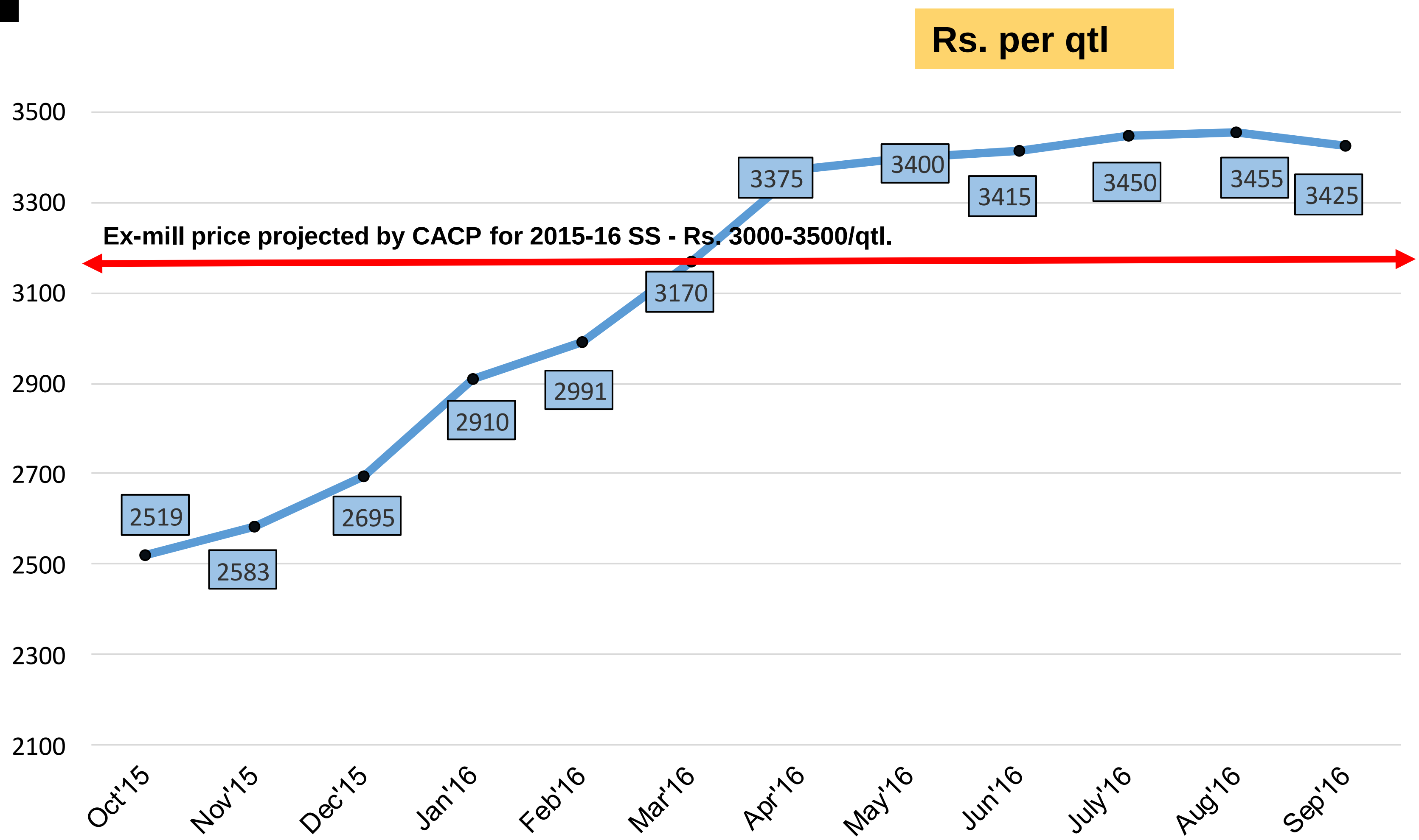


2014-15: Avg. sugar prices in v/s CACP projected prices

Rs. per qtl



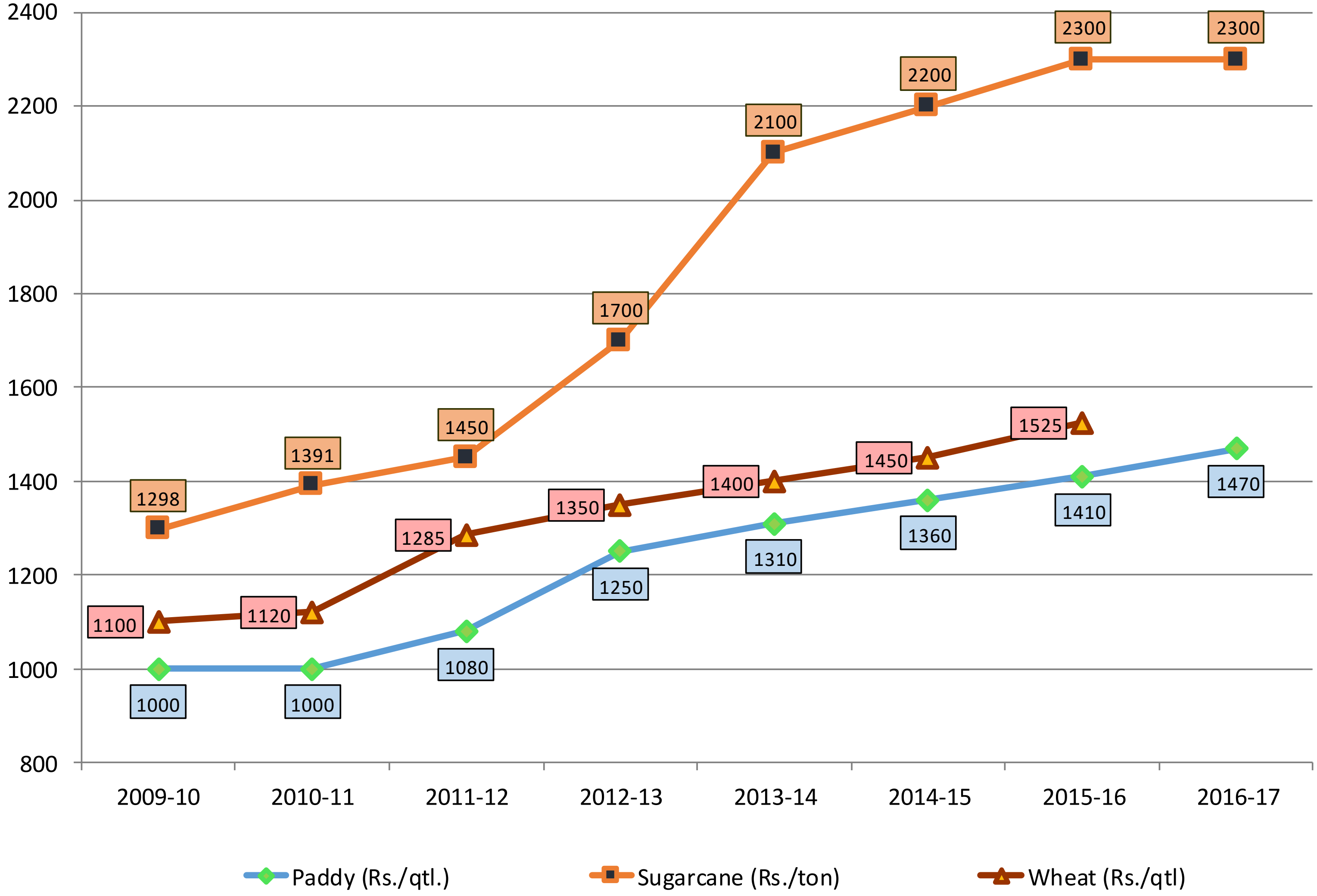
2015-16: Avg. sugar prices v/s CACP projected prices



FRP for 2017-18 SS

- As per media reports:
  - CACP has recommended FRP of Rs.255/ qtl. for 2017-18 SS
  - A clear 10% increase over 2016-17 SS
- It would result in:
  - Higher cost of production
    - Indian sugar will become even more uncompetitive internationally
  - Increased sugar prices by 10% i.e. by around Rs.4 per kilo
    - Else, losses to mills, NPAs and arrears of farmers
  - Remuneration from sugarcane will further outstrip competing crops
    - More farmers will shift to cane, resulting in more surplus sugarcane

FRP of Sugarcane Vs MSP of Paddy & Wheat



As it is, 2017-18 will be bumper/surplus

- Cane area across the country will be much better, due to:
  - Better monsoon and water availability in reservoirs
  - Possibility of higher and timely cane price payments because of strong competition amongst millers in 2016-17 SS
- Better yields and recovery
  - Due to more area under 15 and 18 month crops
  - Better care of crop, incl. irrigation, by farmers
- No other crop giving equivalent returns
  - In fact, despite arrears, farmers are still growing 'surplus' sugarcane
  - With better and timely payments, area will increase further

Imp. to remember that ……

- Govt. fixes price of 17 crops
  - But, except sugar and edible oil, none of the products made out of these crops are essential commodities
  - Prices of none of those other products are so strictly and closely monitored or controlled by Govt.
- Govt. will continue to protect the farmers and guarantee a price to them for their produce
  - Therefore, some solution has to be found within this framework

Best way forward ……

- There should be a direct relationship between revenue realisation from sugar & primary by-products and sugarcane price
  - The best system, followed world over, is a revenue sharing formula (RSF)
  - Under which, cane price is automatically determined at a certain % of revenue realised by the millers
  - Cane price moves alongwith the price of sugar and by-products
    - In other words, cane price to farmers can also decrease in some years

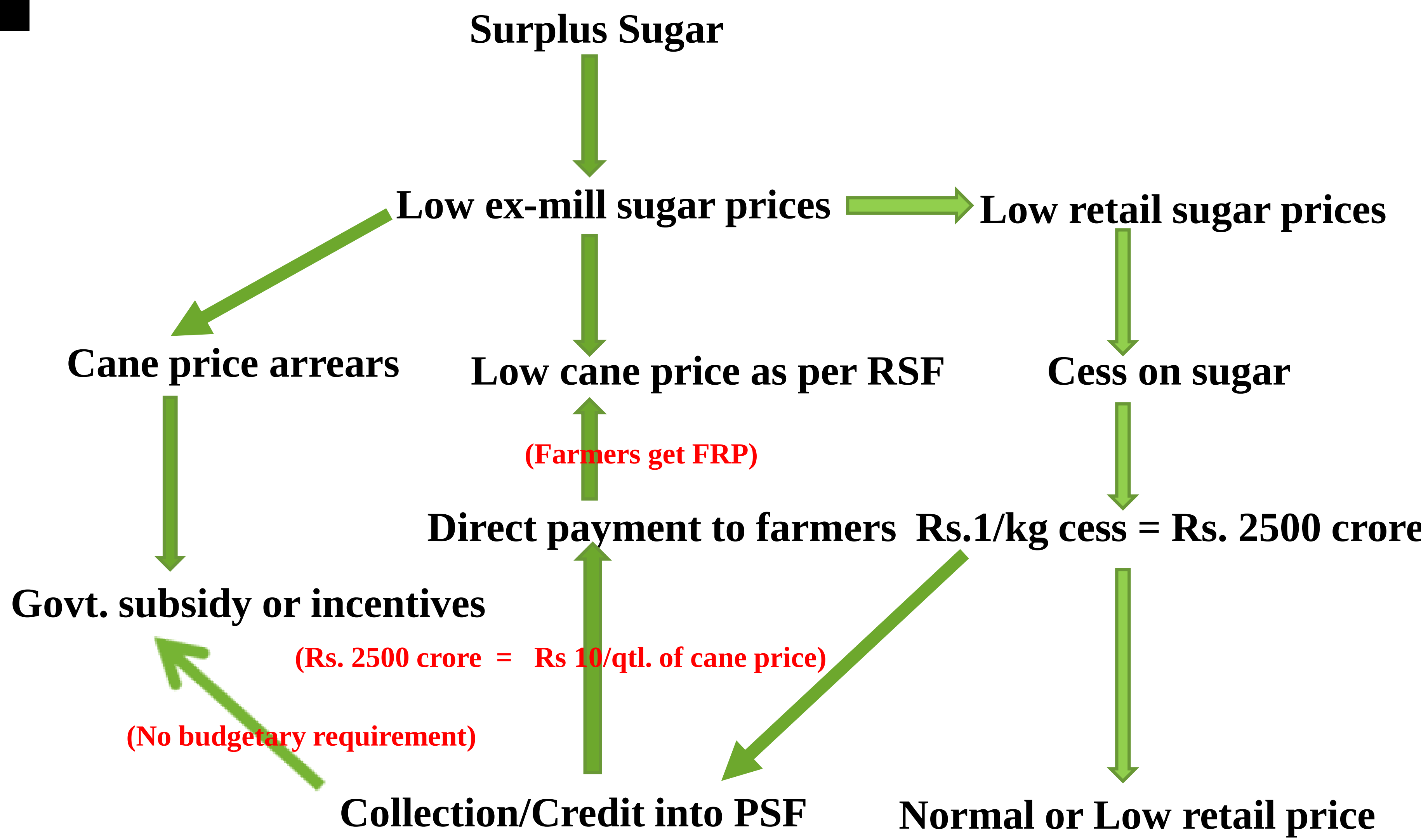
RSF in India and challenges thereof …

- Small & marginal farmers here, where the Govt. would want to guarantee a minimum cane price at FRP
- No problem, if cane price as per RSF is above or equal to FRP
- But if that cane price is below FRP
  - FRP becomes unaffordable & unpayable by mill
  - But farmers would still need to be given minimum FRP
  - So, who will pay and from where??

So what is the best solution ??

- As mentioned above, the problem is mainly when the cane price as per RSF is lower to the FRP
- CACP has continuously recommended since 2015-16 SS
  - Miller to pay as per RSF
  - Difference between RSF and FRP be borne by Government
  - Difference to be financed from a Price Stabilisation fund (PSF)
- Payment/ benefit from PSF may be made directly to farmers
- The question remains how to fund PSF??

Self sustaining model within sugar sector



A win-win situation for all stakeholders

- **Farmers**: Will get their FRP, largely from mills and balance from PSF. No cane price arrears.
- **Consumers**: The cess is levied only when retail prices are low, so there is no extra burden on them
- **Millers**: They pay cane price as per RSF, and thus will remain viable and competitive
- **Government**: No budgetary support or subsidy. The funds collected from sugar consumers and spent in the sector itself

Govt. has experimented with this model ….

- Sugar cess increased by Rs.1 per kilo wef 1st Feb, 2016
  - Which would give Govt. approx. Rs.2500 crore in a year
  - Which will broadly support Rs.10 per quintal of cane in one season
- Given Rs.4.50 per quintal of cane as production subsidy
- Only thing is this structure needs to be formalised and linked to actual price realisation

ISMA's request before Government

- To adopt revenue sharing formula (RSF)
  - With Price Stabilisation Fund (PSF) to fill gap between RSF& FRP, if any
- Disbursement from PSF may be made directly to the farmers
- If Govt. wants to guarantee FRP, it should adopt PSF, otherwise there should be no minimum FRP

ISMA's request before Government

- The cane price payment needs to be in two instalments
  - Since with RSF, sugar price and recoveries will need to be determined
  - Which can be done only at the end of the season
- An independent institution or regulator be appointed to collect prices of sugar /products to determine cane price in the RSF model
- Should have a level playing field for all sugar producers i.e. have a uniform cane price across the country, linked to sugar recovery
  - 5 States are distorting the sugarcane economy, even when GOI tries to maintain uniformity in sugar and ethanol prices

Global practice of cane price payment

Structure	Brazil	Australia	Thailand
Cane pricing body	CONSECANA	Queensland Sugar Ltd.	Thai Cane and Sugar Board
Millers Body	UNICA	Queensland Sugar Ltd.	Thai Sugar Millers Corporation
Sugarcane growers	ORPLANA	Cane growers association	-
Revenue sharing	60 – 40	66 – 33	70 – 30
Explicitly linked to	Sugar and Ethanol Price	Sugar Price	Sugar and Molasses price

Cane price paid as per RSF in 3 exporting countries and India having fixed FRP

Year	Cane price paid (Rs. per ton)				
	Brazil	Australia	Thailand	India	
				FRP	Average recovery
2011-12	1946	1692	1530	1565	10.25%
2012-13	1734	1947	1625	1795	10.03%
2013-14	1641	1631	1710	2261	10.23%
2014-15	1623	1733	1683	2402	10.37%
2015-16	1179	1442	1683	2580	10.65%

Thank you