Govt goes back five years to penalise sugar mills

Levy obligation abolished in 2013; penalty for defaults comes now

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Amid mounting sugarcane dues and low prices, the country's sugar mills have another reason to worry. The Centre has ordered them to pay for their past failures in meeting levy obligations in a surprise move that has come five years after the system was abolished.

The new directive, issued a few days back, mandates sugar mills that did not fulfil their levy obligations to pay the difference between the prevailing market rate and the levy sugar price of the season.

Under the now-abandoned levy obligation system, every domestic producer was supposed to sell a certain portion of sugar to the government at a subsidised rate every sugar season (October-September). This sugar would then be distributed to the poorer sections of the society through ration shops. However, based on the recommendations of a committee headed by C Rangarajan on deregulation of the sugar sector, the previous United Progress Alliance (UPA) government discontinued the practice in 2013.

The levy burden had been reduced over the years and was at one-tenth of a mills' production before the practice was discontinued. The industry had lobbied for long against the levy imposition, which burdened the mills to serve a social welfare scheme of the government.

However, sugar mills failed to fulfil the annual levy obligation on many occasions for which they are being penalised now. The failure was often a result of a high market price, as a wider gap between the market and levy price meant a bigger outgo. Sugar mills slammed the government for penalising them now.

A SOUR MOVE

- Govt asks sugar mills to pay up for unfulfilled levy obligations
- Levy system was abolished in 2013 as part of the implementation of the Rangarajan committee report
- The payable amount will be the difference between the market price and the season's levy sugar price
- The directive comes at a time when industry is witnessing surplus sugar and low prices, resulting in non-payment to sugarcane growers

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Sugar mills....

"This is bizarre. How can we go back and open books of accounts that have been closed long back just to cross check all details?" a senior official of a leading cooperative sugar mill said. The estimated burden on the industry as a result of this order is not known.

After the abolition of levy obligations, state governments are currently free to purchase sugar from the open market if they want it to be distributed through the public distribution system (PDS). The order comes at a time when sugarcane dues have ballooned due to a record output led crash in prices. As of July-end, the industry owed ₹165 billion to sugarcane farmers, of which a significant chunk of ₹105 billion pertains to the mills of Uttar Pradesh alone.

The central government in the last few months has taken a series of steps, including announcing a ₹70 billion package to bail out the sugar sector and enable them to clear the dues accruing to farmers. These also include soft loans to set up ethanol making capacity, a direct subsidy of ₹5.5 a quintal to the farmers, and fixing a minimum sale price for millers.

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