

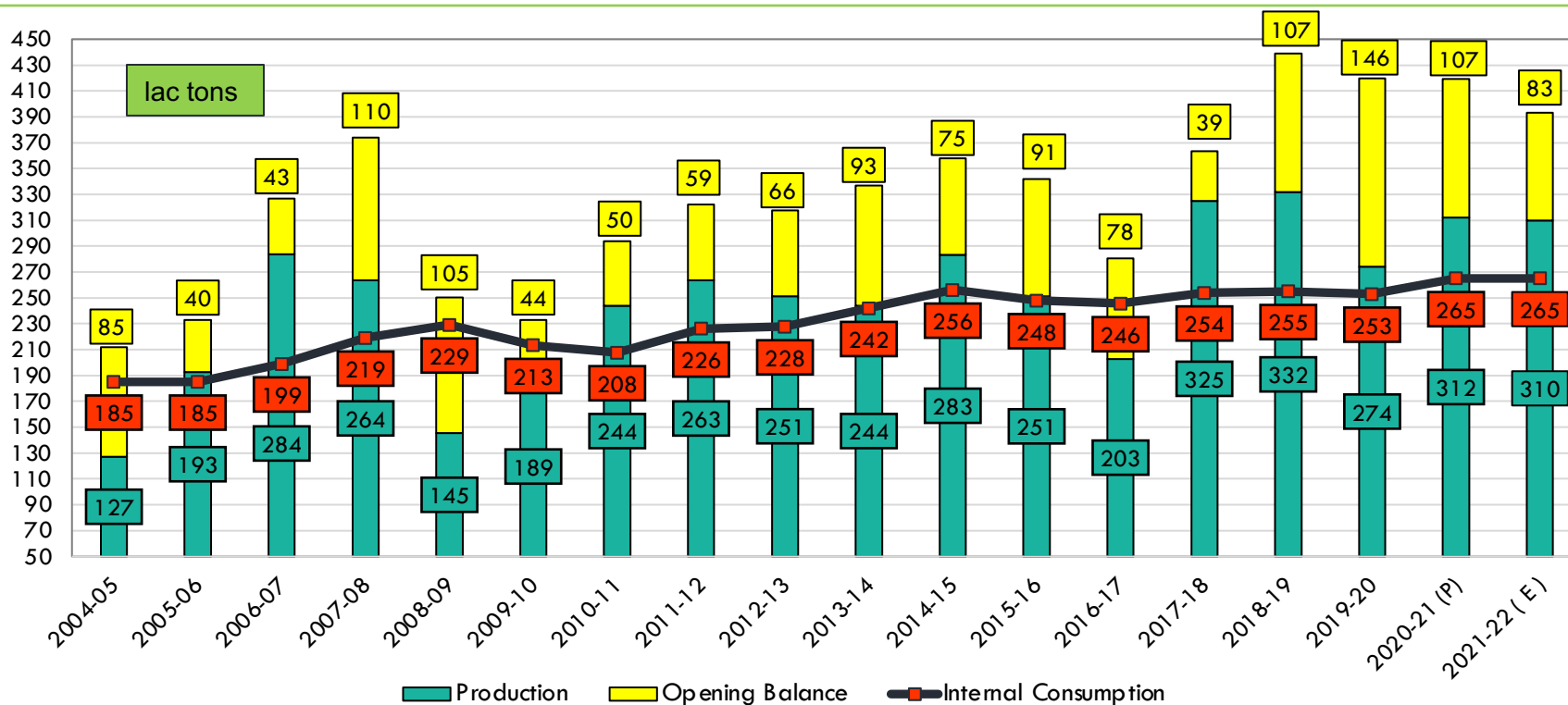


# **PRICING POLICY of SUGARCANE for 2022-23 SS**

**INDIAN SUGAR MILLS ASSOCIATION**

**28<sup>th</sup> Oct 2021**

# India is a structural surplus sugar producer



- Surplus sugar availability very high over the years
- Surplus expected again next year
- 83 lakh tons of **inventory is blocking Rs.30,000 crore** of funds + bumper production will further block more working capital

# Sugar balance sheet & surplus

(in lakh tons)

3

| Sugar season  | 2019-20    | 2020-21<br>(P) | 2021-22<br>( E ) |
|---|------------|----------------|------------------|
| Opening balance (as on 1 <sup>st</sup> Oct)         | 146        | 107            | 83               |
| Estimated sugar production                          | 274        | 312            | 310              |
| Sugar availability during the season                | 420        | 419            | 393              |
| Estimated sugar consumption                         | 253        | 265            | 265              |
| Estimated exports                                   | 59.5       | 71             | ??               |
| <b>Closing balance (as on 30<sup>th</sup> Sept)</b> | <b>107</b> | <b>83</b>      | <b>128</b>       |

- CACP should keep the continuous high sugar surplus in view, while recommending FRP and other related policies

# Relative returns: sugarcane outcompeting others

4

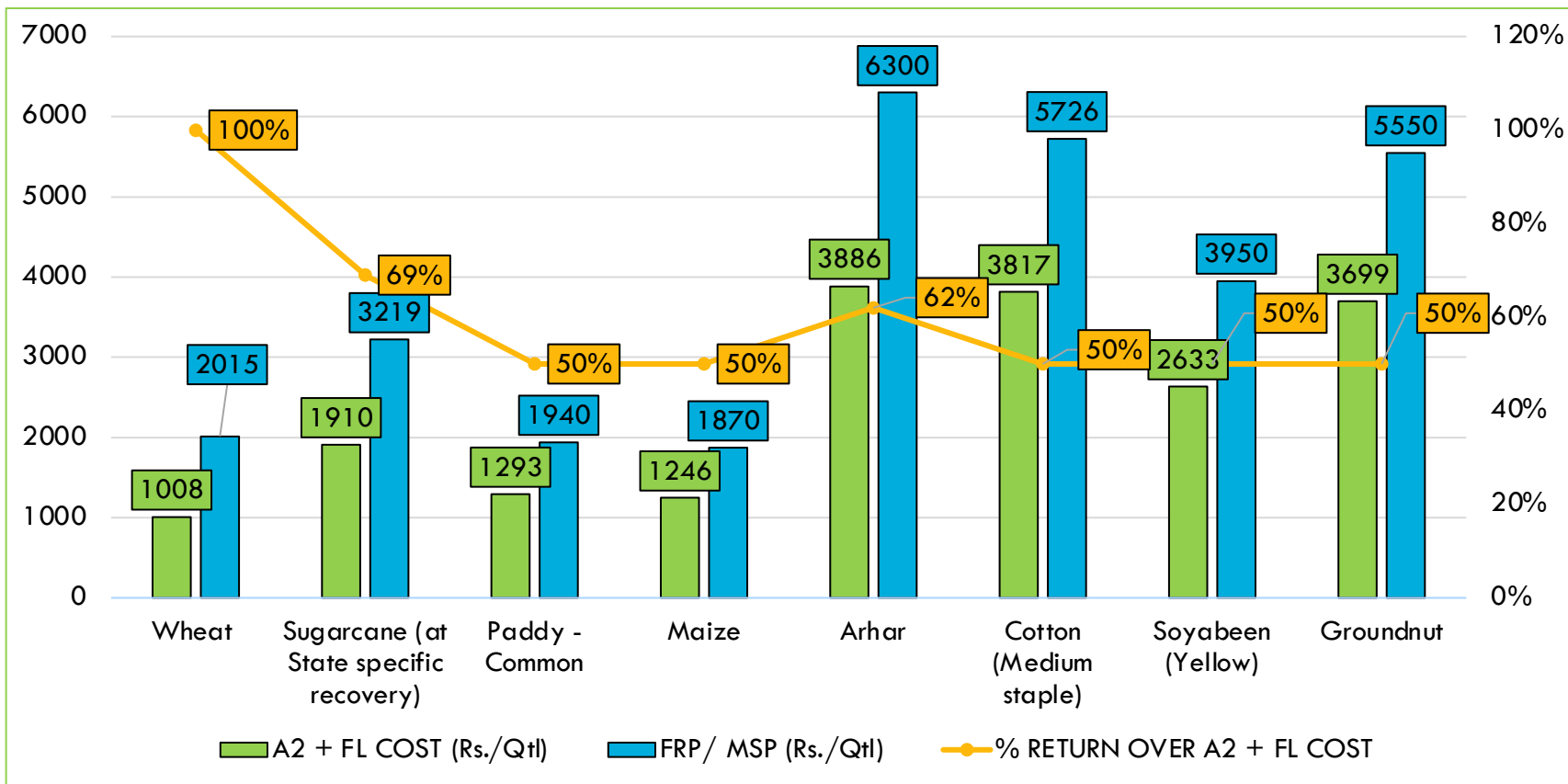
| Crops           | Relative Gross Returns over A2+FL with respect to sugarcane |         |
|-----------------|---|---------|
|                 | 2021-22   | 2020-21 |
| Sugarcane       | 100   | 100     |
| Cotton + Wheat  | 50  | 45      |
| Paddy + Wheat   | 47  | 51      |
| Paddy + Paddy   | 31  | 39      |
| Soybean + Wheat | 37  | 34      |
| Soybean + Gram  | 28  | 20      |

Source: CACP reports for 2020-21 & 2021-22

- Returns from sugarcane continues to be very high as compared to other crops
- Problem of surplus cane & sugar can be addressed only by correcting this distortion



# Gross Return over A2 + FL cost of different competing Crops

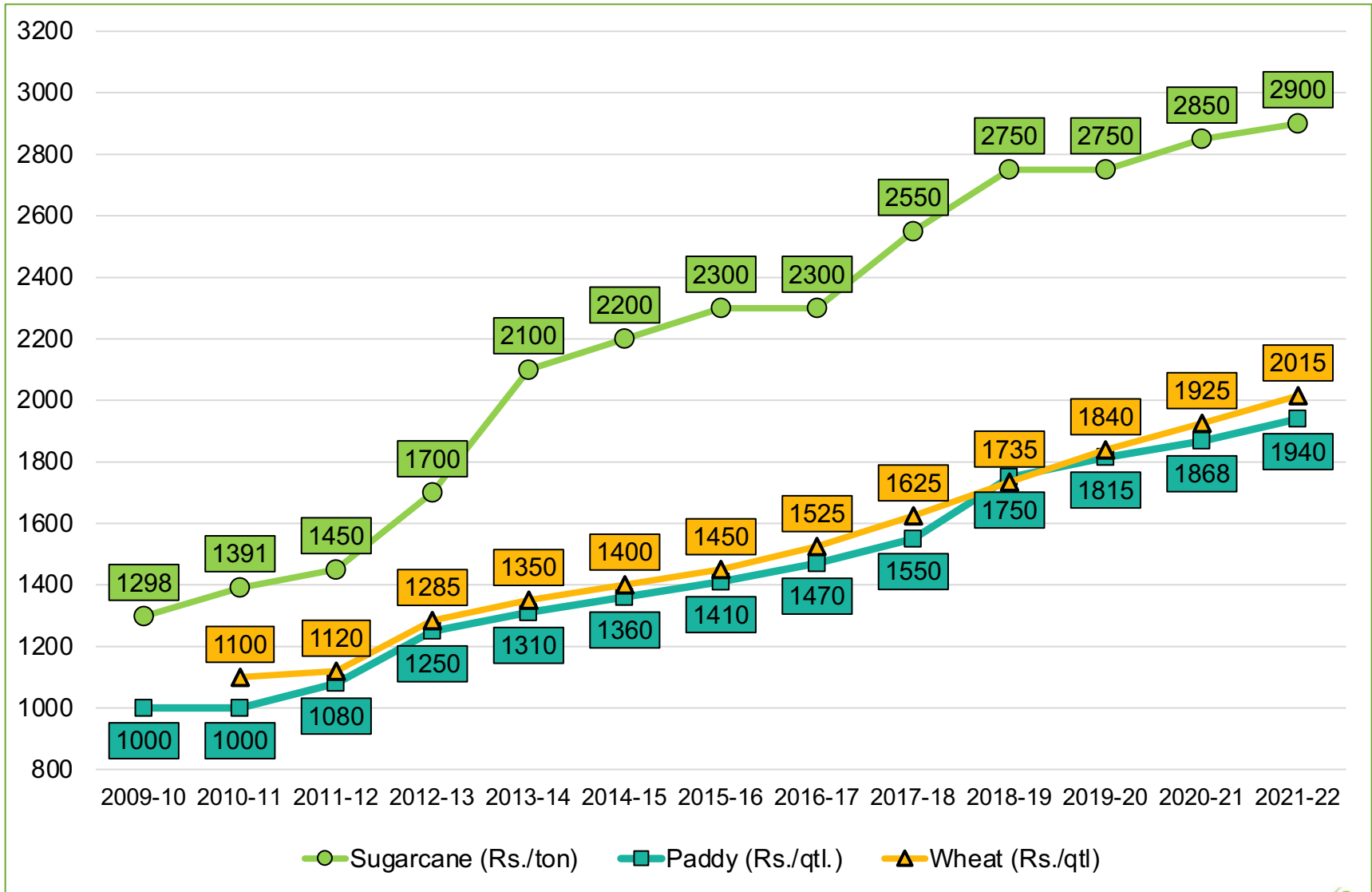


Source: CACP report – Sugarcane 2021-22; Kharif 2021-22; Rabi 2022-23

In addition to being 2<sup>nd</sup> most remunerative crop after wheat, sugarcane has the advantage of being a sturdy crop, has an assured buyer, gets the assured price and does not have any middleman b/w farmers and mills.

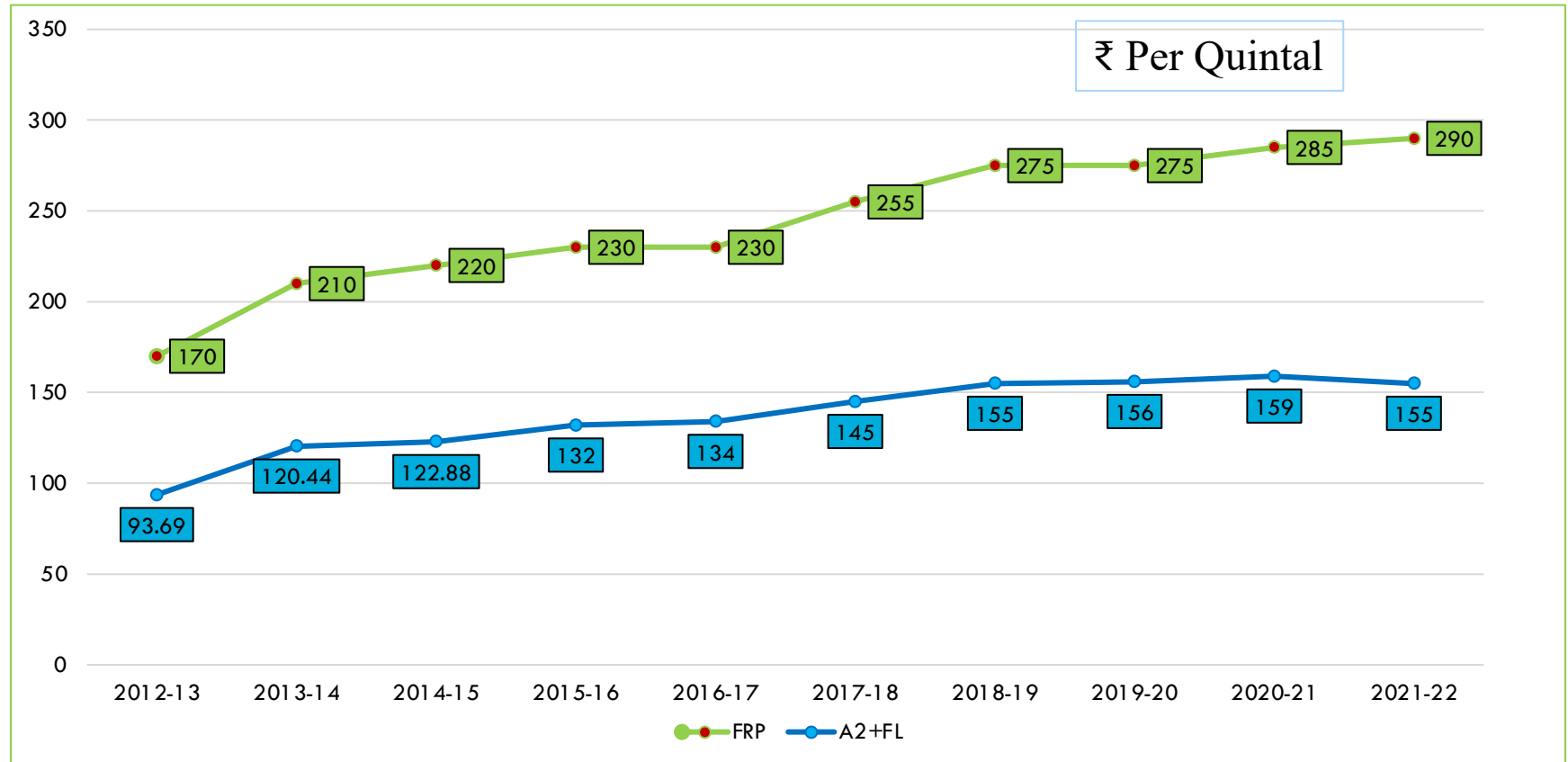
# Revenue from sugarcane much higher than competing crops

6



## Increase in FRP much more than the increase in A<sub>2</sub>+FL costs

7



Source: Sugarcane Price Policy Reports, CACP, Ministry of Agriculture and Farmers' Welfare

- A2 + FL cost reduced by Rs.4 per quintal for 2021-22 sugar season
- But CACP recommended an increase of Rs. 5 per quintal (reason not clear)

## Projected FRP over A2+FL cost for 2021-22 too high

8

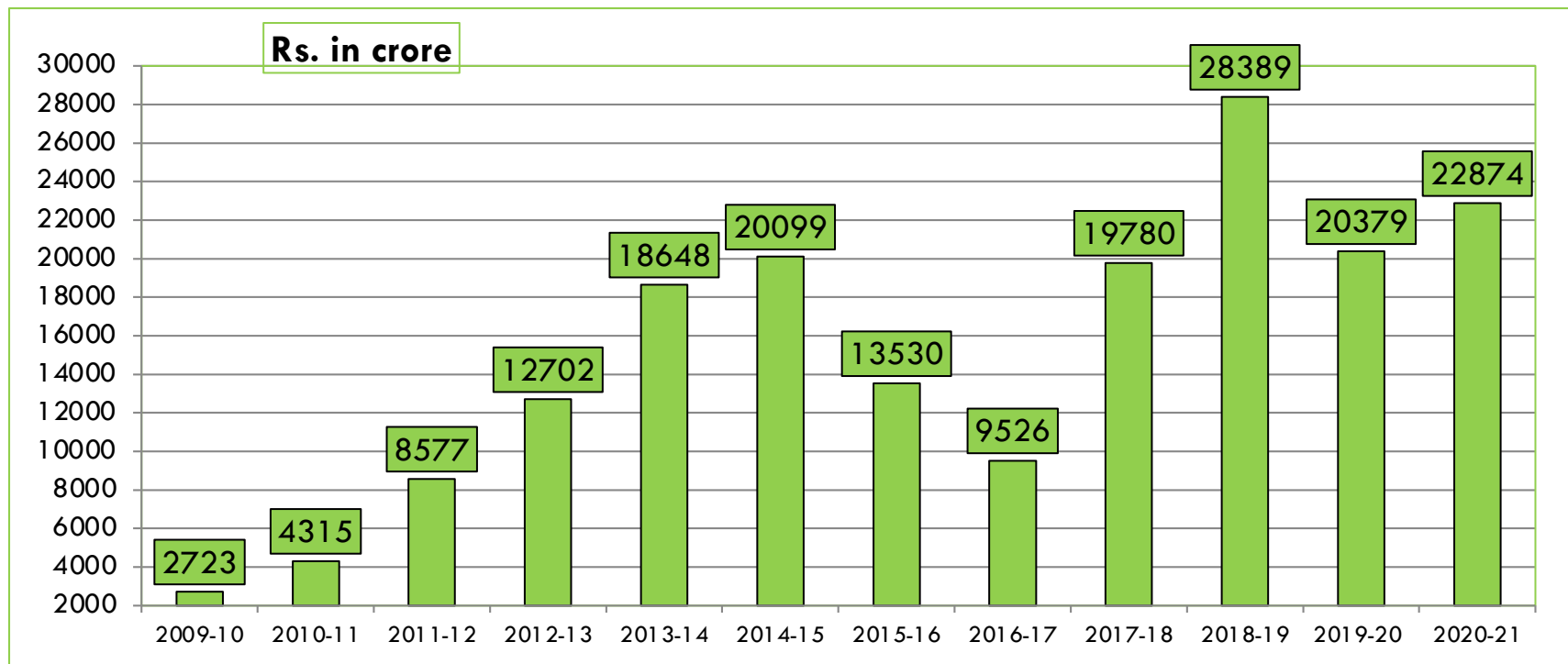
| State<br>(1)     | Modified (A2+FL) + trans. & ins. ch.<br>(Avg. pan India trans. & ins. cost considered for States<br>also as State-wise costs not given in CACP report)<br>(2) | FRP at State<br>specific<br>recovery<br>(3) | FRP higher<br>than<br>A2 + FL cost<br>(4)=(3)/(2) |
|------------------|---|---|---|
| Andhra Pradesh   | $199 + 26 = 225$  | 275.50                                      | 1.22  |
| Karnataka        | $134 + 26 = 160$  | 319.29                                      | 1.99  |
| Maharashtra      | $179 + 26 = 205$  | 329.15                                      | 1.61  |
| Tamil Nadu       | $192 + 26 = 218$  | 275.50                                      | 1.26  |
| Uttar Pradesh    | $170 + 26 = 196$  | 334.66                                      | 1.71  |
| Uttarakhand      | $133 + 26 = 159$  | 326.25                                      | 2.05  |
| <b>All-India</b> | <b><math>165 + 26 = 191</math></b>  | <b>321.90</b>                               | <b>1.69</b>                                       |

Source: CACP, 2021 - 22 report

- Sugarcane farmers getting 1.69 times of A2+FL cost, at all India level
- Considering Govt's target of giving 1.5 times A2+FL, all India average FRP at current recovery should be Rs.286.5 and not Rs.321.9 per quintal

# Cane price arrears (end of March)

9



**Cane price arrears are because of mismatch between:**

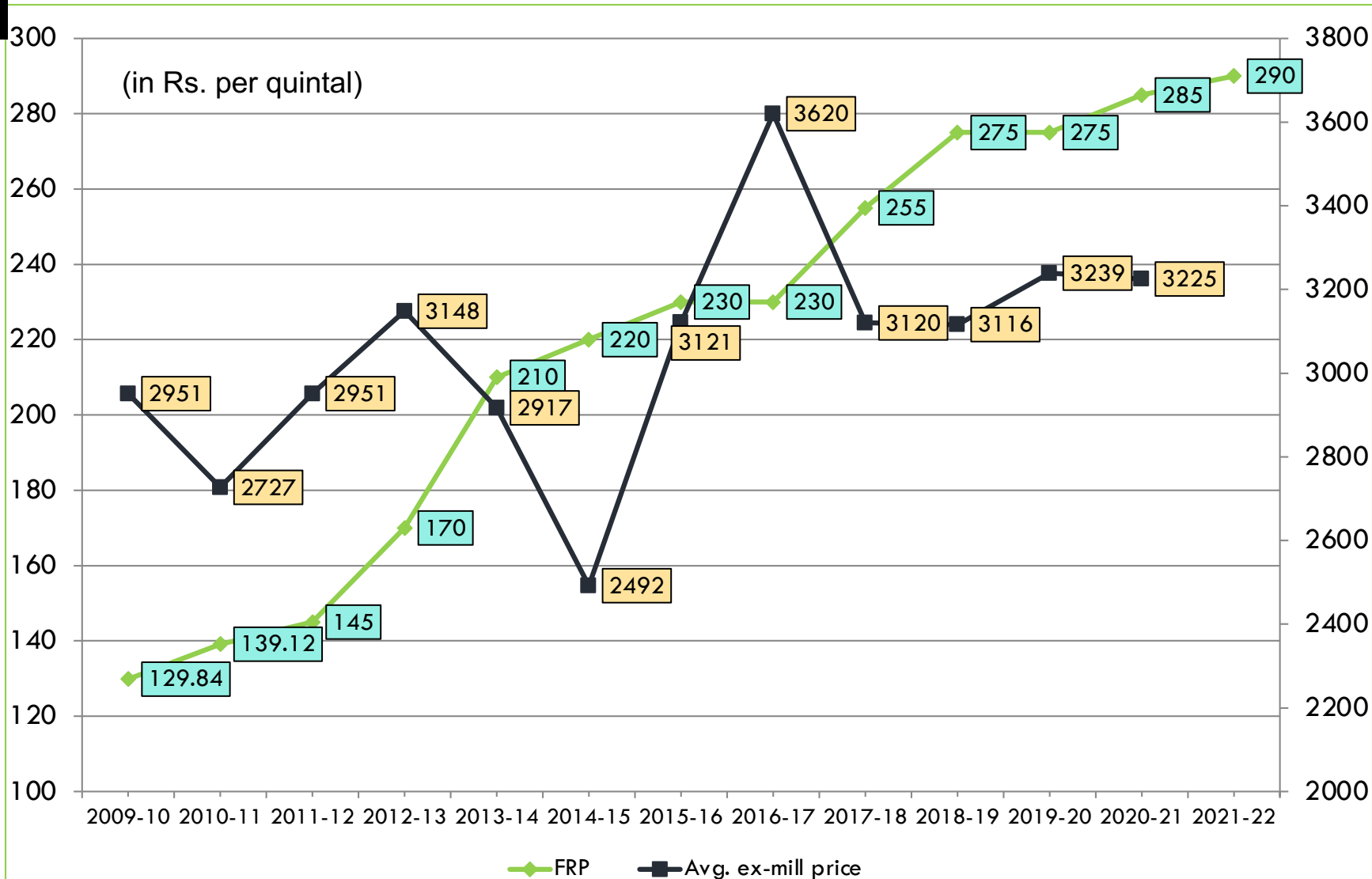
- a) cane price and sugar price and
- b) cash inflow and cash out go

- Lack of linkage between cane price and sugar price making cane price unaffordable
- Announcement of SAP in some States/ additional payment over and above FRP in some States



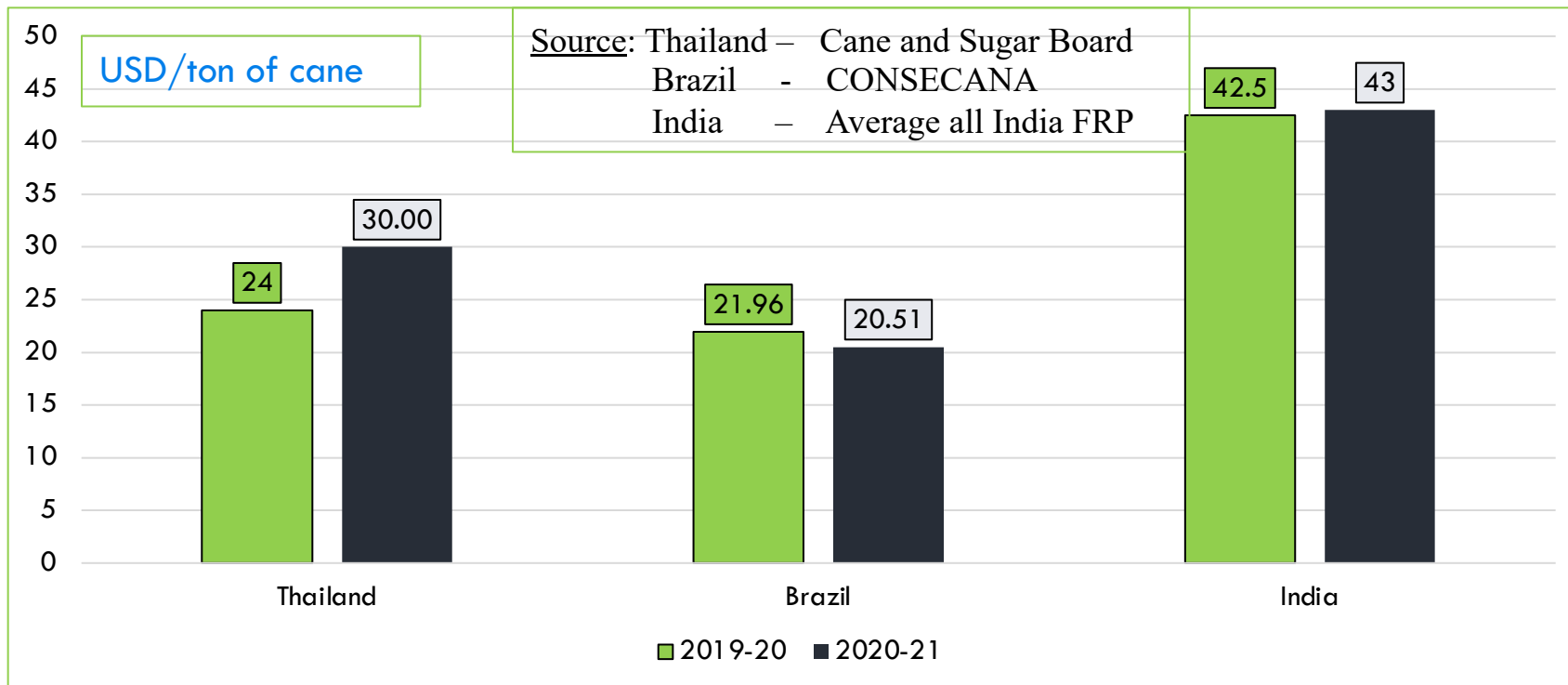
# Ex-Mill Price Vs FRP (Yearly)

10



# Amongst large producers, India pays the highest cane price

11



- If India is a structural surplus sugar producer, it needs to export regularly
- Such high cane prices make Indian sugar uncompetitive, and always dependent on Govt. subsidies on exports
- With export subsidies not possible after Dec. 2023 (as per WTO), Indian cane pricing policy needs reforms urgently

# Indian cane pricing policy challenged in WTO

12

- Brazil, Australia and Guatemala have complained against Indian sugar and sugarcane policies in WTO
- **Complaint is also against high FRP**
  - Stating FRP has “doubled in 9-10 years”
  - Causing surplus sugarcane production resulting in surplus Indian sugar
  - Causing global glut, depressing global prices
- GOI’s legal experts feel there is need to amend Indian cane pricing policy
- RSF along with PSF is WTO compliant

# ISMA's SUBMISSIONS

# Rationalise cane pricing policy

14

- **India should adopt global practices & systems**
  - ISO's report of June '19 says 16 out of 22 countries have RSF for cane price
- Govt. has to adopt the RSF system
  - Along with PSF to protect interests of farmers
  - Cane price at 75% of sugar price realisation (any higher % will burden millers – Rangarajan Committee has done a detailed calculation).
- To export surplus sugar, Indian sugar has to become globally competitive
  - For that, sugarcane pricing has to be rationalized and made reasonable
- Freeze FRP at current levels till 50% above A2+FL catches up with FRP
  - **Consider the recent increases in yield levels in FRP**
  - To control continued surpluses, correct the distortion in crop/ farm economics



# Revision in MSP of sugar

15

- **Current MSP of sugar is Rs. 31 per kilo, fixed in Feb'2019**
- Ex-mill prices of sugar were around Rs. 36 - 37 per kilo between January 2017 and November 2017 - no complaint in the market or its contribution to the inflation in the country
- Niti Aayog, Committee of Secretaries, Group of Ministers and different State Governments have also recommended for increase in the MSP during April – October, 2020, as have several States.
- **In its price policy report for 2021-22 season, the Commission itself believes that since FRP has been increased, the MSP of sugar needs to be revised.**

# Revision in MSP of sugar...

16

- It would be fair to revise MSP of sugar also as per clause 4 of the Sugar Price (Control) Order 2018, issued on 7<sup>th</sup> June 2018, which states that:
- *“4. Methodology for prescribing price of sugar - The Central Government shall, at the time of issuing any Order regarding price of sugar for sale under clause 3, take into consideration the fair and remunerative price of sugarcane, conversion costs for production of sugar from sugarcane, realization of profit from by-products generated in the process of sugar production and such other costs as it may consider relevant.”*

## Request CACP: **Recommend the sugar price w/c supports FRP**

17

- With Govt. fixing a minimum selling price (MSP) for sugar since June '18
  - **CACP should suggest the MSP which can support the FRP recommended**
- The mismatch between cane price and sugar price is the main reason for cane price arrears, so ....
  - The cane price be determined as per sugar price realization i.e. RSF
  - But till such time that happens, MSP should be determined as per FRP
  - **The best placed Authority to suggest the correct MSP for sugar is CACP**
- CACP's recommendations should be accepted in toto
  - Or GOI should stop fixation of FRP

# Some long pending requests

18

- The premium above basic recovery of 10%
  - Should be shared 50:50 between mills and farmers
  - CACP should clearly recommend the sharing
- 3 instalment payment of cane price
  - CACP may recommend exact formula/ system of the instalment payments
- Transport rebate for 'purchase centre' procurement be revised every year by CACP
- Rebates for mechanical harvesting & binding material be revised
  - Non-cane material in mechanical harvesting increases by 12-14%
  - Rebate on binding material of 1% is too low as compared to actuals
- Increase in base recovery from current 10% to 10.5%
  - With premium, rebates & discounts for higher & lower recoveries

# Concluding: ISMA's request to CACP

19

- CACP should give clear recommendation on the following:
  - Revision in MSP of sugar w.r.t. FRP
  - Prescribe the system and timing for 3 instalment payment of cane price
  - The sharing percentage/formula between millers and farmers, of the premium above base recovery
  - Rebates for transport, binding material & mechanical harvesting
- CACP should not leave these recommendations for any Committee
  - These recommendations will be deliberated upon by Govt. before acceptance
- Long term objectives of using sugarcane and molasses to produce ethanol along with enough sugar for domestic requirement
  - The ad-hoc policies/schemes intending to temporarily discourage sugarcane or give cash incentives for other crops should not be encouraged



---

**Thank you**