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Sugar industry rests hopes on govt package

RELIEF, AT LAST? Hit by severe financial crisis, industry awaits details of ₹7,200-cr package; Cabinet to decide shortly

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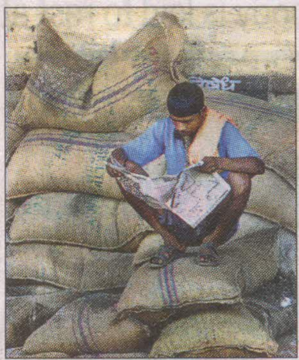
NEW DELHI: The financially beleaguered sugar industry is keenly awaiting details of the government's proposed ₹7,200-crore package, finalised recently by an informal ministerial panel headed by agriculture minister Sharad Pawar.

The Cabinet is expected to take a decision shortly on the package that involves a slew of incentives to the sugar industry, including a 12% interest subsidy on the ₹7,200-crore loan that mills can avail of from banks for paying cane farmers.

The panel has also recommended loan recasting for mills, incentives for production for raw sugar of up to 4 million tonnes and setting up of buffer stock, besides doubling ethanol-blending in petrol to 10%.

The sugar industry is facing a severe financial crisis due to higher cost of production and falling sugar prices that have led to cane arrears of ₹3,400 crore from 2012-13 marketing year that ended September 2013.

Almost all sugar factories have been incurring losses, not only in 2013-14 but also in the previous year.



Sugar factories have been making losses due to high production costs and falling sugar prices

The industry is losing about ₹600 per quintal with the cost of production of sugar at ₹3,500 per quintal against a sale price of ₹2,900 per quintal.

"The industry welcomes the initiatives of the central government. It will help the industry clear arrears of farmers and also venture into production of new product, raw sugar, to diversify its product mix to grab opportunities," said Abinash Verma, director-general, Indian Sugar Mills Association (ISMA).

"But for a long-term solution, the revenue-sharing formula for cane pricing should be implemented to rationalise the cane-pricing mechanism and make it more transparent," he added.

In April, the government had lifted key restrictions on how sugar is sold, dismantling one of the last vestiges of the 'licence-raj' era, long overdue and blamed for hurting cane farmers, millers and consumers alike.

Sugar is a globally controlled commodity but India, the world's second-largest producer, had regulated it the most.

In April, the Cabinet abolished a mandatory rule for mills to sell 10% output to the government at below-market prices so that this could be supplied to the poor, termed "levy sugar". The move was aimed at helping avoid sharp swings in retail prices and stabilise production, according to a panel that recommended lifting of the curbs.

Levy sugar sales often hurt millers' profitability, making them unable to pay farmers on time. "It was partial de-control. The core issue of linkage of cane price with sugar realisation remains unaddressed," a sugar industry analyst said.