indian sugar mills association

PRESIDENTIAL ADDRESS

BY

SHRI M. SRINIVAASAN

AT 79TH ANNUAL GENERAL MEETING OF THE

INDIAN SUGAR MILLS ASSOCIATION

ON 11th DECEMBER, 2013

AT NEW DELHI

Prof. K.V. Thomas ji,

Distinguished Guests,

Officials from the Government,

My fellow members of the Indian Sugar Mills Association,

Friends from our National Federation of Cooperative Sugar Factories Ltd. and other Associations,

Ladies and Gentlemen,

1. It is my honour to welcome all of you on behalf of the Indian Sugar Mills Association to our 79th Annual General Meeting.

2. We are indeed privileged to have amongst us the Hon'ble Minister of State (Independent Charge) for Consumer Affairs, Food and Public Distribution, Prof. K.V. Thomas, today in our 79th Annual General Meeting. As always, he has once again been very kind and considerate in taking out time from his busy schedule, especially when the Parliament Session is on, to be amongst us and talk to us on our various problems and solutions.

HISTORICAL DECISIONS OF PARTIAL DECONTROL

3. As the apex body of the sugar mills, Indian Sugar Mills Association has been continuously pleading before the Government to take steps to decontrol the sugar sector. It was

the decision of Prof. K.V. Thomas, our Hon’ble Food Minister, to have approached the Hon’ble Prime Minister for setting up an expert committee under Dr. C.Rangarajan last year. We all know that the Rangarajan Committee included renowned economists and bureaucrats of the country, including the then Chief Economic Adviser, current as well as former Food and Agriculture Secretaries, Government of India as well as the Chairman, CACP.

4. The Expert Committee under Dr. Rangarajan submitted its recommendations in October, 2012, recommending various steps required to be taken by the Central and State Governments to allow this very important sector of the Indian economy to grow and achieve its full potential. The recommendations included deregulation of all the controls exercised by the Governments in the country on both the sugar sales as well as sugarcane side.

5. We have seen several Committees submitting similar recommendations on decontrol of the Indian sugar industry in the past. Some of these well known committees include Mahajan Committee, Tuteja Committee, Thorat Committee and Nanda Kumar committee which submitted reports during the last couple of decades. Unfortunately, almost all these recommendations continue to remain in the records of the Government and no concrete action was taken to deregulate

the Indian sugar sector from various controls which were being exercised for several decades. However, when the Rangarajan Committee report was submitted, our Hon'ble Food Minister, Prof. K.V. Thomas assured all of us that the recommendations of this Committee would be given its due importance and the Government would consider the same with all seriousness. We are grateful to you Sir, that not only did you keep your word but also took necessary steps to ensure that the deregulation on the sugar sales happen.

6. I will be failing in my duty if I do not recognize the contribution of our Hon'ble Agriculture Minister, Shri Sharad Pawar who also joined force with Prof. K.V. Thomas to ensure that the sugar sales are freed up. It was due to the efforts of these two very important Ministers as well as the Hon'ble Prime Minister and other Ministers, including Mr. P. Chidamabaram, Hon'ble Finance Minister that the sugar sales were fully decontrolled in a historic decision on 4th April, 2013. We are no longer required to give levy sugar and are not subject to any regulated release mechanism on our sales of sugar. I think it is a huge achievement not only for the sugar industry but also for the Government that the Indian sugar industry has been partially decontrolled after several decades and we hope that the industry would stand on its feet in the next couple of years and achieve its potential growth as suggested by the Rangarajan Committee of around 20% per annum.

RATIONALISATION OF SUGARCANE PRICING POLICY

7. The Rangarajan Committee has very clearly recommended for rationalizing the sugarcane pricing policy, which is influenced largely by the local political considerations throughout the country. The sugarcane price fixed by several States, directly or indirectly influenced by the State Government or otherwise, have over a period of time become more and more irrational and uneconomical. The vote bank politics has resulted in abnormal increase in the sugarcane price fixed and announced by the States, which is substantially higher to the Fair and Remunerative Price (FRP) determined by the Central Government on various economic considerations.

8. For example, the FRP determined by the Central Government for 2013-14 sugar season is Rs. 210 per quintal linked to a sugar recovery of 9.5%. But, there were agitations across the country by the farmers for announcement of sugarcane price of Rs. 300 per quintal or above. In some places, these are not even linked to the recovery rate. The net result is that with an unviable sugarcane price, the sugar mills across the country are continuously losing money affecting their very survival.

9. Though the Central Government referred the recommendations of the Rangarajan Committee on linking the sugarcane price to the revenue realized from sugar and by-products to all the States, suggesting its adoption for implementation, there has

not been much encouraging news from the States. Sir, we think that the Central Government needs to continue to impress upon the States to rationalize the sugarcane pricing policy as per the Rangarajan Committee recommendations. Otherwise, as is happening today, the sugarcane price will continue to be increased by the States and with the sugar prices remaining flat or at unreasonably low levels, the sugar industry will lose money, as it has been in the last couple of years, leading to build up of substantial cane price arrears of farmers and default in repayment of bank loans, increasing the Non-Performing Assets (NPAs).

10. Sir, we have engaged ourselves with the State Governments across the country to impress upon them the need to link the sugarcane price with the revenue realization of the sugar price. However, we have not been able to achieve much success. If the State Governments continue to fix irrationally an unviable sugarcane price, we feel that we will be forced out of this business very soon. There are examples of couple of States where sugarcane used to be an important crop but due to closing down of the sugar mills in these States, the farmers are not able to find a buyer for their sugarcane or are forced to sell their cane to gur and khandsari manufacturers at two-third of the price that they would have fetched from sugar mills. In some areas farmers have even stopped growing sugarcane.

11. There is absolutely no doubt that there is an urgent need to accept and adopt the Rangarajan Committee formula linking the sugarcane price to the revenue realized from sugar and by-products. We fear that if this is not done and the sugarcane price is increased further and further, our costs of production would reach such levels as to make sugar production business unsustainable. We are already uncompetitive in the global market because of our high costs, especially when the largest exporter of sugar, Brazil pays around two-third the cane price that we are forced to pay to the farmers in India.

12. Sir, you are aware that all the major sugar producing countries, be it Brazil, Thailand, Australia, Mauritius etc. are following the cane price-sugar price linkage formula for the last several decades. This formula has proved to be extremely successful and beneficial to both the farmers and the industry and has helped not only in the growth of the respective sugar industries there, but also helped in improvement of sugarcane yields as well as varietal improvement leading to better sugar recovery. We are aware, Sir, that sugarcane productivity and sugar recoveries are areas that are very close to your heart and you have been advising taking steps for improvement in these areas. Sir, we wish to submit before you today that one of the primary requirements for investments in the sugarcane varietal improvement and better farming activities, is that the sugarcane pricing policy is rationalized which gives adequate incentives to

both the millers and the farmers to invest in the farm and cane. The pricing policy has to necessarily ensure margins for both the cultivators and the sugar producers and there has to be an inbuilt mechanism or an incentive for both the stakeholders for improving the varieties. Therefore, it is our earnest request to you Sir, to please continue to impress upon the States to adopt the Rangarajan Committee formula at the earliest.

13. While decontrolling sales side of sugar sector, the Government did not address the sugarcane pricing policy and this has left the industry in conflict with the farmers and the State Governments. The Central Government advised the State Governments to consider adoption and implementation of Rangarajan Committee recommendations on revnue sharing model. State Governments still continue to fix high State Advised Price for the current sugar season also, which has made the industry unviable. Therefore Sir, immediate steps are needed to be taken to incorporate Dr. Rangarajan Committee's recommendation of revenue sharing formula into the Sugarcane (Control) Order, 1966. This will be a better formula as compared to the earlier practice of profit sharing on the basis of Bhargava formula under Section 5A of the Order.

14. Sir, in order to ensure that the farmers get a reasonable return on the basis of revenue sharing formula, there needs to be a reasonable sugar price which will give a fair return to

the farmers. Therefore, we feel that CACP could suggest a minimum sugar price required to discharge FRP.

SUGAR PRICES

15. Sir, you are aware that we have opened the new sugar season 2013-14 with one of the highest ever opening sugar stocks of around 88.5 lakh tons as on 1st October, 2013. This has happened due to three continuous years of surplus production of sugar. With another season of surplus sugar production in 2013-14, we fear that if exports do not happen, the country would be reeling under extremely high sugar stocks which would cross 100 lakh tons.

16. You will appreciate, Sir, that a carry over of 100 lakh tons of sugar stocks blocks over Rs. 30,000 crore, interest burden on which for one year would amount to anywhere between Rs. 4000-5000 crore. Therefore, there is an urgent need to export sugar, at least to the tune of 40 lakh tons, to ensure that the sugar stocks are brought down to manageable levels. Because of the high surplus sugar stocks, the domestic sugar prices have been continuously falling in the last one year and has depressed to levels substantially below our costs of production across the country. In some States, the sugar mills are losing Rs. 8 per kilo whereas in other States they are losing around Rs. 6 per kilo on sugar produced. However, that most important point to note is that no sugar company is able to make any kind

of margin and it has almost become question of survival for them.

17. Therefore, a financial package similar to what was given by the Government in 2006-07 and 2007-08 to tide over the financial crisis then to ensure that the farmers get their cane price payments, may be given to this ailing sugar industry at the earliest. We understand that there is a serious consideration in the Government on some of these packages being introduced for the industry. We would pray to you Sir, to announce these packages quickly, so that the benefits can be got by the industry at the earliest possible time.

18. These financial packages will certainly help in improving not only the cash flows of the sugar mills, but also ensuring that the domestic ex-mill prices would be enough to cover our costs and that the farmers will get their payments on time. These are essential and, therefore, the industry is very eagerly waiting for the announcements of the Government.

19. Sir, as stated earlier in view of surplus availability of sugar in the country, ex-mill prices in the domestic market have declined by about Rs. 6-8 per kilo over a period of 14 months. In order to maintain reasonable level of sugar prices in the domestic market so as to enable the mills to generate funds for payment of remunerative price to farmers as well as to reduce surplus availability of sugar in the country, the Government should

immediately increase import duty from current 15% to at least 40%, increase the ethanol blending percentage from the current 5% to 10% to accommodate surplus sugar, advance procurement of 20 lakh tons for creating strategic reserve for PDS etc.

20. US Department of Agriculture has been intervening in the market directly to ensure that the domestic prices of sugar in America remains viable for the sugar producers as well as for the farmers growing sugarcane. The USDA market intervention involves buying sugar from domestic producers at depressed prices and the loss is borne by the US Government. USDA then sell it to refineries for conversion to ethanol.

21. Therefore, we feel that a similar kind of market intervention is required to be undertaken by the Government of India to maintain sugar prices within the country enough to ensure that mills are able to pay to the farmers a remunerative price on time. This will not only stable sugar prices but minimal cane price arrears.

ETHANOL

22. Against the policy decision of the Government in November, 2012, a gazette notification was issued mandating 5% ethanol blending with petrol and that the oil companies would achieve the mandatory blending by 30th June, 2013. A tender was

floated by the OMCs which was opened in January 2013, against which 55 crore litres was offered by the industry. However, the oil companies did not show any urgency in finalizing the contracts and took 7 months or so to place orders on the suppliers. Also, the orders were placed only for 40 crore litres and offers amounting to 15 crore litres of ethanol were rejected by the OMCs.

23. The OMCs did not achieve mandatory 5% blending as targeted by the Government by 30th June, 2013. Unfortunately, there has been no worries in the Government on non-achievement of the same. We thought that because of this, there is lack of keenness or urgency on the part of OMCs to quickly finalise the offers against the second tender also opened in August, 2013. Sir, you will note that almost 4-5 months have passed since the second tender was opened. Supplies were to be started from 1st December, 2013, but no orders have been placed yet by the OMCs. This will certainly affect the supplies as well as the confidence of the ethanol manufacturers and suppliers to participate in this ethanol blending programme.

24. Therefore Sir, through you, we solicit that the Government should immediately intervene and instruct the oil companies to place orders for ethanol supplies without any further delay, so that we could start dispatching the ethanol. Otherwise, now that our production has started and will be in a full swing in next

couple of days, we may not find enough storage space if the orders are not placed and despatches are slow.

25. Secondly Sir, we have requested the Government to increase the mandatory ethanol blending from current 5% to 10%, which will generate enough demand for the industry to use ‘B’ heavy molasses into production of ethanol instead of producing more and more sugar, which is today only getting stuck in the domestic market and only depressing the sugar prices further and further. This additional 5% blending will generate a demand for 100 crore litires of ethanol and has the potential of reducing surplus sugar by 17-18 lakh tons of sugar, which is an urgent need of the hour.

26. Sir, the Government may also consider implementation of a flexible ethanol blending policy ranging from 5% to 25%. The percentage could be fixed each year depending on the crop situation and requirement of sugar in the country, as this will reduce surplus sugar production in the years of high cane production and will be effective in conserving foreign exchange by way of reducing net oil import bill, which can happen by diverting surplus cane for production of ethanol.

EXPORTS AND IMPORTS

27. As mentioned earlier, there is a need to export around 40 lakh tons in the next couple of years to ensure that the surplus sugar

stock in the country are brought down to reasonable levels. However, with surplus availability of sugar in the international market also, the sugar prices therein is also depressed and sugar exports from India is unviable at the current global prices. But, there is no doubt that around 40 lakh tons of sugar needs to be pushed out of the country as soon as possible.

28. The Central Government has in the past realized the importance of exporting the surplus sugar and, whenever the need arose, assisted the sugar industry with right kinds of incentives. We feel that if we are unable to export around 40 lakh tons of sugar in the next couple of years, the depressed domestic sugar prices will only mean that the farmers will not get their payment on time. Last season, cane price arrears had crossed Rs. 12,700 crore in March-April 2013. If the current sugar prices don't improve, we feel that the cane price arrears may cross Rs. 20,000 crore in March-April, 2014. Therefore, an early decision on the part of the Government to help in the sugar exports will be beneficial to this ailing sector as of now.

29. Due to reasons not clear to the industry, the Government continues to keep the import duty at a very low level of 15%. This is despite clear representations from all the industry bodies, including the cooperative sugar federation and ISMA as well as all the regional associations including several State Governments, to increase the import duty from the current 15%

to at least 40%.

30. The reason for not increasing the import duty from the current 15% cannot be justified especially when there is so much of surplus sugar in the country and we are finding it difficult to export some of the surplus, either at a loss or with Government's assistance. The current domestic sugar prices are also depressed. and there is no denying that the same needs to be improved to at least covering the costs. Therefore, from either the sugar availability point or the domestic prices, there does not seem to be any justification to allow even 1 kilo of sugar to be imported into the country. Therefore, it is our earnest request to you once again Sir, to recommend and ensure that the import duty on both raw and white sugar is increased with immediate effect to at least 40% to check all imports.

31. The Government allows duty free imports on commodities under the Duty Free Import Authorisation Scheme also known as DFIA scheme. The exporter has to only sacrifice the duty free drawback on exports, which is just about 1.3%, to get an immediate advantage of the full import duty waiver which is currently 15%, and is allowed to import sugar back into the country. When sugar mills are exporting sugar at losses or with Government's assistance, there cannot be a way to allow this sugar to come back into the country at zero import duty under the DFIA scheme. Double benefits of Government's

incentives/assistance on the same exports/imports cannot and should not be allowed under any circumstances. Also as stated earlier Sir, when we are struggling with surplus sugar stocks, why should there be any window to bring in any sugar into the country under any kind of scheme?

32. We, therefore, once again request you to keep the DFIA scheme in abeyance for two years or at least allow the sugar to be imported only after another 24 months and not earlier. The DFIA scheme should not be allowed for the sugar exported with Government's financial assistance, if any.

SUGAR DEVELOPMENT FUND

33. Sir, you will recall that in the last Annual General Meeting, our the then President, Mr. Gautam Goel had highlighted the fact that the Committee of SDF has unilaterally decided to reduce the number of loans to a sugar mill from the earlier 2 loans at a time for modernization and cane development to only one each. This reduction in the number of loans was not discussed with the sugar industry but due to reasons not known, it was decided by the Committee of SDF to reduce the number of loans. We had highlighted on the previous occasion that these two loans are extremely important for increasing the efficiency of sugar mills as well as ensuring cane developmental activities, very essential to improve cane yields as well as sugar recoveries.

34. You had very kindly assured us last time that should the situation of funds improve and the necessity arises, you shall definitely look at increasing the number of loans for modernization and cane development. We would request you to review the earlier decision and allow mills to take two loans at a time for modernization and cane development.

35. The Committee of SDF has also decided that security for the SDF loans would now only be in the form of a bank guarantee or a first charge on the assets of the company. In other words, it means that security, earlier allowed to be given in the form of second charge, is no longer available to the sugar companies for the SDF loans.

36. Sir, you will appreciate that the SDF loans are given to meet the shortfall in the promoter's contribution and, therefore, is treated as a 'quasi-equity' by the banks and financial institutions. Therefore, traditionally as well as currently, most of the banks are reluctant to share the same security with SDF loans since SDF loans are not a part of the debt but a part of the equity. Therefore, denial to the sugar mills to offer a second charge on the assets is and will create problems for a lot of companies to create the charge in the form of first charge pari-passu and this will only deny mills to avail the benefit of the SDF loans. It cannot be appreciated that most of the mills who have repaid SDF loans on time, without any defaults, are still being denied

to give second charge as security, for no fault of theirs. We, therefore, earnestly request you to please reinstate the earlier provision of allowing mills to give second charge too as security for the SDF loans.

PACKING OF SUGAR

37. The industry welcomes the decision of the CCEA to reduce the mandatory use of jute bags for sugar packaging from 40% in the last season to 20% now. However, there is no reason for continuing compulsory packing of sugar in jute bags even to the extent of 20%. You would be aware Sir, due to large gaps in jute bags and the poor quality of these bags as well as lack of enough availability of the bags on time, use of jute bags for packing of sugar does not make any economic sense any longer. Sugar should be totally removed from the compulsory packing in jute bags. Sugar is a highly hygroscopic commodity which suffers in quality if there is any moisture regain, same is not the case for foodgrains. Therefore, we feel that sugar should be totally removed from the Jute Packing and Marking Act and if the Government so feels that there needs to be an assured demand for the jute bags, the compulsory packing should be made 100% for foodgrains. Sugar should be removed from JPMA totally and jute bags so freed up can be used for foodgrains packaging, to allow 100% use of jute bags for foodgrains. We would, therefore, request you once

again, Sir that like previous occasions, Ministry of Food should strongly recommend for removal of sugar totally from packing in jute bags.

ACKNOWLEDGEMENTS

38. Before I end my Presidential address, I wish to acknowledge with a deep sense of gratitude the invaluable advice and assistance that we have continuously received from Prof. K.V. Thomas, Hon'ble Minister of Consumer Affairs, Food and Public Distribution.

39. I would also like to whole-heartedly thank the Hon'ble Agriculture Minister, Shri Sharad Pawarji, who has immense experience and knowledge of this sector and who has always shown his readiness to address our issues and help the industry and its farmers at all times.

40. We are very grateful to the Finance Minister, Hon'ble Shri P. Chidambaram, Hon'ble Shri Anand Sharma, Union Minister for Commerce and Industry, Hon'ble Shri Veerappa Moily, Union Minister for Petroleum and Hon'ble Dr. Farooq Abdullah, Union Minister for New and Renewable Energy who have helped the cause of sugar industry continuously.

41. I am thankful to Shri Sudhir Kumar, Food Secretary for all the help and encouragement.

42. I am thankful to Dr. Ashok Gulati, Chairman, CACP, Shri P.K. Jha, Additional Secretary & Financial Advisor, and Shri T. Jacob, Joint Secretary (Sugar), Ministry of Consumer Affairs, Food and Public Distribution for their help and support.

43. I am thankful to Shri Vivek Rae, Secretary and Shri R.K. Singh, Joint Secretary, Ministry of Petroleum and Natural Gas for their help and guidance.

44. I am also thankful to Dr. Anup K. Pujari, Director General, Foreign Trade for his continued help and assistance.

45. I am very much thankful to Shri Adhir Jha, the Director (SDF) for his help and guidance.

46. I am also thankful to Shri Rajan Sehgal, Chief Director (Sugar), Shri G.S. Sahu, Deputy Secretary (Finance), Ministry of Consumer Affairs, Food and Public Distribution and other officials of the Sugar Directorate and Department of Food for their help and assistance.

47. I am also thankful to Shri Kallappa B. Awade, President, National Federation of Cooperative Sugar Factories Ltd. and Shri M.G. Joshi, Managing Director, National Federation of Cooperative Sugar Factories Ltd. and Mr. Vinay Kumar, former Managing Director of National Federation of Cooperative Sugar Factories Ltd. for their help and assistance extended to

us from time to time.

48. I wish to record my appreciation of our Past Presidents, including Chairpersons of various Sub-Committees and the Regional Associations for their guidance and support. I would like to make a special mention of my colleagues on the Committee, especially the Vice-President Shri Ajit S. Shriram, my immediate Past President Shri Gautam Goel who have always been available for consultation and advice.

49. I wish to record my appreciation for the hard and dedicated work put in by the officers and staff of Indian Sugar Exim Corporation and ISMA.

50. I thank the distinguished guests who have so kindly responded to my invitation and the Media for giving the industry positive recognition and support during the entire year.

May I request you Sir, to kindly inaugurate our proceedings.

★★★★★★