MEDIA RELEASE

The Indian sugar industry across the country has suffered substantial losses during the last sugar season. The main reasons for these losses are the following:

a) Unreasonably high sugarcane prices fixed or influenced by respective State Governments.
b) Low sugar prices, prevailing below the cost of production. As compared to the prices in September – November, 2012, the sugar prices fell by over Rs.5000 to 7000 per ton during the rest of the season.
c) Surplus sugar production in the last three sugar seasons and expected surplus production again in 2013-14 making it the fourth surplus year in continuation.
d) One of the highest opening balance, as on 1st October, in the past several years. The opening balance as on 1st October, 2013 was around 88 lakh tons, about 30 lakh tons more than the normative opening balance for a season.
e) Depressed international prices due to surplus sugar availability in the global market.
f) Continued imports, despite the surplus, made possible, due to low import duty on sugar.

1. Unreasonably high sugarcane prices

The continuously increasing sugarcane price across the country, largely influenced or directly fixed by the State Governments, has led to high costs of production of sugar. It has made Indian sugar totally uncompetitive in the international market. A direct comparison between India and Brazil, the two largest sugar producing nations in the world, gives a clear idea that the Indian sugar industry pays almost twice the sugarcane price to produce a kilo of sugar. Brazil being the largest sugar exporter in the world, determines the global price and with their low cane price, Indian sugar becomes uncompetitive.

The Rangarajan Committee has clearly and strongly recommended for determining the sugarcane price as a percentage of the sugar price and by-products price realization, such that sugarcane price should be 70% of the realization from sugar and by-products or 75% of only the sugar price realization (after giving 5% weightage to the by-products). Even though the Central Government took a historic decision on 4th April, 2013, to free up the sugar sales, it shied away from accepting Rangarajan Committee's recommendation to rationalize the cane pricing policy. It, however, suggested to the State Governments to examine adoption of the Rangarajan Committee's recommendations on the revenue sharing model.

Despite passage of almost 6 months, no State Government has actually implemented the recommendations in its State. Even though the Karnataka Government did bring an Act way back in May 2013, the formula is yet to be implemented. The result is that the farmers continue to agitate for a higher sugarcane price, even though the sugar prices across the country, are currently prevailing about Rs.5000 to 7000 per ton lower than what they were when the sugarcane prices were fixed at the same time last year. This should be enough to justify for a reduction in the sugarcane price in 2013-14. If the cane prices are, however, not reduced, the respective State Governments should bridge the gap between the cane price and the "ability" of the sugar mills to pay to the sugarcane farmers from the revenue generated out of the sugarcane crushed by them. The States should then pay the difference as a subsidy directly to the farmers.

With costs only going up and revenue only coming down for the mills, the very survival of the Indian sugar industry is at stake. Due to unreasonably high sugarcane price in the last season, making exports from India unviable, blocking funds in sugar stocks, the cane price arrears of farmers reached historically the highest level of over Rs.12,000 crore on 31st March, 2013. Sugar prices have only fallen since then. Now, if the cane prices in 2013-14 even continues at the same level as last year, without any financial support from the State Governments, the cane price arrears will cross the Rs.12,000 crore seen last year.

Banks have also refused in writing to extend working capital to sugar mills in the 2013-14 season if the sugarcane price is not rationalized as per the recommendations of the Rangarajan Committee. If that happens and the sugar mills are unable to start their crushing operations due to lack of working capital, our small and marginal farmers will suffer if they do not find buyers for their sugarcane on time or if there is delay in harvesting and they are unable to sow the next crop like wheat etc..

2. Surplus sugar availability

With an opening balance of around 88 lakh tons on 1st Oct, 2013, and another surplus production of about 15 lakh tons in 2013-14 season, the country will end up increasing its carry forward sugar stocks to over 103 lakh tons by end of September, 2014. This will block cash flows worth Rs.30,000 crore during 2013-14 sugar season, impacting the sugar industry's capacity to pay to farmers. During the last season, the cane price arrears had crossed Rs.12,000 crore on 31st March, 2013. That was despite some good sugar prices during the first 3-4 months of last season. The domestic prices have fallen substantially since then and mills continue to incur massive losses. The global prices are depressed and sugar exports from India are unviable.

The following steps should be taken to reduce about 40 lakh tons of sugar in 2013-14 sugar season, as well as give the mills the much required cash flows:

a) Export sugar: At current global prices, there is a loss on exports from India, and therefore, there is need that the Central Government assists in exporting the sugar, including as it did in sugar seasons 2006-07 and 2007-08.

b) Loans from banks with interest subvention by Government: The Government brought in a scheme in 2007-08, whereby loans equivalent to excise duty paid/payable in two years, were given by banks, and the interest burden was borne by the Central Government as well as the Sugar Development Fund to an extent of 12% per annum. A similar scheme now would give liquidity of Rs.3500 crore to mills.

c) Strategic Reserve: With such a high sugar balance, the Government can procure 20 to 30 lakh tons of sugar in the beginning of the season, as strategic reserve, to be held regionally with FCI. The reserves can be used to meet the PDS requirement of about 26 lakh tons of sugar or to control sugar prices in times of shortages. The ex-mill sugar prices currently are at Rs.27 to 29 per kilo and hence if purchased now, the Government can procure its PDS sugar at low rates.

d) Convert surplus sugar into ethanol: Government had fixed BIS standards for 10% ethanol blending with petrol in 2009. However, currently ethanol is being procured to meet the needs for the 5% mandatory blending and at prices which makes production of ethanol from C-heavy molasses only. To move from the current 5% blending to 10% blending, B-heavy molasses as well as sugarcane juice could be diverted away from sugar to ethanol, which can reduce sugar surplus by about 17 lakh tons. However, such diversion of sugarcane juice/B-heavy molasses will happen only when such ethanol is adequately incentivized. This will not only give some savings to the oil companies as compared to petrol, but also save the country around Rs.6000 crore of foreign exchange and also help improve India's CAD. One should remember that 37% of

Brazilian fuel consumption requirements are met by ethanol, whereas USA has moved to 20% blending.

3. <u>Stop all sugar imports</u>

With surplus sugar available in the country and when the Indian sugar industry is struggling to export the surplus to an unviable global market, there is absolutely no reason whatsoever to allow even 1 kilo of sugar to be imported. With Pakistan Government allowing financial incentives to its mills to export sugar, white sugar is flowing into India through Wagah border. The "bound rate" of import duty for sugar in India, which is WTO compatible, is 60%. The current import duty of 15% is not enough to stop sugar imports and, therefore, the Government should immediately increase the import duty to at least 40% to check all sugar imports into the country. It may be mentioned that for all other agricultural commodities, the import duty is substantially higher. It is 100% import duty on coffee and tea, 80% for rice in husk, 70% for coconut, 50% for maize and apple etc. There is no reason the import duty on sugar should remain at only 15%, especially when we are burdened with more than enough sugar.

65% of sugar is consumed by the bulk consumers like beverage & biscuit manufacturers, confectionaries, sweet makers etc, and since 10% of the production is bought by the Government for the PDS, only 25% of sugar is actually consumed by households directly. On the other hand, 50 million cane farmers and their families earn their livelihood from sugarcane. Rs.4-5 per kilo increase in sugar price will increase household expenditure by Rs.20-25 per month, but it will ensure that mills recover their costs and farmers get remunerative prices on time for their sugarcane. The Government should therefore, ensure that ex-mill prices at least cover the costs of production, at least till such time that cane price is linked to sugar price realisation.

As explained above, the private as well as cooperative sugar mills are both suffering and struggling to survive under the current circumstances. Therefore, the two Associations, ISMA representing private and public sugar factories and NFCSF representing the cooperative sugar mills in the country, jointly request the Central Government, that the following steps be taken immediately to revive the ailing Indian sugar industry and the small and marginal cane farmers:

(i) Amend the Sugarcane (Control) Order, 1966 to provide for the revenue sharing formula to determine a uniform cane price every year across the country.

(ii) Impress upon the State Governments to immediately accept and implement the Rangarajan Committee recommendations linking sugarcane price to the sugar price and by-products price realization;

(iii) Immediately increase the import duty from the current 15% to at least 40% (if not 60%) on both white and raw sugar.

(iv) Assist the sugar industry in exporting 30-40 lakh tons in the next 8-10 months.

(v) Re-introduce the interest subvention scheme under which the banks would extend loans to sugar mills against excise duty paid and payable for the last two seasons, to be repaid in 4 years, including 2 years moratorium, for which the Government of India can bear the interest upto 12% per annum for these 4 years.

(vi) Create strategic reserve of 20-30 lakh tons, to be held regionally by FCI.

(vii) Agree to a 'premium' price for ethanol produced from B-heavy molasses or sugarcane juice, to move to 10% ethanol blending with petrol.

These steps are required to be implemented immediately so that the sugar industry could start their sugarcane crushing on time in 2013-14 sugar season and save the industry and farmers from sickness and extinction.

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