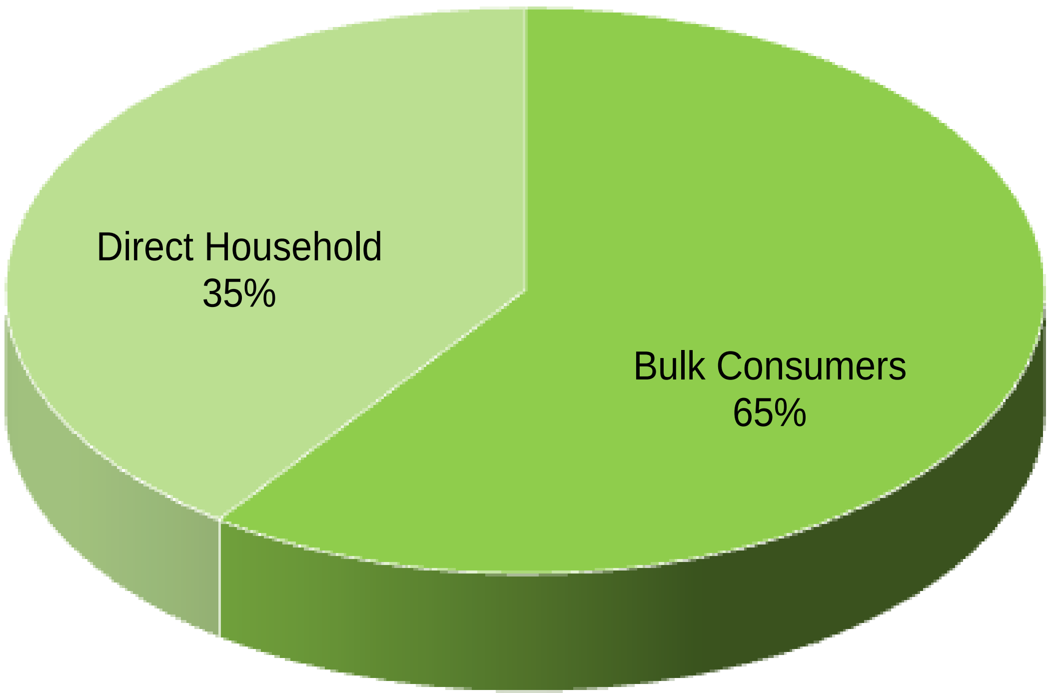
INDIAN SUGAR MILLS ASSOCIATION

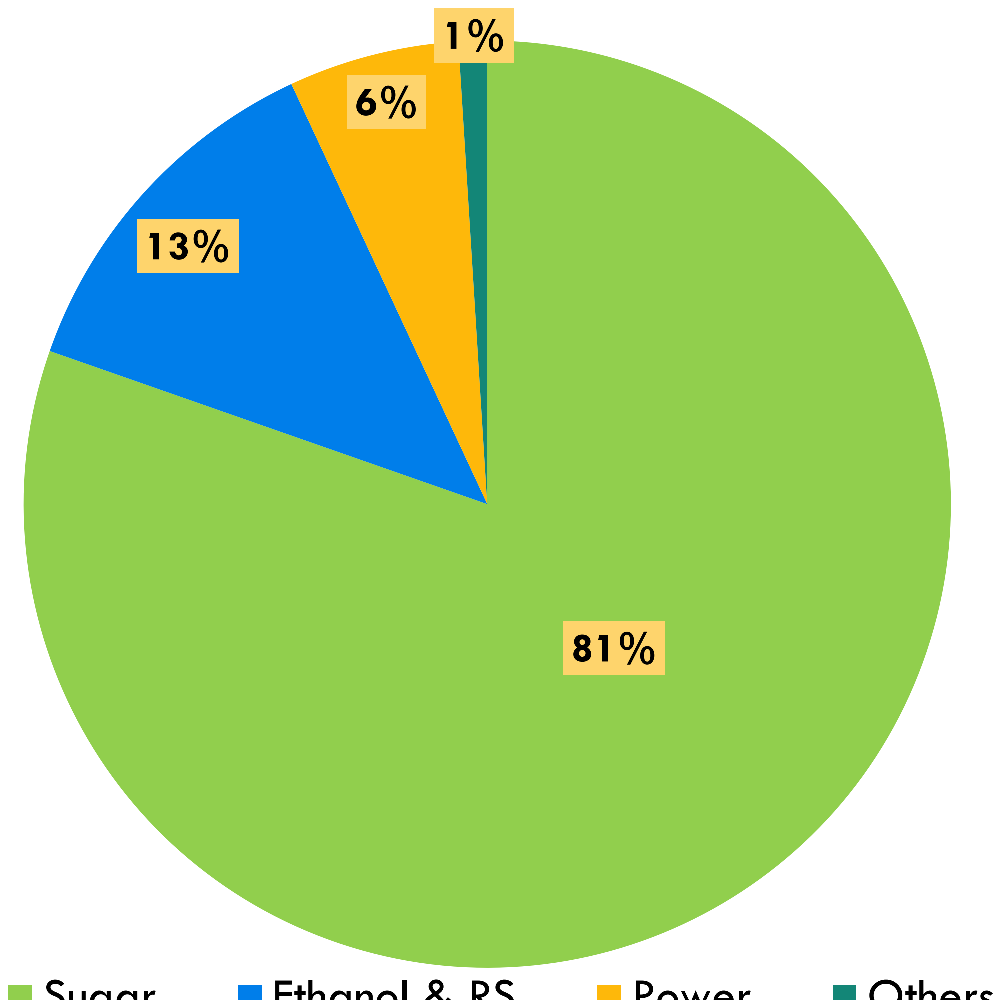
Consumption Pattern of Sugar in India

- **Two sources of sugar demand – Bulk Buyers & Direct Household**

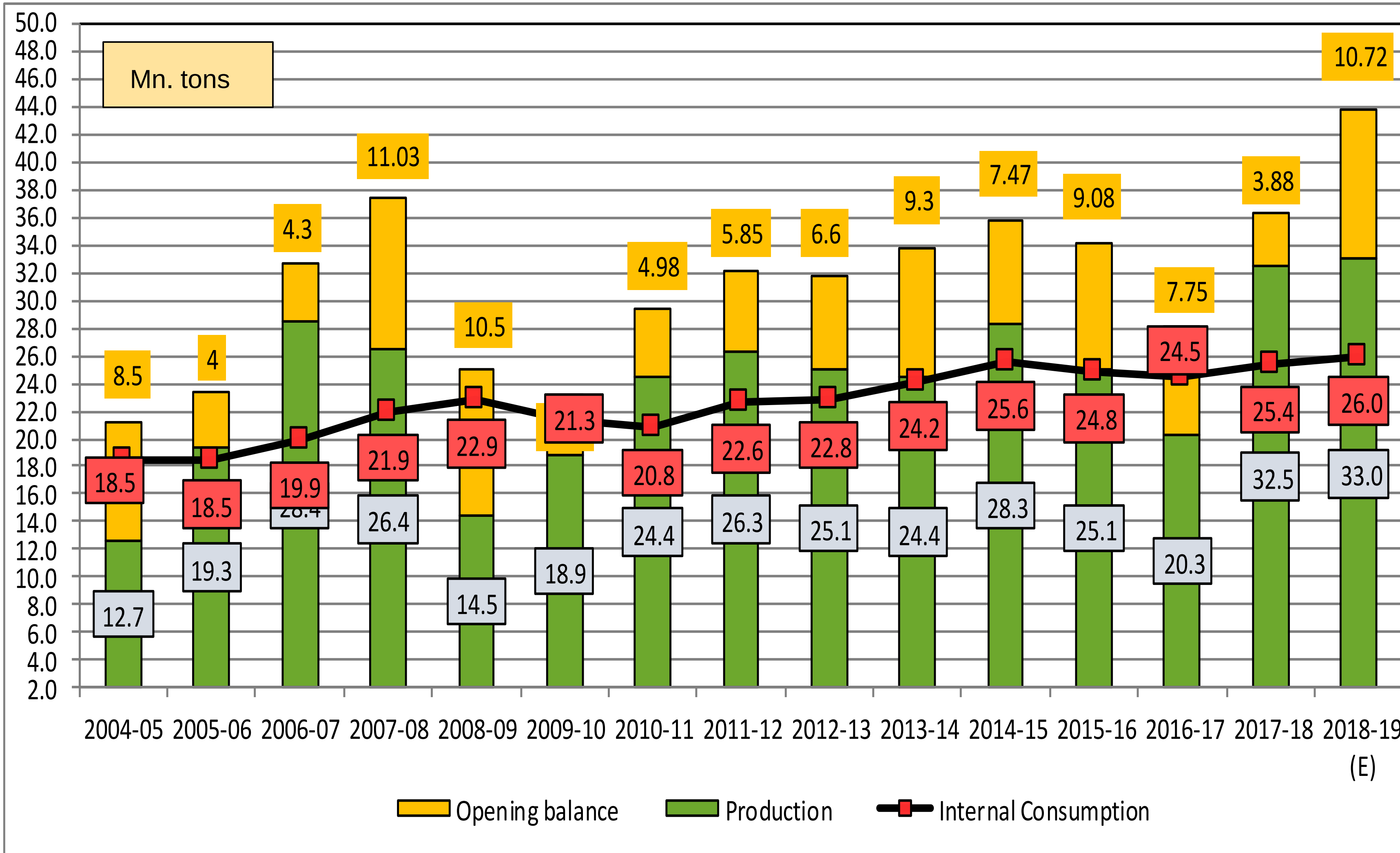


Revenue realisation from sugar & by-products

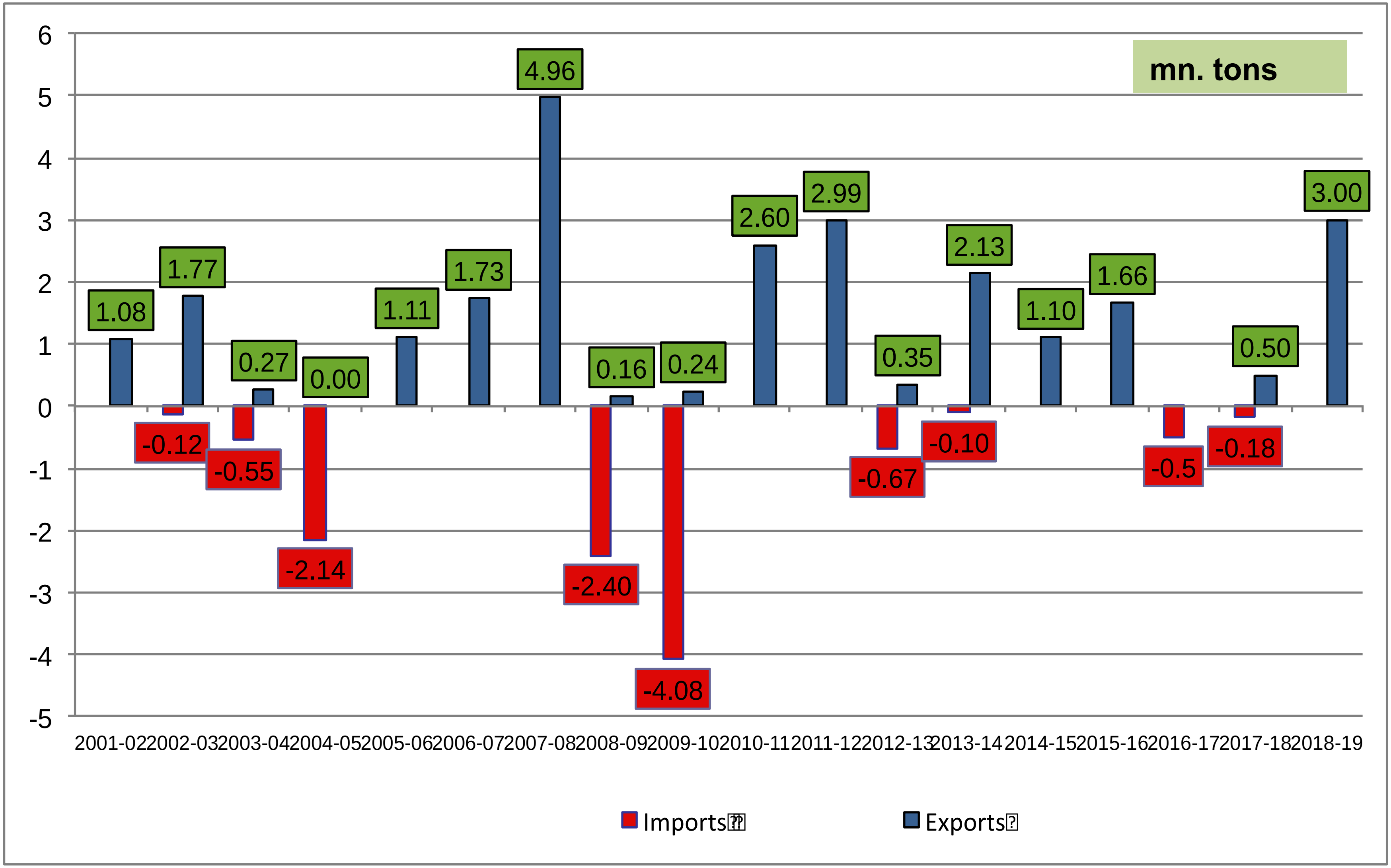
Total estimated revenue realisation in 2018-19 SS is about Rs.1,000 billion
Sugar constitutes 81% Ethanol and other by products constitute 19%.



Indian production, consumption and opening balance



Sugar trade from & to India



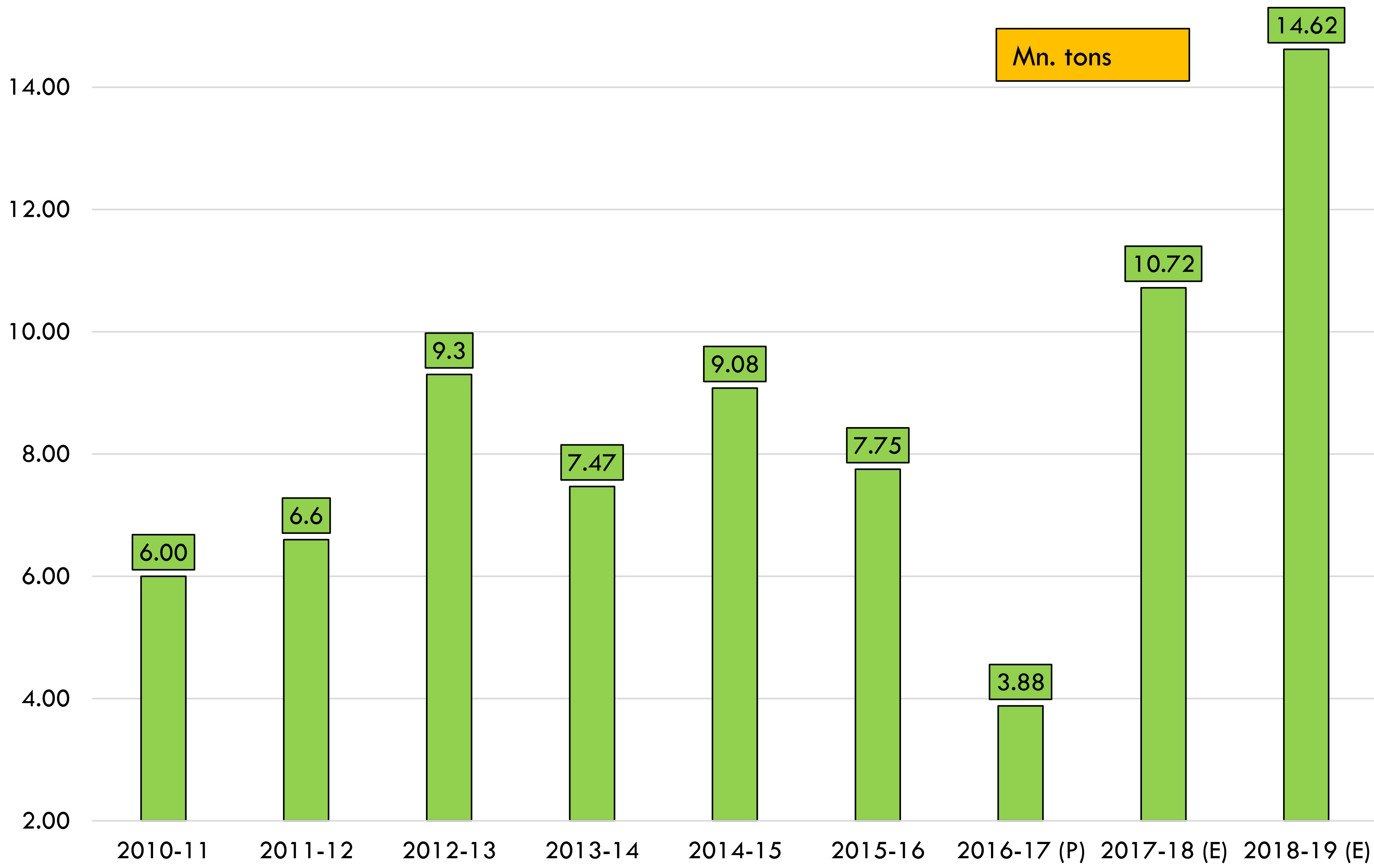
Problem of plenty !!!!

Current year 2018-19 sugar balance sheet

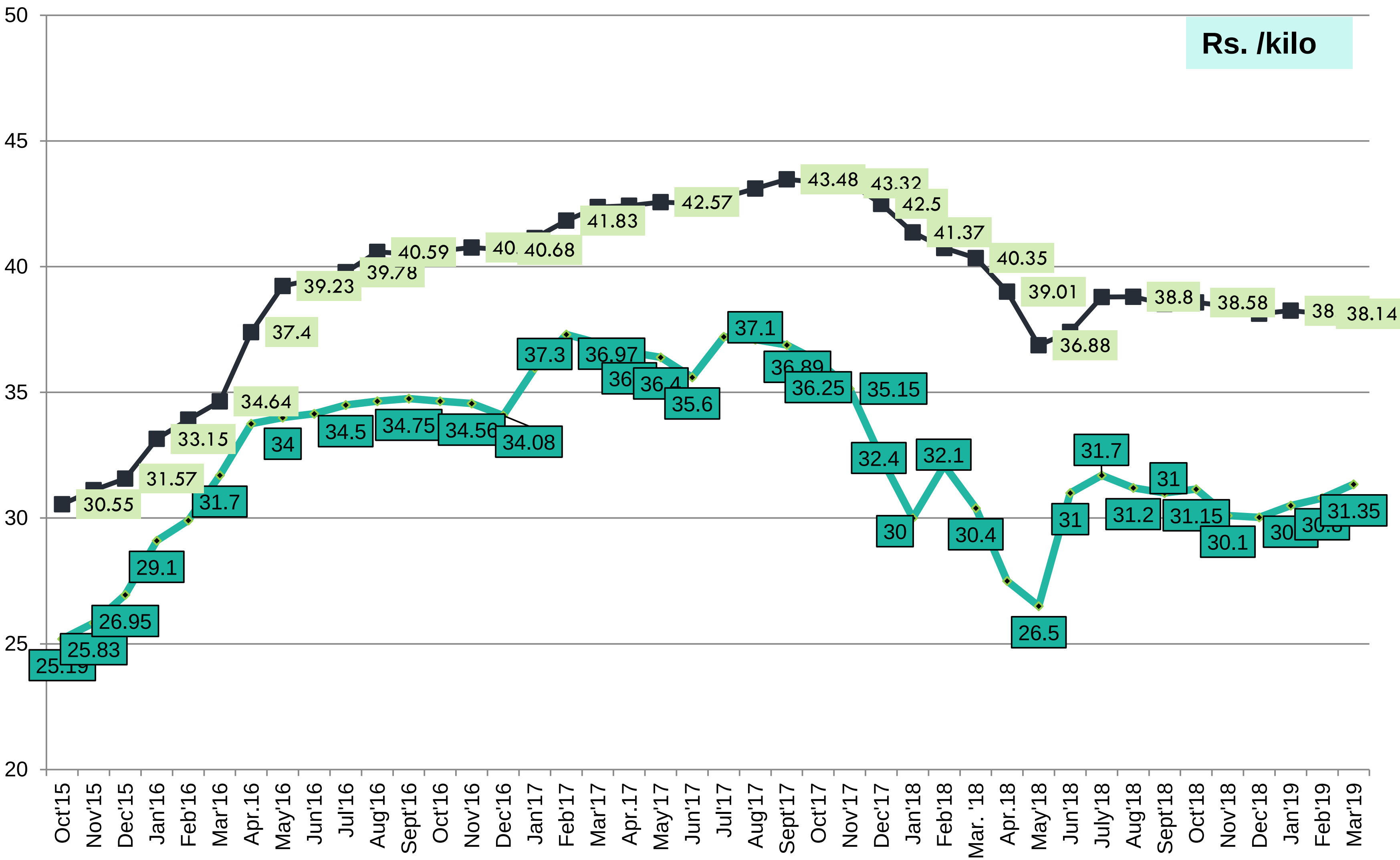
Opening balance (as on 1st Oct, 2018)	10.72 mn tons
Estimated sugar production	32.90 mn tons
Sugar availability during the season	43.62 mn tons
Estimated sugar consumption	26.00 mn tons
Estimated exports	3.00 mn tons
Closing balance (as on 30th Sept, 2019)	**14.62 mn tons**

At the min. price of Rs.31 per kilo, Rs.45,300 crore of funds will be blocked

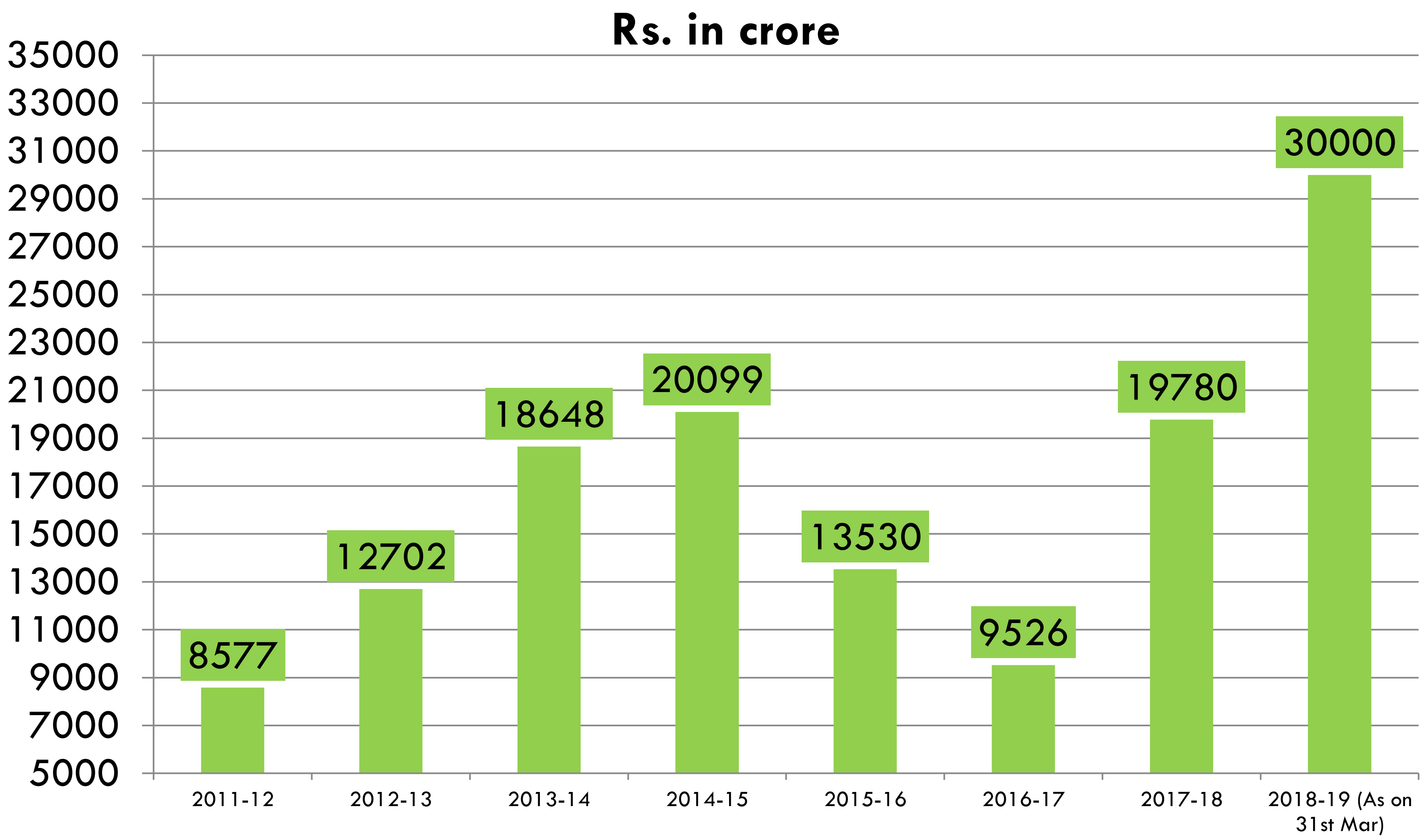
CB on 30 Sept this year unprecedented !!!



Putting pressure on ex-mill and retail sugar prices



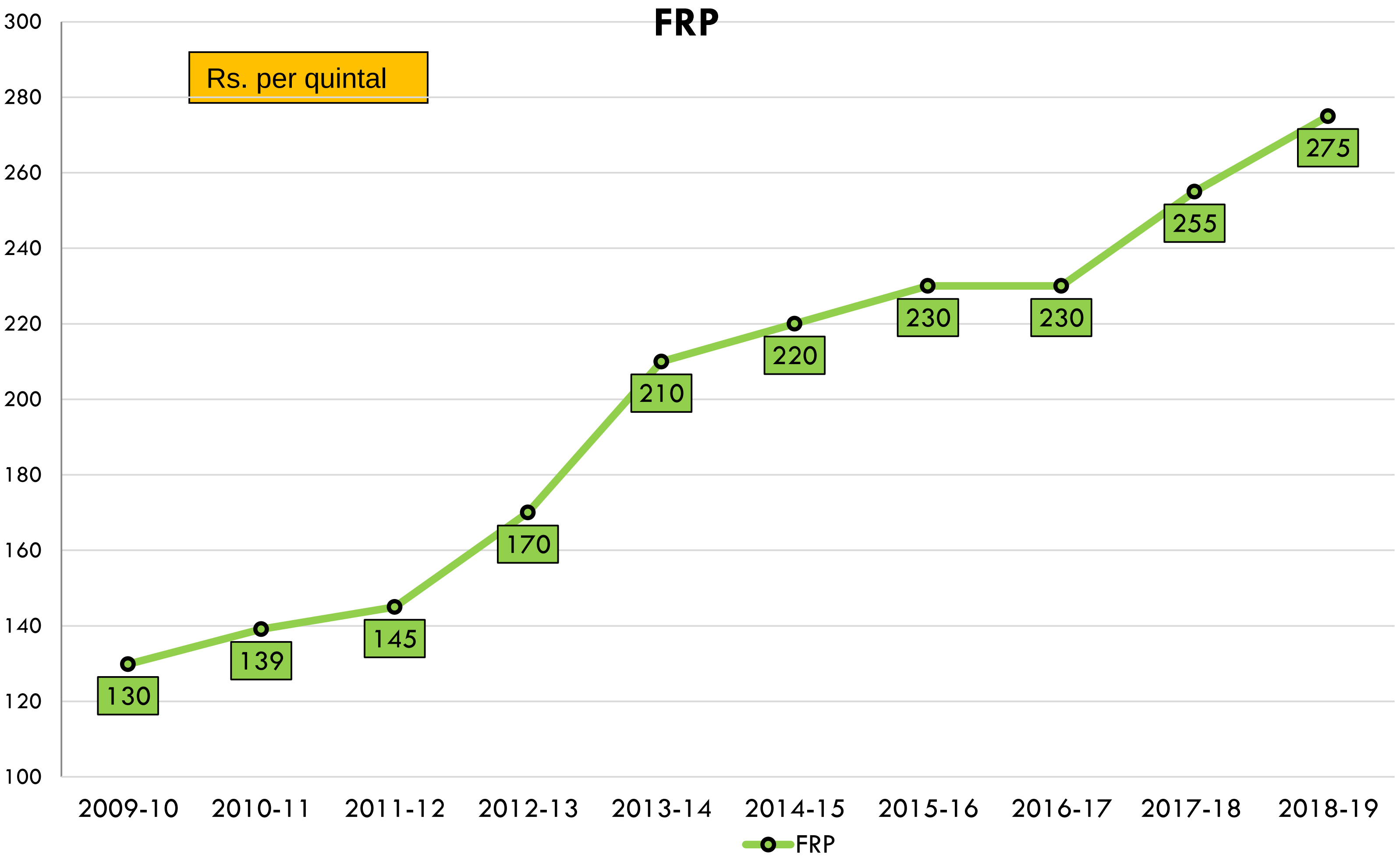
Cane arrears will reach historic levels in Mar 2019



- **In April 2018 cane price arrears reached Rs. 22,000 crore**
- **Will reach alarming levels by April, 2019**

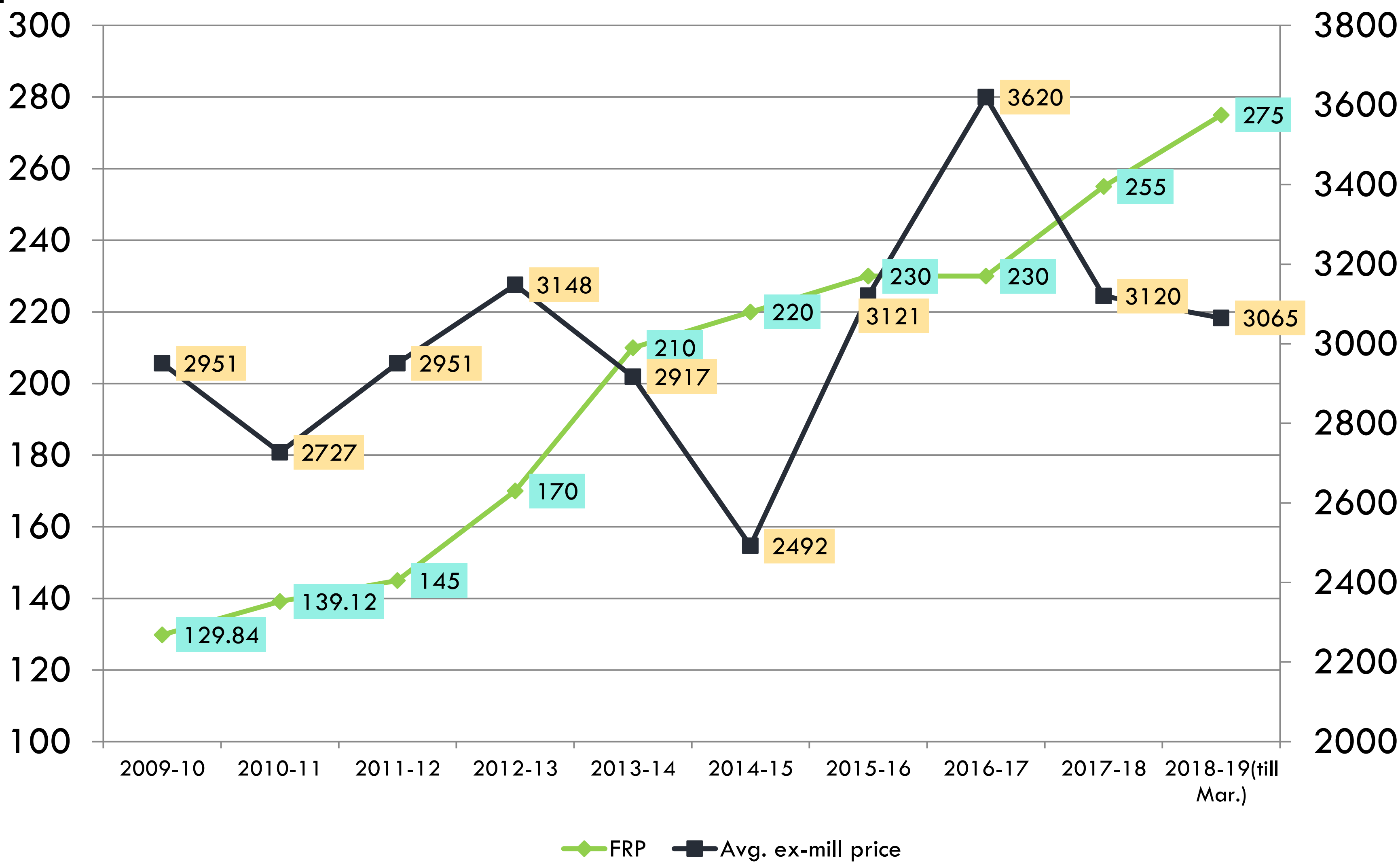
Problems mainly because of very high cane price & the mismatch with sugar price

FRP has increased very fast (Doubled in last 9 years)

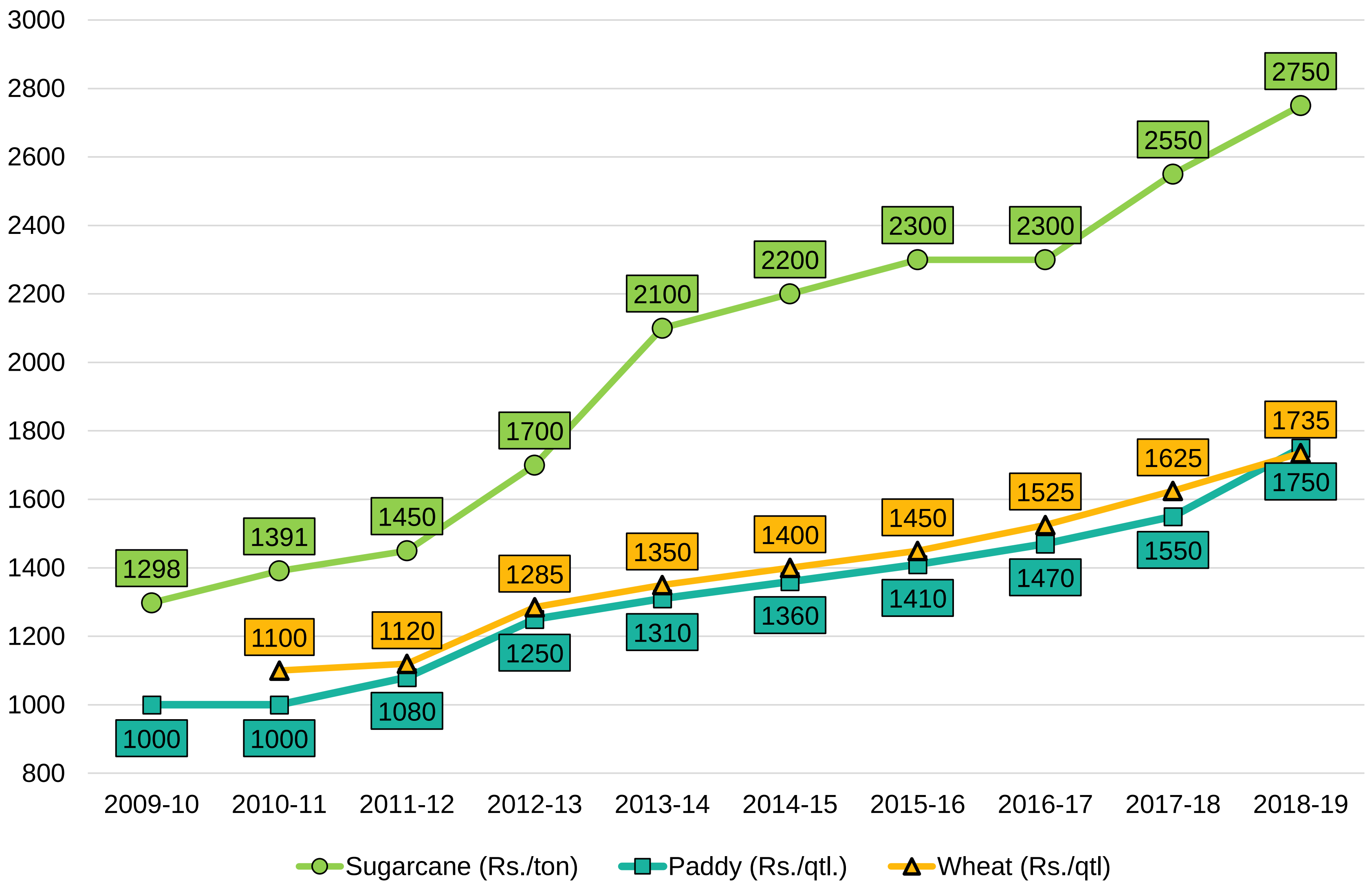


NB: FRP linked to 9.5% recovery except for 2018-19 which is at 10% recovery

FRP Vs Ex-mill sugar prices



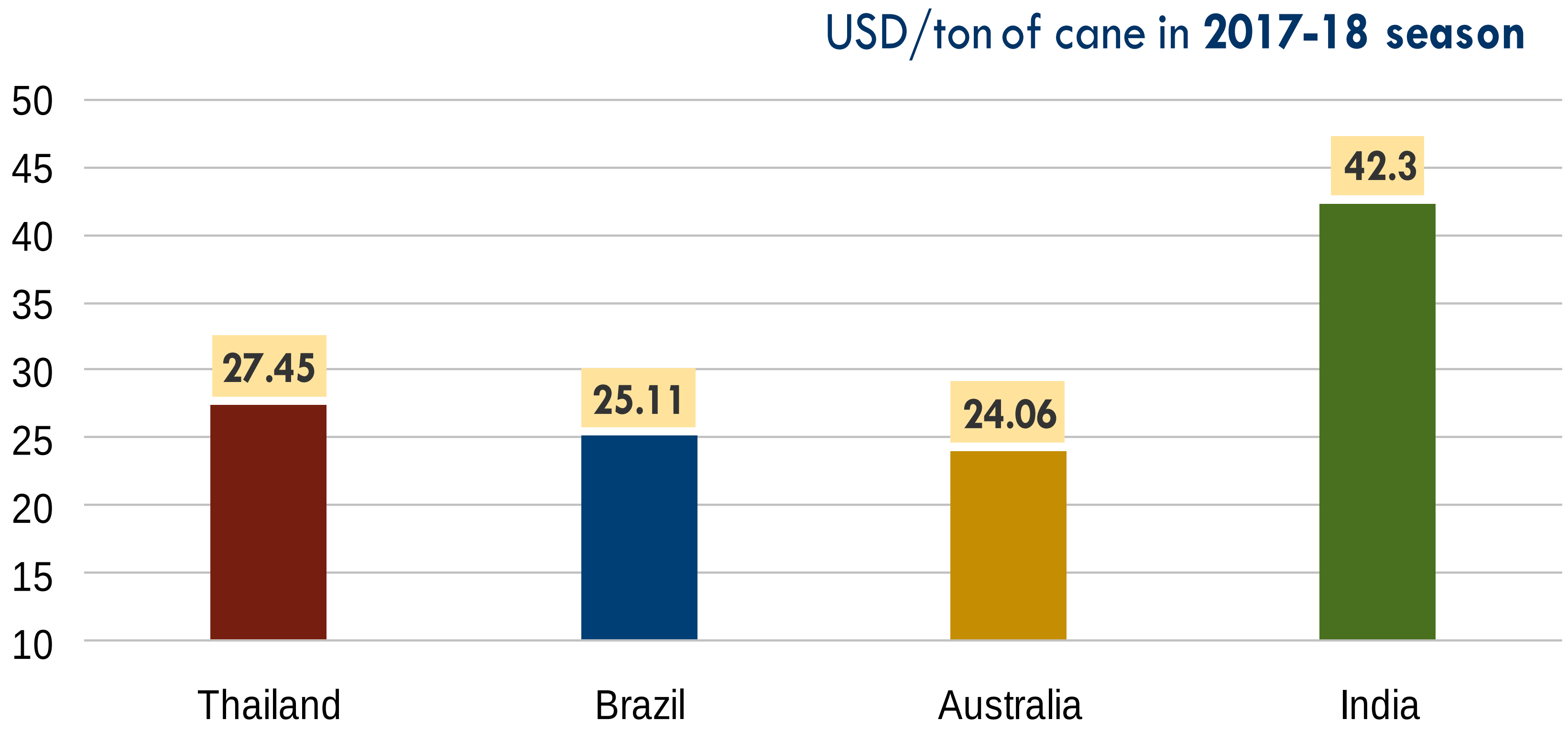
Revenue from sugarcane substantially higher than competing crops



Sugarcane the most attractive crop

1. **Sturdy crop**: Can withstand weather fluctuations better than others
2. **Better remuneration**: Farmers get 50-60% higher returns from sugarcane as compared to any competing crop
3. **Assured buyer**: Each farmer is attached to a sugar mill. The mill can't close till it crushes all sugarcane grown in its area.
4. **Assured price**: Farmer gets full cane price fixed by Central or State Govt. even if late, which is not the case for other crops
5. **No middlemen**: Cane bought directly and payment made directly into bank accounts of farmers

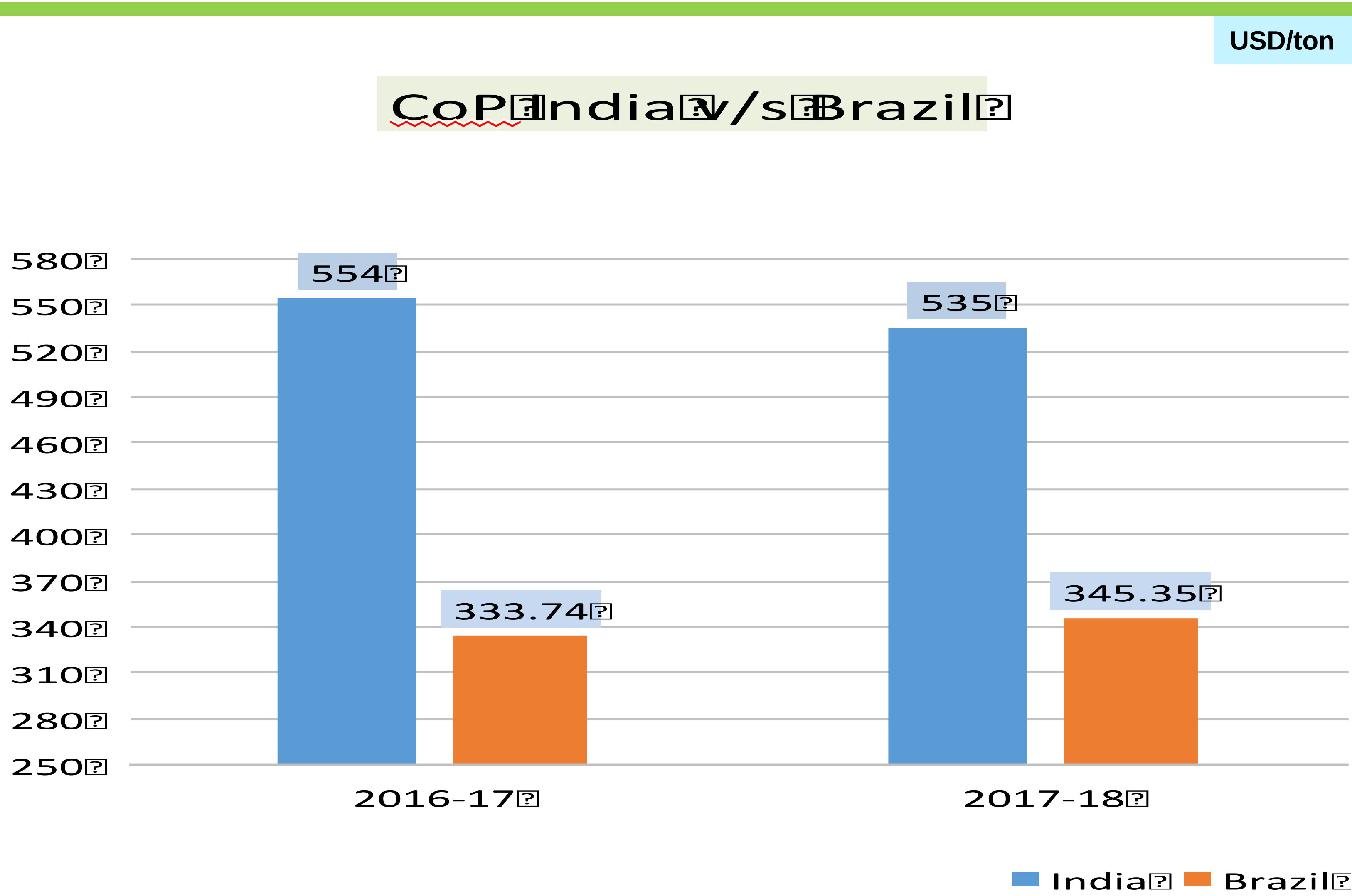
Amongst large producers, India pays the highest cane price



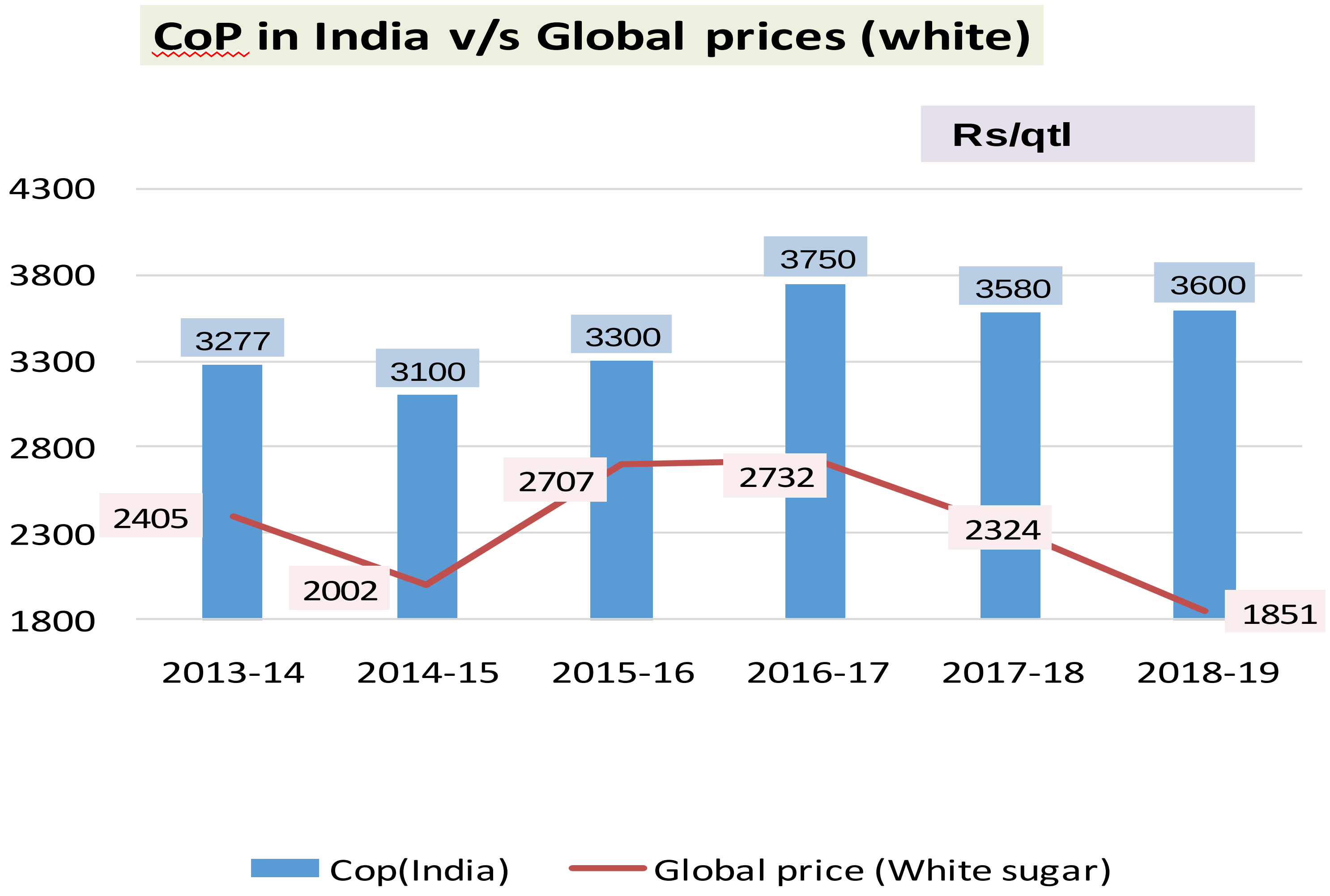
Note: Prices include cost of harvesting & transportation

Source: Australia – Queensland Sugar Ltd.
Thailand – Office of Cane and Sugar Board
Brazil - CONSECANA
India – Average FRP at all India average recovery of 10.77%

Indian cost of sugar production is very high



Indian sugar has become uncompetitive



Steps are required to address:

1. **Problem of high sugar inventory**
2. **Problem of cane price arrears**

Steps taken by Govt. in last one year

- Increase in import duty from 50% to 100% & removal of 20% export duty
- Stock holding limit on sugar mills in Feb and Mar 2018
- Announcement of DFIA scheme and export quotas without subsidy
- Production subsidy on cane as part of FRP in 2017-18
- Max. monthly sugar sale quota for each mill fixed by Govt. since June '18
- Min. ex-mill sugar sale price fixed by Govt. at Rs.29/- kg since June '18
- Buffer stock subsidy for 3 mn tons
- Production subsidy, transport subsidy and 5 mn tons export quotas
- Min. ex-mill sugar sale price increased to Rs.31/- kg from mid-Feb 2019
- Subsidy of 7% for one on loans to sugar mills to pay cane price

Yet record cane price arrears & sugar inventories

- The policies and incentives given by Govt. didn't fully solve the problem of high sugar inventory and the cane price arrears
- Means that something more/ different needed so that :-
  - A) Cane price arrears of 18-19 get quickly cleared
  - B) Check cane price arrears from again building up in 19-20
  - C) Industry could reduce the high sugar inventory of over 14.62 mn tons
- **Policies should attempt to solve both the above problems simultaneously: of cane price payment and sugar inventory**

Target to export around 7 mn tons in 2019-20 SS

- OB on 1st Oct, 2019 of 14.62 mn tons: <u>Over 9.5 mn tons more than required</u>
- Sugar production in 2019-20 may be less than 2018-19
  - But indications are that it may still be above domestic requirement
- **Hence, export target of 7 mn tons is ideal**
  - <u>**Export assistance as per WTO rules would be needed**</u>
- **However, for a successful export programme, the policy should be announced early in July, 2019 itself**

Ensure quicker payment of assistance

- Avoid putting too many <u>conditions</u> on exports and subsidies??
  - Discourages several mills to export
  - Delays payment of assistance: need to comply with all conditions
- Avoid individual export quotas (MIEQ) ??
  - 30-35% of industry does not participate, who can’t be forced
  - But in the process, export quotas get wasted
- <u>**Can we avoid taking BRCs??**</u>
  - Food Ministry needs to basically <u>ensure/ confirm physical exports</u> (no need to verify whether payment recd. in bank)
  - Will ensure faster submission and settlement of claims

Minimum price of sugar to cover cost of production

- We understand Government's calculation of Rs.31 per kilo
  - Is based on most efficient sugar mill's costs
  - Interest burden and depreciation have been excluded
- Our submission is:
  - The <u>average cost of production of industry</u> should be considered
  - Interest and maintenance/repairs etc. are funded from revenue from sugar & other products only, hence all these costs should be included
- Accordingly, minimum price of sugar should be revised to Rs.35-36 per kilo accounting for /including the above

Ethanol policies: an attempt to balance sugar production

Surplus sugar to ethanol

- OMCs currently targeting 10% ethanol blending with petrol
  - **In 2017-18 (Dec-Nov), around 4.5% blending achieved**
- For 2018-19, 10% blending requires 3.3 bn litres annually
  - Contracts entered into for 2.5 bn litres (almost 7.5% blend levels)
  - Includes 0.5 bn litres from cane juice/ B-molasses (first time ever)
- India currently has over 9.5 mn tons of (extra) surplus sugar
  - Instead of making more sugar, enormous scope to divert surplus cane

Need to implement 20% blending levels

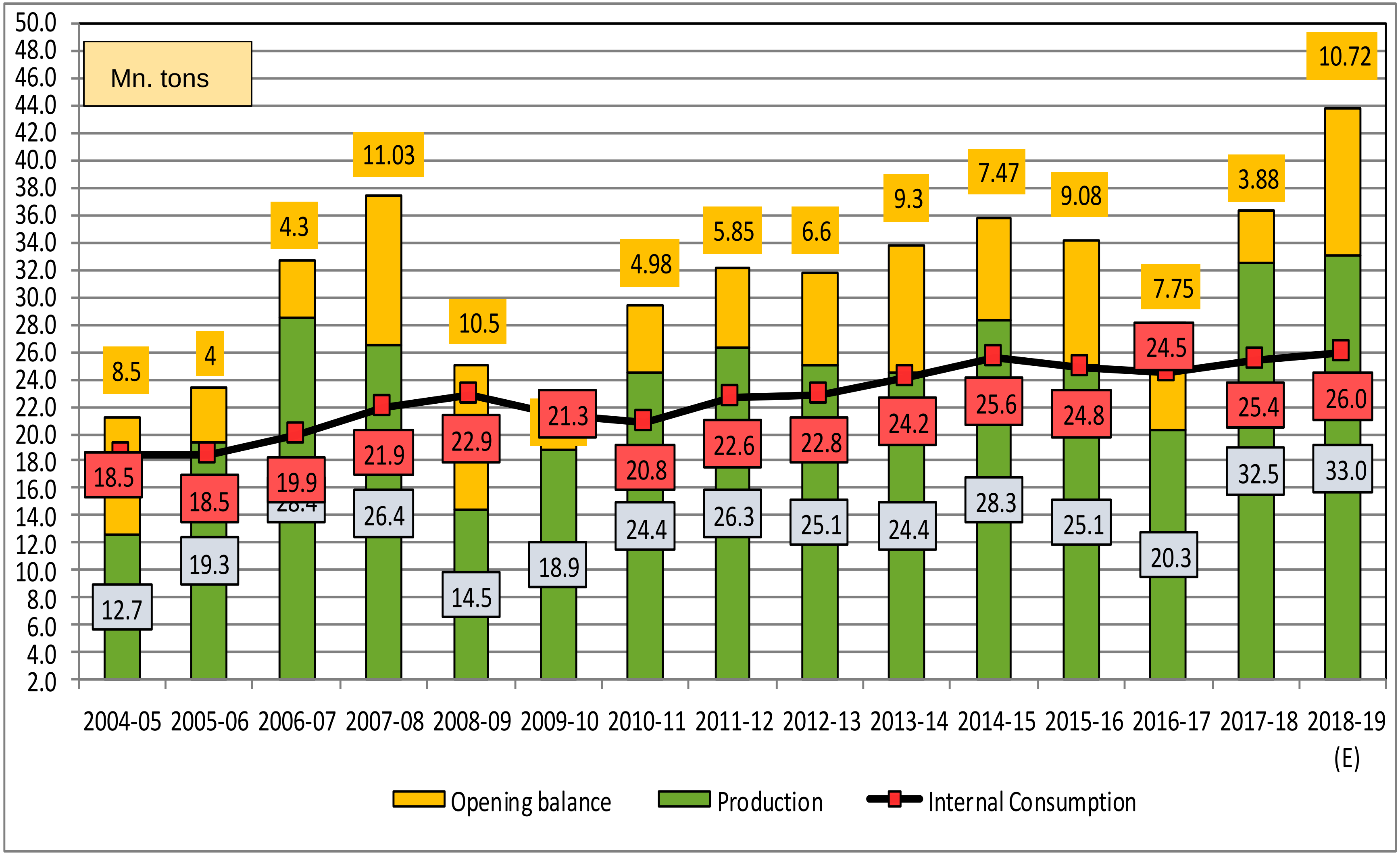
- Govt. has already fixed ethanol blend standards at 20%
- With ethanol production capacities being set up at a great pace, we expect creation of another 3 bn litres in 2 years
  - 6.5 bn litres of ethanol production/capacity by 2020-21expected
  - **Equivalent to over 15% blend levels**
  - **Which will only continue to increase**
- **Hence, immediate need to move to 20% blend levels, starting with UP and Maharashtra in 2019-20**
- Long term ethanol pricing policy needs to be announced

Current policies to continue

- With heavy investments in capacity creation and surplus feedstocks
  - We will cross all India average blend of 10% in 2019-20
- BIS standards fixed for 20% blending
  - Need to start 20% blending in ethanol surplus States like UP, Maharashtra and Karnataka
  - To keep all India average of around 15% or so
- Premium ethanol pricing for cane juice & B-molasses should continue for some more years & announced early by July '19

Long term policy directions

Indian production, consumption and opening balance



Rationalisation of cane pricing policy

- International laws/practice across sugar producing nations:
  - Cane price automatically gets determined as per formula as a percentage of revenue from sugar and/or by-products
  - It varies in the range of 60-66%
  - Brazil, Thailand, Australia, EU, Mauritius, Kenya, Tanzania etc.
- If India has to export sugar, it needs to be competitive and adopt similar systems/ practice
  - Expert Committee had recommended a formula
  - Adopted in Maharashtra and Karnataka, though not properly implemented

The linkage formula …..

- Revenue sharing formula (RSF) for India
  - Based on historical data in India and international practices:
  - Cane price at 70% of revenue from sugar and primary by-products or at 75% of revenue from sugar alone (giving 5% weightage to by-products)
- CACP, for last 4 years, also recommended for RSF, as follows
  - FRP will be the minimum price the farmers will get
  - Cane price payable by mills will be as per RSF
  - If it is below FRP, gap to be filled up through a Fund created by Govt.
- **But Govt. has only been accepting the FRP, but ignoring the second part of the recommendation on RSF and Fund**

CACP's recommendations for the Fund

- Contribution into the Fund:
  - To set MSP of sugar for consumers at certain level. When it falls below MSP, certain amount of cess can be collected from consumers.
  - During high sugar prices, part of surplus generated under RSF can be retained and deposited in PSF.
  - A committee should be constituted for creating and managing PSF.

Concluding …….

- Implement RSF with FRP and a Fund
- Create a Cane Farmers Welfare Fund (CFWF)
  - To fund the gap between what industry can pay and FRP fixed by Govt.
  - **By restricting cane price liability of millers to their paying capacity, Indian sugar will become competitive world wide**
- Payment of cane price in two instalments
- Stop State Govts. from fixing SAP for sugarcane, above FRP
  - Make them liable to pay the difference between SAP and FRP
- Continue to encourage diversion of surplus sugar to ethanol
  - Fixed pricing policy should be linked to FRP

Thank you