



## **GST on sugar industry and its by-products**

**October 26, 2016**

# Indian Sugar Industry

2

- Industry produces enough to meet full domestic requirement
  - There is sometimes a surplus too, which then has to be exported
  - Domestic consumption growing at about 2% per year, for which industry needs to grow to ensure self reliance
- The industry also produces some important by-products
  - Which are used as inputs by several other industries
  - This includes alcohol, fuel grade ethanol, green power and bio-compost.
- Fuel grade ethanol not only substitutes petrol
  - But also improves air quality and improves returns of farmers

# Indian sugar industry

3

- Directly impacts rural economy
- 50 million farmers and family members dependent on sugarcane
- Indirect employment to a large number of villagers, transporters, technicians as well as unskilled labourers

# Sugar is an Essential Commodity

4

- Sugar and Sugarcane are classified as essential commodities under Essential Commodities Act, 1955
- All Governments are sensitive towards prices of both sugar and sugarcane
- They are very closely controlled and monitored by all the Governments.

# 1. GST on Sugar

5

- Currently, there is a fixed central excise duty of Rs.71 per quintal of sugar, plus an education cess
- Almost all States do not have a State tax on sugar
  - Only 3-4 States levy a VAT and entry tax on sugar
- **At the current ex-mill price of around Rs.3300-3400 per quintal, the central excise duty works out to around 2.25%**
- GST above 2.5% would increase retail price of sugar

□ .

# 1. GST on Sugar

6

- Sugar is an essential commodity
  - Consumed by all sections of the society and
  - Is an important source of energy in the rural households and poor families
- GST on sugar should not significantly increase sugar price
- **Central Govt. proposes for 4 GST rates**
  - **At 6%, 12%, 18% and 26%**
- **Sugar should be included in the 6% GST rate category**
- Otherwise, the next higher rate of 12% will push sugar prices by Rs.3 to 4 per kilo

## 2. GST on Sugarcane

7

- Sugarcane is a crop produced by 50 million farmers and their family members
- **There is no Central tax on sugarcane**
- However, a few States levy a purchase tax on sugarcane
  - But in recent past, almost all these State Governments have exempted sugarcane from purchase tax
- **Sugarcane should be fully exempt from GST**
  - Currently, there is almost no tax on sugarcane
  - Will ensure good remuneration to farmers

### 3. GST on by-products of sugar

- The sugar industry mainly produces following by-products:
  - Electricity in the form of green power,
  - Alcohol for making potable liquor and
  - Fuel grade ethanol for blending with petrol
  
- Liquor for human consumption and electricity proposed to be kept out of GST
  - Meaning that GST paid on inputs thereof will have to be borne by sugar mills
  - However, fuel grade ethanol will be included under GST



### 3. GST on fuel grade ethanol

- Currently, there is a fixed rate of central excise duty on molasses
  - Of Rs.750 per ton
  - Molasses is then used to make either potable alcohol or fuel grade ethanol.
- Fuel ethanol is currently subjected to central excise of 12.5%.
  - However, it was fully exempted from excise duty from Dec '15 to Aug '16
- Some States are also levying an import/export duty on inter-state movement of ethanol.
  - Puts unnecessary burden on ethanol producers

### 3. Several advantages of fuel ethanol

- Fuel grade ethanol, when blended with petrol
  - Reduces net oil import bill by Rs.5000 crore at 5% blending
  - Improves the returns to the sugarcane farmers and industry
  - Reduces environmental pollution and improves air quality
- Ethanol should be incentivized by the Government as a green renewable bio-fuel
- **GST on fuel grade ethanol should be either zero-rated or it should be under the exempted category**
  - State taxes, levies, export-import duties should be all withdrawn

## 4. Cess on Sugar

- In addition to excise duty of Rs.71 per quintal of sugar
  - There is a cess on sugar as per Sugar Cess Act, 1982
  - The cess so collected is credited to the Sugar Development Fund
  - Used for the welfare, growth, modernization, by-product utilization, sugar exports, interest subvention etc. of the sugar sector exclusively, as also cane price payments of farmers.
  
- Cess increased from Rs.24 to Rs.124/- quintal w.e.f. Feb. 2016
  - To collect funds for payment of part of FRP directly to sugarcane farmers

## 4. SDF has been good for industry

12

- Cess so collected has been used by the Government for
  - modernizing the sugar mills & improving utilization of by-products
  - assisting the sugar industry to export surplus sugar or create buffer stocks
  - cess on sugar was also increased by Rs.100 per quintal to directly pay a part of the FRP (fixed by the Central Government) to the sugarcane farmers.
- The cess has been very efficiently utilized to improve highly depressed sugar prices
- Cess on sugar has played a very critical role in times of distress, both to help the sugar mills and the sugarcane farmers, without burdening the general exchequer.

## 4. Utilisation of cess should change

13

- CACP has recommended that
  - Industry should pay cane price as per revenue sharing formula
  - And if that cane price is below FRP, the gap should be filled up through a Price Stabilization Fund (PSF) to help the sugarcane farmers.
- **Cess on sugar should be continued**
  - **But with the specific purpose of bridging the gap between what sugar mills can pay cane price as per revenue sharing formula and FRP**
  - However, there should not be any GST on the cess
  - If cess is not utilised for this purpose to pay part of FRP directly to farmers, the sugar cess should be discontinued

## 5. Agricultural Services

- Sugar mills have to pay FRP for cane supplied at mill gate.
- However, mills assist farmers in various ways:
  - Help in harvesting the cane
  - Help in transportation
  - Sometimes even in sowing, irrigation, arranging seeds
- In addition, sugar mills offer certain extended support to sugarcane farmers, including help in sowing, irrigation etc.

## 5. Agricultural Services should be exempted

- Harvesting & transportation charges are already a part of the FRP fixed by the Central Government, and hence these are legally to be borne by cane farmers
- Sugar mills do not charge any separate fee from the farmers for organizing and providing harvest labour
- In fact, they bear certain costs like advances, free-transport, incentives etc. to attract and retain harvest labour

## 5. Agricultural Services should be exempted

- U/s 2(7) of the Model GST Law, the definition of agriculture is narrower compared to the exemption granted for several agricultural services u/s 66 D of the Finance Act 2012.
- **All agricultural services pertaining to sugarcane, including harvesting, loading/unloading, plant protection, testing, supply of farm labour, transportation etc. should be fully exempted from GST**



# Concluding...

- Max. GST on sugar be 6%, otherwise it will be inflationary
- Sugarcane, being agri crop, should be fully exempt from GST
- Fuel grade ethanol, being green renewable bio-fuel should be exempted from GST
- Sugar cess should be continued, and used to pay part of FRP directly to farmers, to bridge gap between what industry can pay and what Govt. wants the farmers to get
- Agricultural services like harvesting, transportation, sowing etc. should be exempted from GST

# Thank You