Cabinet Committee on Economic Affairs (CCEA)

Cabinet approves interventions to deal with the current crisis in the sugar sector

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In order to improve the problem of liquidity of sugar mills resulting in accumulation of huge cane price arrears of farmers, the Union Cabinet chaired by Prime Minister Shri Narendra Modi has approved the following measures involving total amount of about Rs. 7000 crore:

i. Creation of buffer stock of 30 LMT of sugar for one year and to incur estimated expenditure of Rs.1175 crore for this purpose. However, based on the market price and availability of sugar, this may be reviewed by Department of Food & Public Distribution(DFPD) any time. The reimbursement under the scheme would be made on quarterly basis which would be directly credited into farmers' account on behalf of mills against their cane price dues.
ii. To notify Sugar Price (Control) Order, 2018 under Essential Commodities Act, 1955 to fix minimum selling price of white/refined sugar at the mill gate below which no white/refined sugar can be sold and delivered by a sugar mill in the domestic market. Fixation of minimum selling price of white sugar would be based on Fair Remunerative Price (FRP) of cane and minimum conversion cost of white/refined sugar. The minimum selling price of white/refined sugar shall be initially fixed at Rs.29/kg which can be revised by DFPD subsequently based on revision of FRP etc. This will not affect availability of sugar to consumers at reasonable price and Government will put in place a mechanism to ensure that the retail prices of sugar are kept fully under control. At present, this would be done along with imposition of stock holding limits on sugar mills. The stock limit on mills will be initially imposed for the current sugar season (up to September 2018), which may be reviewed by DFPD at any time.
iii. To augment capacity through up-gradation of existing distilleries attached to sugar mills by installing incineration boilers and setting up new distilleries in sugar mills; government will bear interest subvention of maximum Rs.1332 crore over a period of five years including moratorium period of one year on estimated bank loan amounting to Rs.4440 crore to be sanctioned to the sugar mills by the banks over a period of three years for which DFPD would formulate a detailed scheme in this regard. This would help diversion of sugar during surplus phase to reduce excess inventories.

Background:

Excess production during the current Sugar Season and indication of higher production in the ensuing Sugar Season has been continuously depressing the market price of sugar. Due to the depressed market sentiments and crash in sugar prices, the liquidity position of the sugar mills has been adversely affected leading to accumulation of cane price dues which has already reached to an alarming level of more than Rs.22000 crore.

In order to stabilize sugar production at reasonable level with a view to improve the liquidity position of the mills thereby enabling them to clear the cane price arrears of farmers, Central Government has taken the following steps in past four months:

(i) Increased custom duty on import of sugar from 50% to 100% to check any import to the country.

(ii) Imposed stock holding limits on producers of sugar for the months of February and March, 2018 to stabilise the domestic sugar price.

(iii) Withdrawn custom duty on export of sugar to encourage sugar industry to start exploring possibility of export of sugar.

(iv) Allocated mill-wise Minimum Indicative Export Quotas (MIEQ) of 20 LMT of sugar for export during Sugar Season 2017-18.

(v) Re-introduced Duty Free Import Authorization (DFIA) Scheme in respect of sugar to facilitate and incentivize export of surplus sugar by sugar mills.

(vi) Extended financial assistance to sugar mills @ Rs.5.50/qtl of cane crushed during 2017-18 Sugar Season to offset the cost of cane.

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