



SUGAR INDUSTRY IN INDIA:

INDIAN SUGAR MILLS ASSOCIATION, NEW DELHI

Presentation to Food Secretary on 25.10.2017

Indian sugar production: an overview

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- ❖ World's 2nd largest producer at 25-26 million tons
 - ❖ Brazil largest at around 36 million tons
- ❖ Around 5 million hectares of land under sugarcane
 - ❖ 50 million cane farmers and their dependants
- ❖ Around 700 sugar mills installed
 - ❖ 530 or so operational
- ❖ 75-80% of production from Mah., UP and Karnataka

Domestic consumption: an overview

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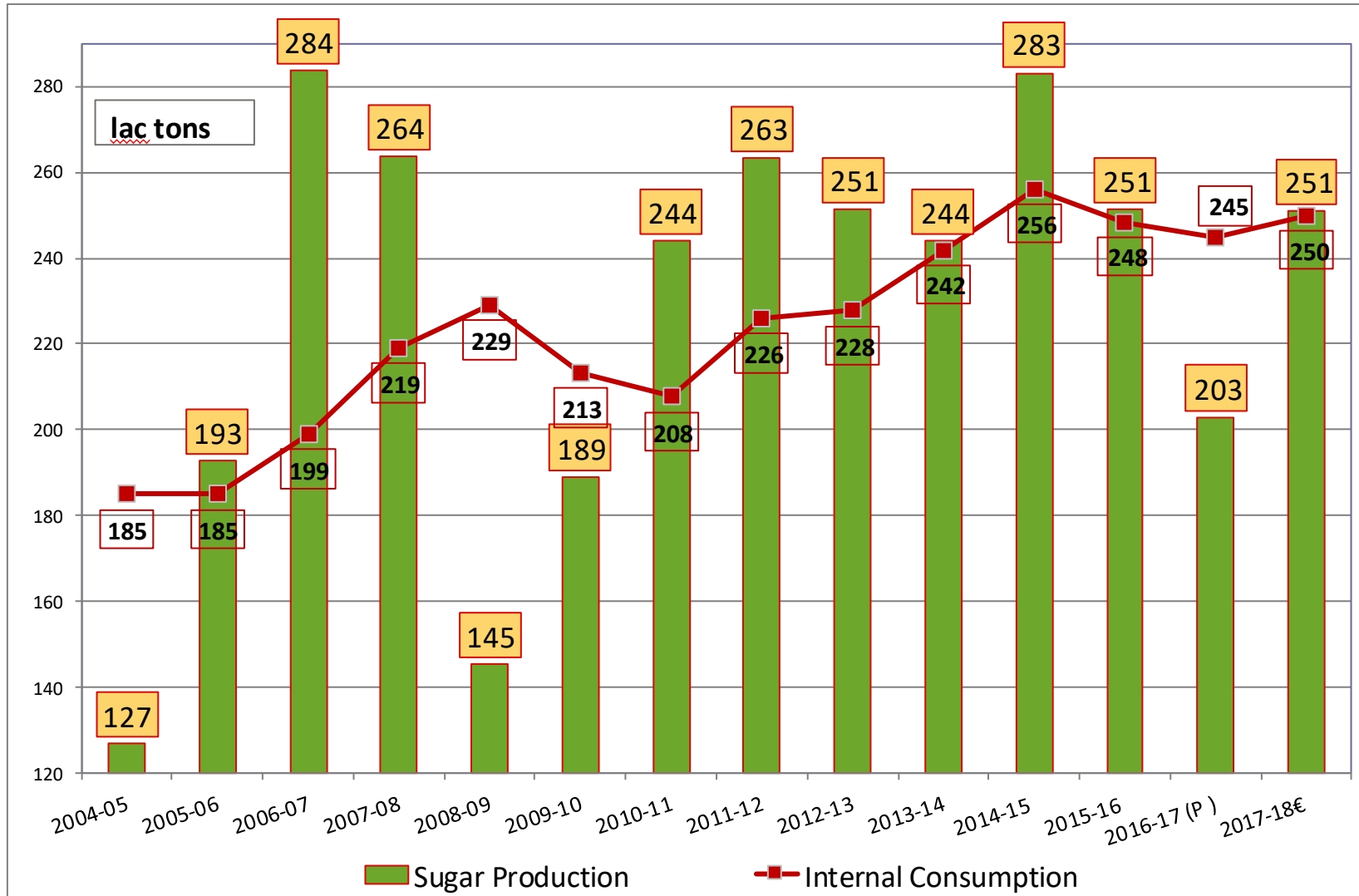
- ❖ India is world's largest consumer of sugar
 - ❖ Generally, all sugar produced is consumed domestically
- ❖ Per capita consumption is low at around 19-19.5 kilo
- ❖ Annual consumption estimated at 24-25 million tons
- ❖ **62-65% of sugar consumed directly by bulk users**

(AC Nielsen report of 2007)

- ❑ **Only 35% consumed by households**

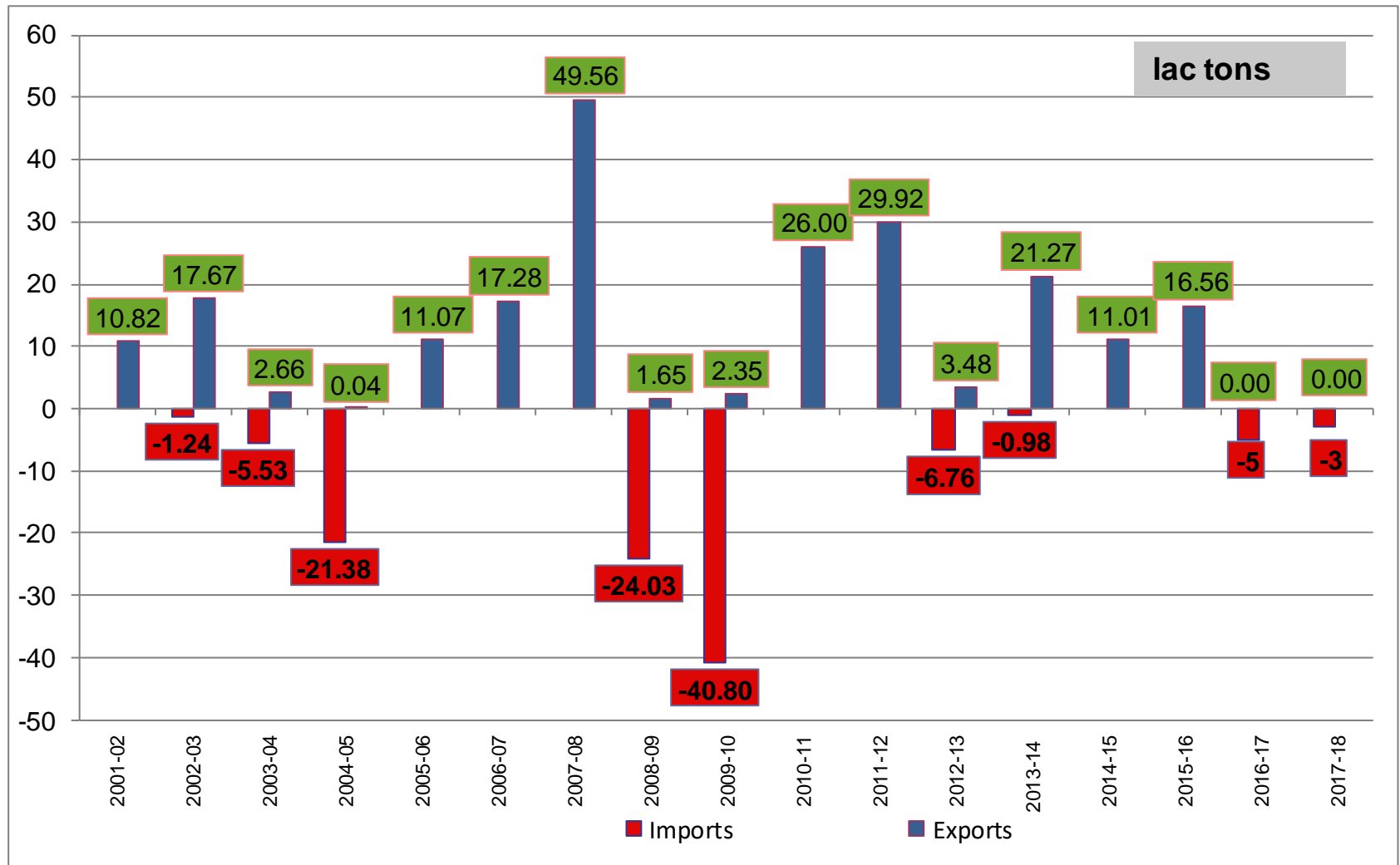
Sugar Production

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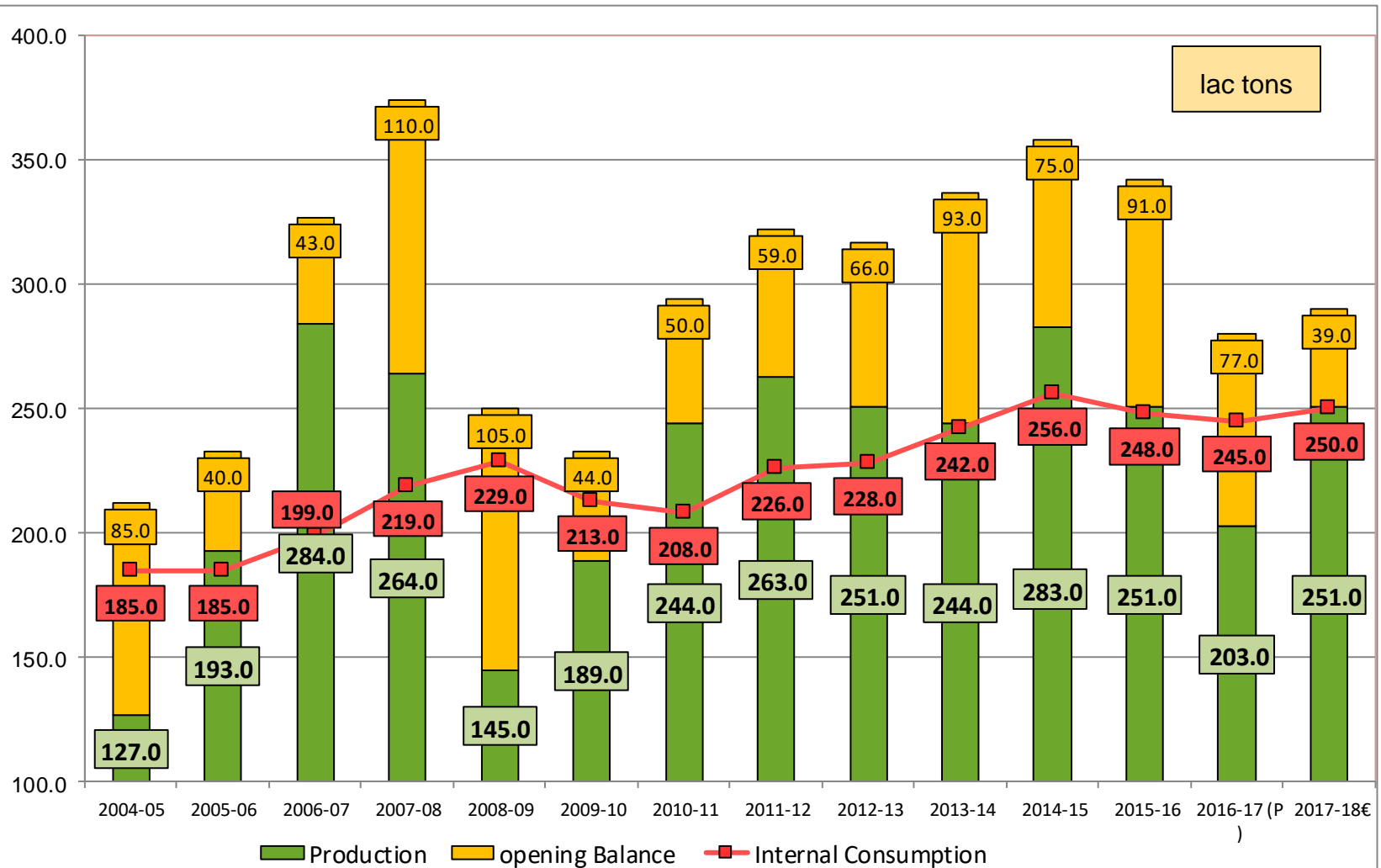
Sugar trade from & to India

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Sugar Production & Consumption in India

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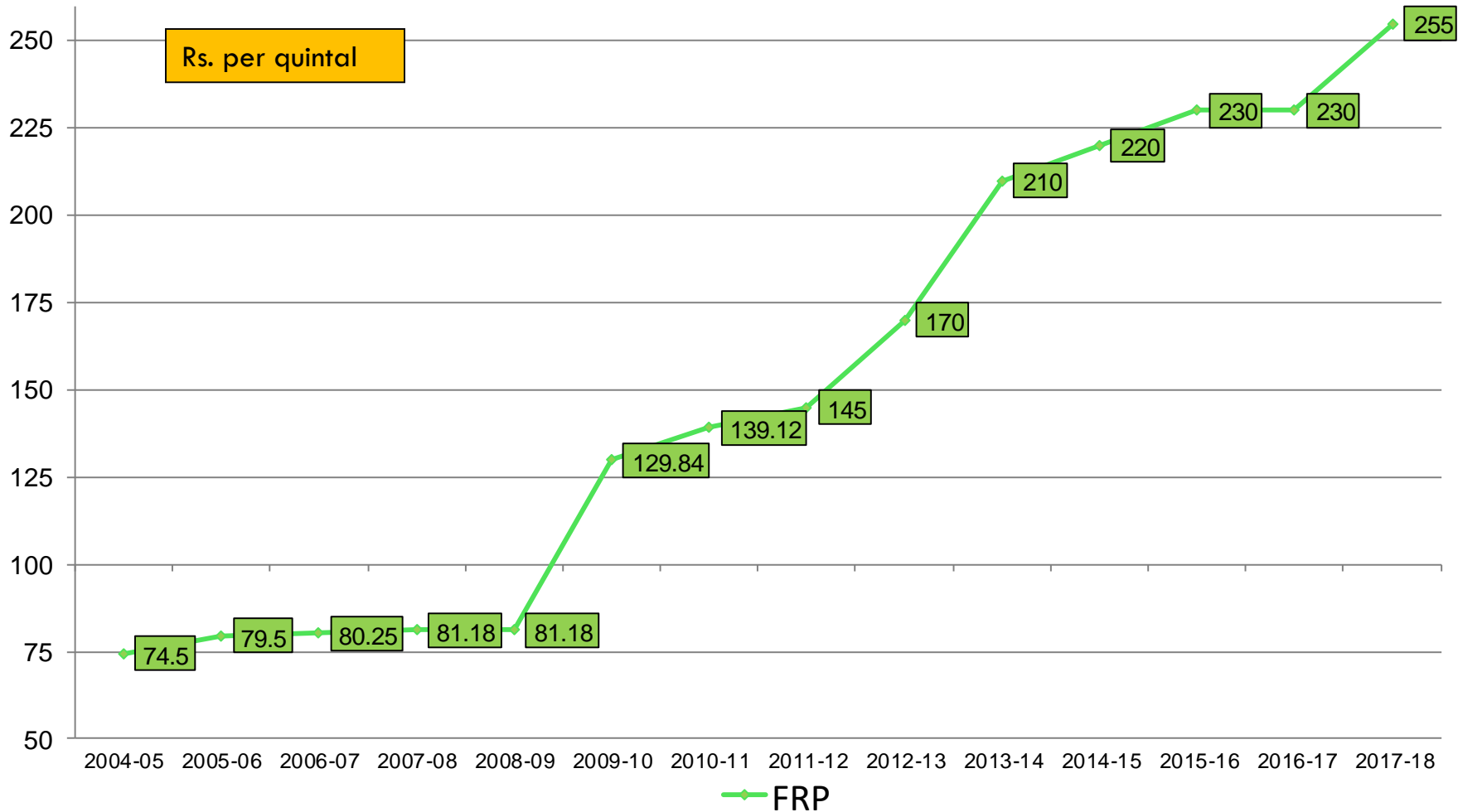
Government Controls

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- Price for sugarcane fixed by Govt. of India (FRP)
 - Which then becomes the minimum price for cane
 - 5 State Govts. fix another price for cane (SAP), which then becomes minimum price for cane in those States
- Cane area reserved for each factory
 - Two way obligation on farmers and millers
- Min. distance between two factories 15 or 25 kms

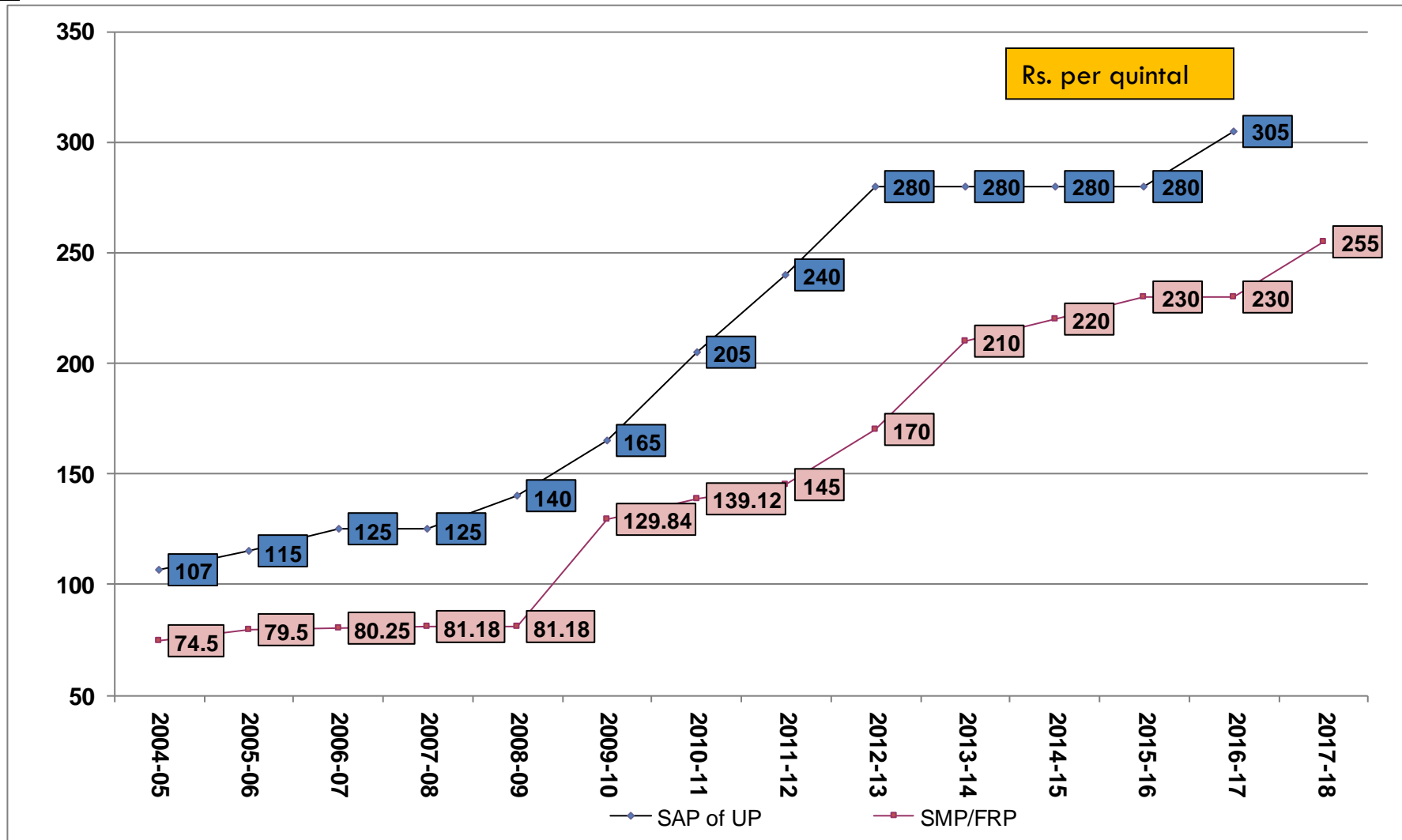
Cane Price fixed by Government of India

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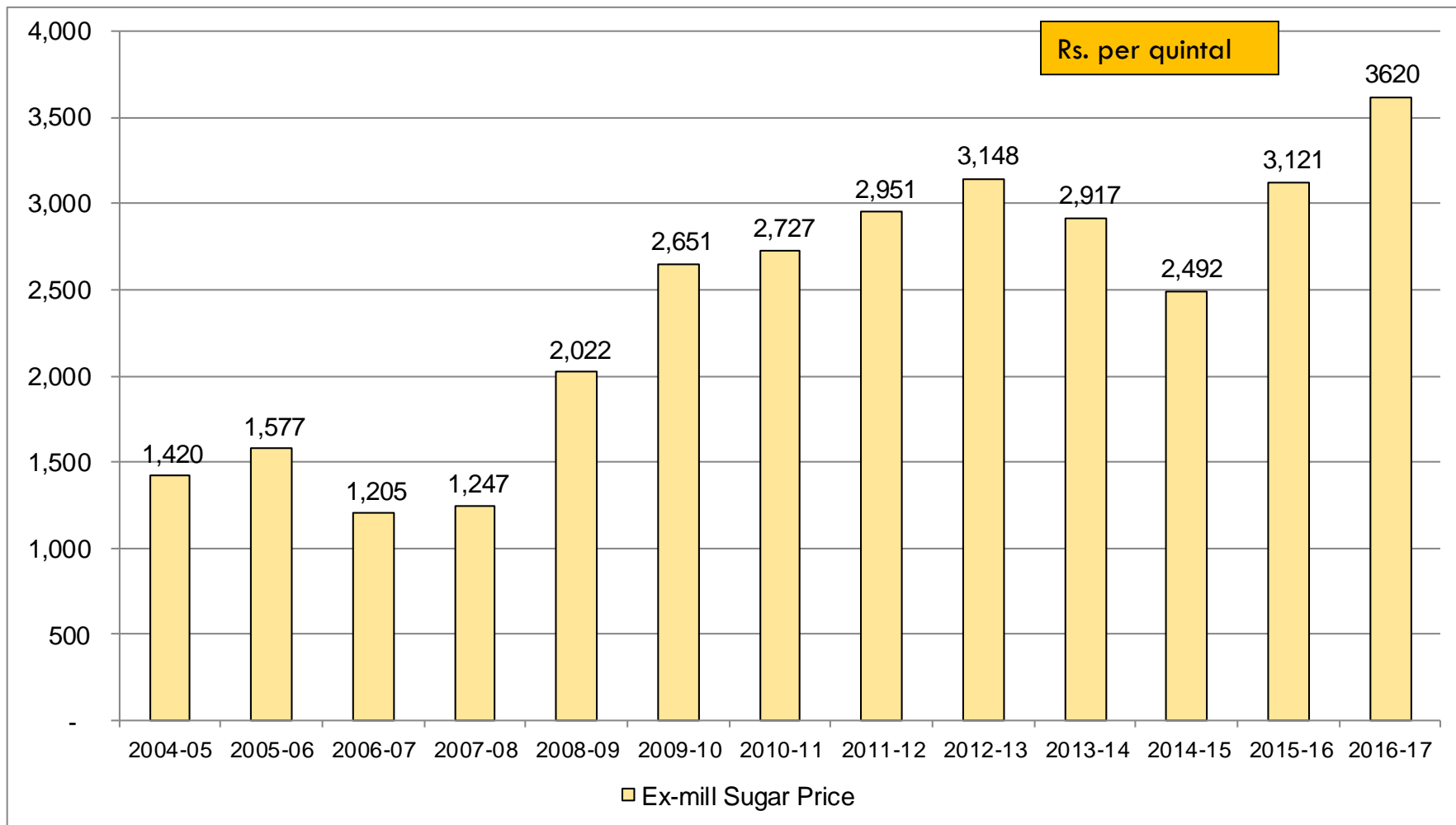
A few States still fix a higher price called SAP

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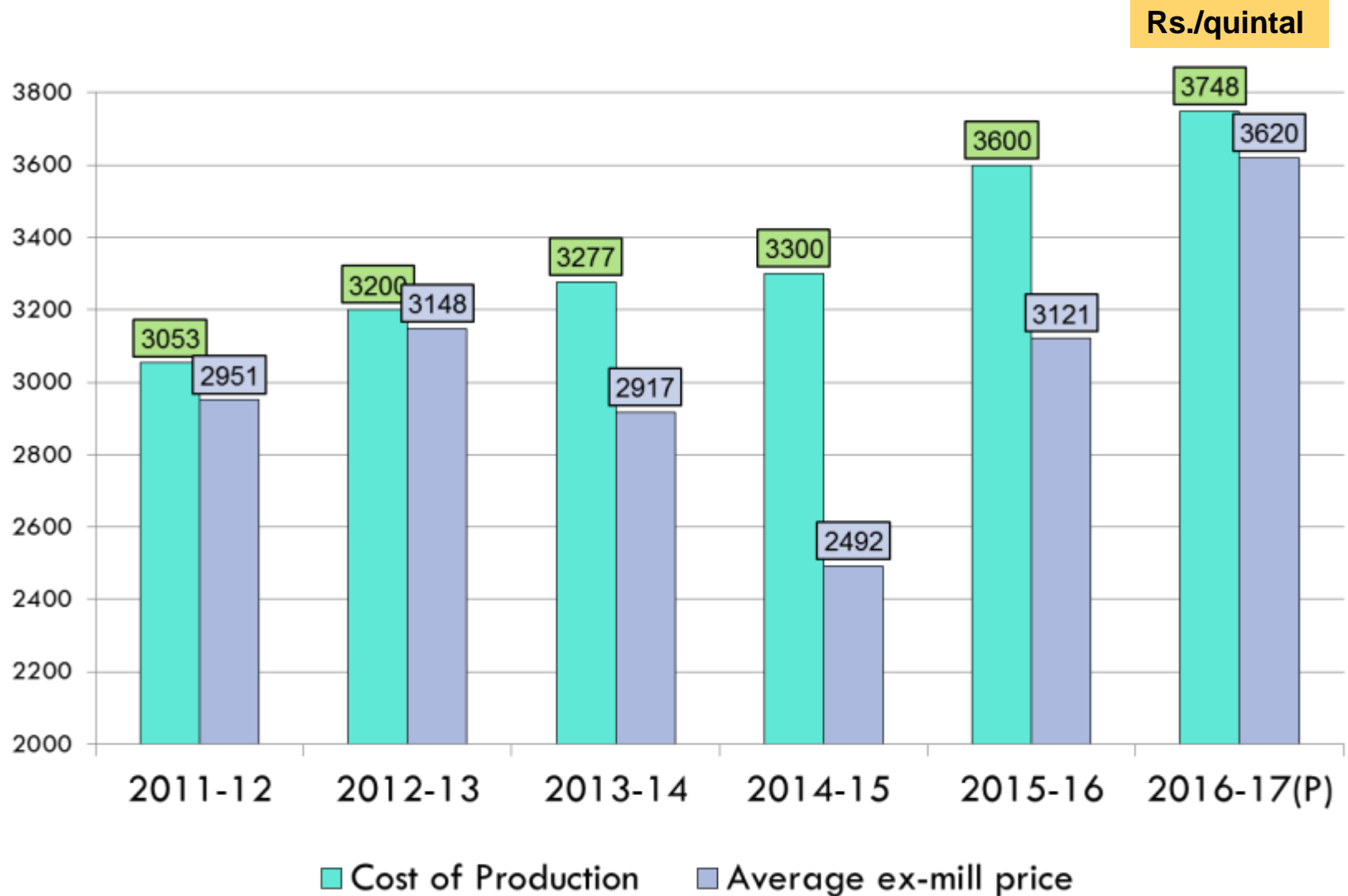
Average domestic sugar prices

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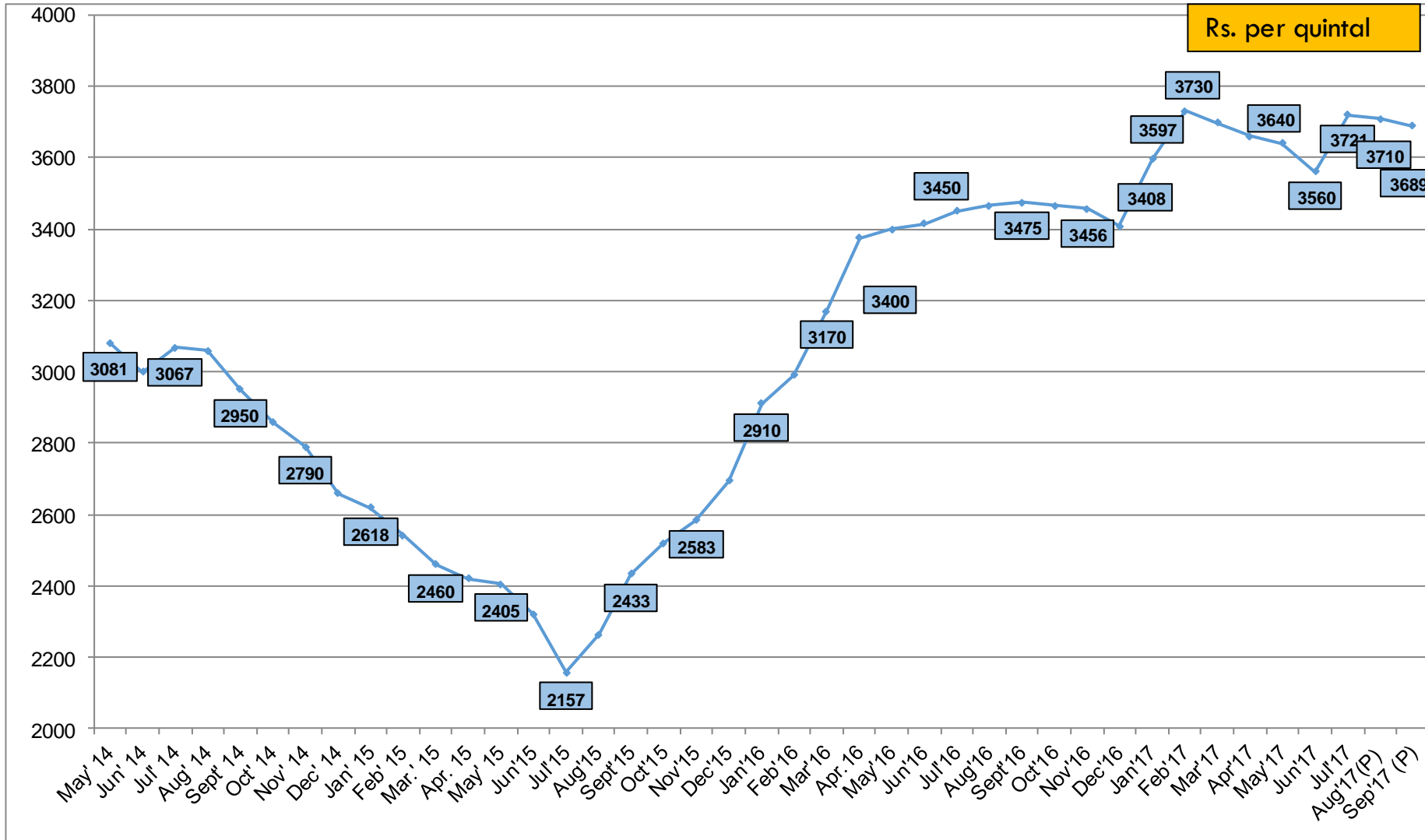
Cost of production vs. Average ex-mill prices

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All India average ex-mill price of sugar

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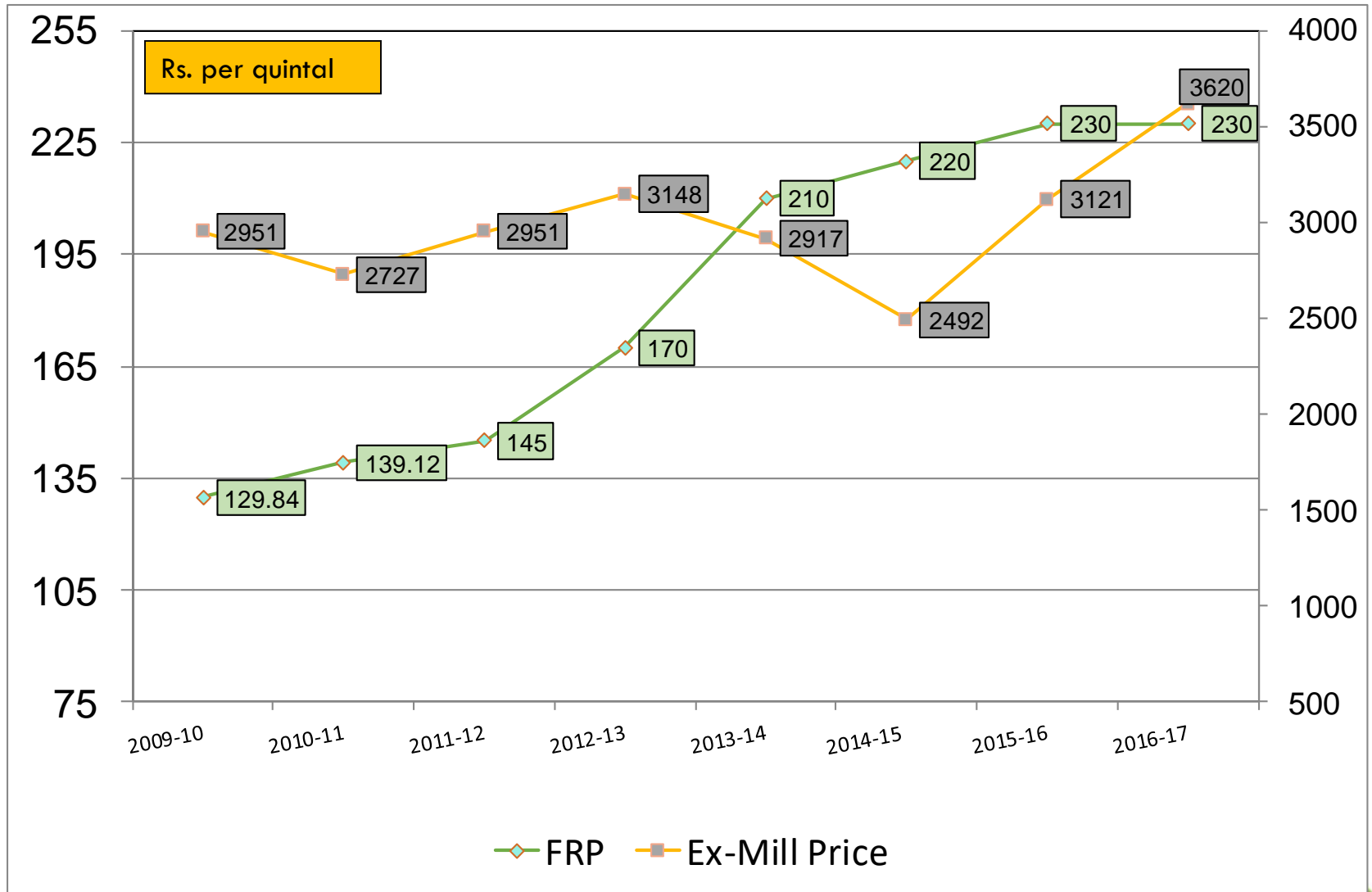


Under partial decontrolled environment

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- Sugar sales and sugar prices are market determined
- But sugarcane price and quantity controlled
- Mismatch between cane price and sugar price

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



Cost of production of sugar in India is high

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- Making Indian sugar uncompetitive
- Making Indian exports unviable
- Surplus sugar in India depresses sugar prices
- Resulting in massive losses to millers and cane price arrears of farmers

Important policy directions for way forward.....

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1. Need to rationalize sugarcane pricing policy
2. Need to ensure a vibrant ethanol sector
3. Need to plan for 2018-19 SS surplus

1. Rationalise sugarcane pricing policy

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- Currently FRP is fixed by GOI, and SAP by 5 States
 - No link between cane and sugar prices/revenue realisation
 - Cane price sometimes crosses even 90-100% of revenue realisation, leaving nothing for other liabilities
- In last 3-4 years, FRP has increased by over 50%
- Sugar prices not kept pace; have even fallen in some years
 - FRP has become unaffordable to sugar mills
- Other countries have a cane price – sugar price linkage
 - Cane price generally at 62 - 65% of revenue realised in those countries

Rangarajan Committee recommendations

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- Cane price to be automatically determined as per a linkage or revenue sharing formula (RSF), at:
 - 70% of revenue from sugar & primary by-products or
75% of revenue from sugar alone
 - Farmers to be guaranteed a minimum FRP as 1st instalment
 - If RSF is above FRP, a 2nd instalment paid at end of the season

Implementing RR Committee recommendations

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- In 2013, GOI advised States to decide on the recommendations
- Maharashtra and Karnataka adopted RSF
- U.P., Punjab, Haryana, Uttarakhand & Tamil Nadu continue to fix SAP unilaterally, at much higher levels
- CACP continuously recommended RSF for last 3 years
 - Liability of mills be restricted at RSF
 - But in years of low sugar prices, gap between FRP and RSF be filled from a Price Stabilisation Fund (PSF) created by Government
 - CACP recommendations yet to be accepted by Government

Price Stabilisation Fund (PSF)

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- Source of funds for PSF
 - Cess on sugar meant for SDF subsumed
 - Govt. however, has powers to levy cess through a new legislation
- Cess can be levied when sugar prices depressed
 - Consumers will still pay less than normal years
 - Will also ensure a more stable retail price over the years
- Re.1 per kilo cess will give Govt. Rs.2500 crore annually
 - Equivalent to almost Rs.10 per quintal of cane price
- The payment from PSF may be made directly to farmers

FRP for 2018-19 SS and RSF

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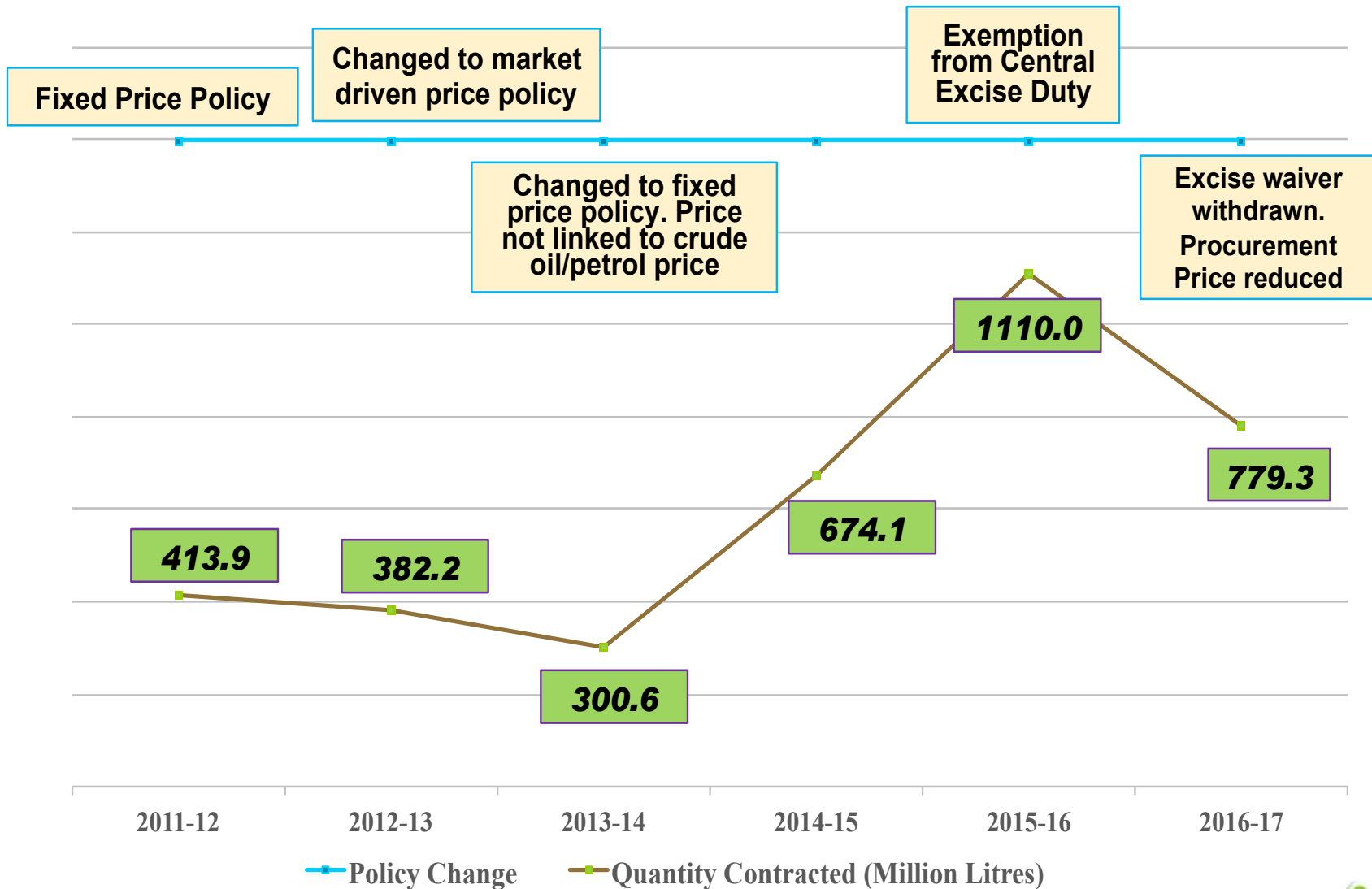
- Report/recommendations for FRP for 18-19 wd. have been submitted by CACP in Aug-Sept 2017 (*Govt. yet to accept*)
 - Like previous years, CACP must have recommended for RSF and PSF
 - Request for acceptance of FRP along with RSF and PSF
- RSF-PSF will ensure
 - One Nation - One Cane Price – for One Unified Market
 - A viable & globally competitive Indian sugar industry
 - Remunerative & timely cane price payment: nil or negligible arrears
 - Stable retail sugar prices over the years

2. Vibrant ethanol sector

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- At 10% blending with petrol, 303 crore litres of ethanol reqd.
- In 2015-16, requirement was 266 crore litres
 - Supplies were 111 crore litres @4.3% blending
 - But fell to around 75 crore litres in 2016-17 due to the drought
- EOI for ethanol supply for 17-18, invited by OMCs on 18 Oct
 - For 313 crore litres
 - Bids by 7th Nov, 2017
 - Procurement price for 17-18 expected to be finalised soon
 - With good sugarcane crushing, ethanol supplies should improve

Policy changes and supplies



Positive policies on ethanol & withdrawal later

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- There has been a flip-flop on ethanol policies and pricing
- Dec 2014 Cabinet decision is an important milestone
 - Modi Govt. decided on a fixed pricing policy for ethanol
 - Linked to sugar price realisation and delinked to crude oil price
- July 2015, another decision to exempt ethanol from central excise duty of 12.5%
- However, these two positive decisions were suddenly reversed
 - Ethanol prices reduced by Rs.2-3 per litre
 - Excise duty waiver withdrawn in middle of contract period
 - Has resulted in much lower ethanol offers for 2016-17 period

Ethanol supply constraints

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- Capacity enhancement
 - Current capacity with sugar industry & stand alone is 225 crore litres
 - Out of 530 sugar mills, only 130 have capacity to produce ethanol
 - Need help with concessional loans to increase capacities
- Movement of ethanol
 - Denatured fuel grade ethanol, which cannot be consumed, is Central Govt. subject (IDR Act amended in May, 2016, to reiterate this)
 - Yet, States insist on State Excise permits and even levy taxes & duties
 - Duties of Rs.2 -3 per litre reduces realisations by 5-7%
 - Only Karnataka has in July, 2017 made it free and levies no taxes
 - Other States should follow, esp. after IDR amendment of May, 2016

Current year 2017-18 sugar balance sheet

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Opening balance (as on 1 st Oct, 2017)	39.00
Estimated sugar production	251.00
Imports	3.00
Sugar availability during the season	293.00
Estimated sugar sales (<i>considering 2% growth</i>)	250.00
Closing balance (as on 30th Sept, 2018)	43.00

3. Huge surplus expected in 2018-19 SS

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- Very good rainfall in 2017 and with reservoirs back to normal or above average
 - Sugarcane planting for 2018-19 harvest excellent
 - Maharashtra, Karnataka and TN expected to be back to normal
 - UP should be better, esp. with the early high yielding variety increasing
 - Other States too will increase production
- Experts expect surplus sugar globally too
 - Hence, the global prices may not be viable for Indian exports
- Undisposed off surplus sugar will burden the sugar sector
 - Sugar prices will fall, cash flows get affected & cane price arrears

Export the surplus sugar or convert to ethanol

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- Export some of the surplus
 - Like in 2015-16, export quotas (MIEQ) may be fixed for each mill
 - And Govt. can reward them with production subsidy on cane price
 - Bangladesh, Sri Lanka & China markets will have to be tapped
- Convert B-heavy molasses or cane juice into ethanol
 - 20 lakh tons of sugar can be converted into 120 crore litres of ethanol
 - For that, the price of ethanol needs to be at 1.5 times price of sugar so sacrificed, i.e. at least Rs.10 per litre above the current ethanol price
 - As also, ethanol capacities will have to be majorly augmented

Thank you