PRESIDENTIAL ADDRESS

BY

Mr. A. VELLAYAN

AT 81ST ANNUAL GENERAL MEETING OF THE

INDIAN SUGAR MILLS ASSOCIATION

ON 16th DECEMBER, 2015

AT NEW DELHI

Respected Hon'ble Union Minister

Mr. Nitin Gadkari,

Respected Food Secretary

Ms. Vrinda Sarup,

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 and media….

Ladies and Gentlemen,

1. On behalf of the Indian Sugar Mills Association, I welcome all of you to our 81st Annual General Meeting.

2. We are honoured by the presence of Mr. Nitin Gadkari, the Hon'ble Minister of Road Transport, Highways and Shipping, who kindly agreed to spare some of his valuable time to inaugurate our AGM.

3. We are all aware that Mr. Gadkari has been very supportive of the Indian sugar industry and sugarcane farmers and has, whenever required put forth the problems and suggested

solutions before the Government including before the Cabinet and Hon'ble Prime Minister. We know that Mr. Gadkari's help has been crucial in all the recent steps taken by the Government to assist the sugar mills and the farmers. Sir, I am very grateful for the same.

4. We all have read in several newspapers and heard Mr. Gadkari on various T.V. channels speaking very strongly in favour of the Ethanol Blending Programme. We know that Mr. Gadkari has been a very strong votary of fuel ethanol as a replacement to petrol, even when he was not the Union Minister. Sir, we believe that the current shape of ethanol blending programme in India is also because of your support and strong recommendations for the same.

5. We are also honoured by the presence of Ms. Vrinda Sarup, Secretary, Department of Food and Public Distribution, Government of India, in our AGM. I think some of us have had an opportunity to interact with her in the past 6 to 7 months and have always found her a very patient listener to our problems and a person who has always responded very positively. We are all aware of the hard work which has gone behind the various policy decisions taken recently, credit for which has to be given to the Food Secretary. On behalf of the Association, I am very thankful to you and your team Madam, including the Joint Secretary (Sugar), for the same.

B. IMPORTANCE OF SUGAR INDUSTRY TO THE ECONOMY AND THE PATH FOR SUSTAINABLE GROWTH

6. Friends, while the sugar industry today may not be a favourite for the stock brokers for the right reasons, we cannot forget the importance of this industry for the Indian economy with fifteen million farmers growing cane on five million hectares, supporting a rural eco system with direct relationship and without middle-men.

7. Thanks to the supportive regulatory frame work in the form of Fair & Remunerative Price, sugarcane is one of the most profitable crops for the farmers. In fact, the profit per acre of sugarcane is higher than that of crops like paddy, wheat, cotton, soyabean, gingelly, black gram, banana, tapioca, etc. With the Government dismantling the Regulatory Mechanism, the sugar prices have been subject to market forces while the cane prices continued to be regulated. Consequently, we have reached a stage last year, when the cane price as a percentage of the sugar price in India, was over 90%, globally it was between 60 to 65% in Brazil, Australia and Thailand. The narrow margins between sugarcane and sugar, is entirely on account of excess supply of sugarcane and consequent sugar production, leading to outstripping of sugar demand for five years in a row. This has resulted in every sugar mill registering losses threatening viability and leading to significant

cane arrears.

8. There is, therefore, an urgent need to bring back profitability to the Sugar Industry and to put it on the path of sustainable growth. Why? Let me give you 5 reasons.

   a) It provides steady growing income for 2 crore farmer households, besides providing job security for 15 to 20 lac people working in the sugar sector.

   b) In enhancing food and energy security. In fact, the cogeneration facilities of the Sugar Industry have a potential to generate 25 bln units of power and all this is through renewable sources.

   c) Increased production of ethanol has the potential to bring in forex savings of 1.7 bln $.

   d) The Indian sugar industry is globally, the second largest producer, valued at Rs.80,000 crore. It supports the Government's "Make In India" initiative.

   e) A fact that is not known is that the sugar industry is a substantial contributor of Taxes. The States and the Central Government earn about Rs.75,000 crore directly and indirectly from the sugar sector every year.

9. The next question is, is it possible to put the Sugar Industry in a sustainable growth platform in India. Yes. Firstly, it is important for the Government to have a five-year Sugar Vision and then the Government must systematically address this Vision through a series of short term and long term measures. Let me start with the key short term measures.

(i) The Ministry of Consumer Affairs, Food and Public Distribution, in September 2015, notified an export quota of 40 lakh tons from the sugar mills for the SY 15-16. The Government has rightly taken the first and most important step and that is, of clearing excess sugar stocks. The opening sugar stocks as of 1st October 2015, is estimated at 91 lac tons tons and if 80% of the targeted 40 lac tons are exported this sugar year, and after considering current year's production – consumption, the stocks can come to about 65 lac tons at the end of the SY. For the first time, exports cover sugar in all forms i.e., raws, whites and refined. The market for white sugar i.e., 150 ICUMSA, is largely restricted to Sri Lanka, Middle East and African countries. It is certainly possible for us to export upto a quantity of 10-12 lac tons of whites this year, with the Government taking proactive steps in pursuing bilateral trade discussions with these countries. This process has started and need to be taken to its logical conclusion. The balance quantity of about 20 lac tons will need to go out as raws.

(ii) Consequent to high cane price, exports are not competitive. It is essential for this SY that the losses are compensated by the Government indirectly, while still meeting WTO regulations. This can be done in the form of a Price Stabilisation Fund and the Government can make a direct transfer from this Fund to farmers. If required, Government can make it conditional for those mills which meet the minimum export, ethanol and other obligations and targets set by it. In fact, a cess on sugar can generate funds for the purpose from within the sector and, therefore, the Price Stabilisation Fund can be a Self Funding Mechanism. The key question is at what level of sugar price the price stabilisation fund should be activated. In my view, given the current FRP, funds for the price stabilisation fund should be collected if sugar price is below Rs. 32/kg., i.e. below the all India average cost of production. This will ensure a viable industry and farmers get their cane price on time.

(iii) The Government, again, is rightly pushing for increased ethanol production with Ethanol Blending Programme, being advocated by the Government. Only 130 of the 500 mills have distillation capacities, and ethanol supplies this year may be expected to be around 125-130 crore litres, which is almost double the quantity supplied last year. Ethanol blending programme has the potential to reduce sugar production, especially now with the Government encouraging diversion of B Heavy Molasses to ethanol. However, the Government needs to quickly work on removal of impediments and restrictive quotas on ethanol and molasses. The Government has recently proposed amending Heading 26 of the 1st Schedule of the Industry (Development & Regulations) Act of 1951 to bring Industrial Alcohol ie. de-natured ethanol, within the purview of the Central Government. However, the fact is that the State Government can indirectly regulate the production of ethanol since permissions are required from the State Government for use of molasses for ethanol production. The Government of India must ensure that the State Governments follow the National Policy and allow free movement of ethanol and molasses. One of the major irritants of Inter State supply of ethanol are the NOCs required from the Excise Department with verifications being done manually. Surely, all this can be made online in Stage 1 and complete removal of Quotas and restrictions at Stage 2. Further, we have export duties in Maharashtra and UP for Inter-State supplies, import duty in most States ranging from Rs.1-3 / litre, VAT in Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu and some Governments like UP and TN even collect administrative charges from the sugar mills for overseeing the molasses movement. Removal of all these duties and operational bottlenecks is, therefore, one critical short term measure that must be progressed expeditiously. There are many other short term measures required, but I have restricted myself to the top three.

10. Let me now go to the 4 long term measures required to build a vibrant Sugar Industry.

    (i) Fixation of Fair & Remunerative Price is indeed a political issue and it requires tremendous political will to dismantle this mechanism. However, the Government must progressively move to dismantle the regulatory price mechanism for sugarcane. But till then, the Government must implement a Revenue Sharing Mechanism whereby the farmers benefit in the event of sugar prices going up but get compensated directly by Government in the event the Revenue Sharing Price is less than the Fair & Remunerative Price. For this purpose, the Government must continue to operate the Price Stabilisation Fund for a few years and utilize the same in times of need when cane arrears build up. This is important as if the miller is adversely affected due to lower sugar prices, the farmer is automatically affected, and therefore the need for the price stabilisation fund.

(ii) To encourage investment in distillation capacities – it is certainly possible for us to double the number of sugar mills having distillation capacities from the present 130 to about 250. Government must provide financial support through the Sugar Development Fund for the purpose. In Brazil today, the ethanol proportion in petrol is 27% and pure ethanol can still be mixed over and above this as per choice of the customers. Almost 58% of the sugarcane goes for ethanol production and only 42% to Sugar. In India today, only 3% ethanol is blended with petrol. This needs to be raised to 10% in the next two sugar years.

(iii) Due to excess sugar production in the last 4 years, the sugar sector has reached a somewhat untouchable status with the banking fraternity. My plea to the Government is that the sugar sector be declared a priority sector and be made eligible for concessional rate of finance.

(iv) One of the challenges faced by the sugar sector is cash flow and the States of Gujarat and Maharashtra are successfully following a system of cane price payment in 2 / 3 instalments. We would request the Government to examine Gujarat model of cane price payment seriously and implement the same for other States. This will not only be beneficial for the mills but will also ensure that all farmers get some part of the FRP on time as compared to current situation where some farmers get 100% FRP and several others get nil.

11. The Government of India with timely interventions on both short term and long term measures can play a vital role in Rural “development” and contribute in building a vibrant Sugar Industry.

C. SUGAR PRICES

12. During 2014-15 sugar season, the ex-mill sugar prices had fallen to the lowest levels in the last 6 years. That was mainly because of 5 years of continuous surplus sugarcane and sugar production in the country, resulting in huge build up of sugar stocks. The global market was also having high carry forward surplus stocks, because of which international prices were also very depressed. India could not export the surplus sugar mainly because of global sugar prices and high costs of production of sugar resulting from very high sugarcane prices.

13. This has resulted in increase in the sugar stocks during 2014-15 sugar season. As compared to an opening balance of 75 lac tons of sugar at the beginning of 2014-15 sugar season i.e. on 1st October 2014, we increased our sugar stocks held by the sugar mills to 91 lac tons at the end of the season i.e.

30th September, 2015.

14. Despite the Government's assistance on sugar exports, which though was announced very late in the season on 27th February 2015 for export of 14 lac tons of raw sugar, the industry could export just 5 lac tons of raw sugar under the scheme. Some sugar mills, however, took the initiative to dispose of some of the surplus, incurring a loss on their own for another 6 lac tons which was mostly in the form of white sugar.

15. The surplus sugar of 35 to 40 lac tons over and above the normative opening balance as on 1st October 2015 and an expected good sugar production again in 2015-16 season, which will be more than the domestic requirement, is keeping the domestic sugar prices depressed. In the recent couple of months, the domestic sugar prices have seen an improvement from the lowest levels of an all India ex-mill price of Rs. 19 to 20 per kilo to Rs. 25 to 27 per kilo, but these prices are still substantially lower to our cost of production by almost Rs. 4 to 5 per kilo. It is also important to mention to you Sir that these prices are still lower to the prices which were prevailing at the same time last year. In other words, we have still not been able to recover to the levels that we have seen 10 to 12 months back.

16. You would be aware that 80 to 85% of the revenue realization of a sugar mill comes from the revenue realized from sugar sales. The balance 15 to 20% would be on account of by-products. Sir, what I am trying to submit before you is that sugar will continue to the most important product for a sugar mill, and, therefore, we need to ensure that the current ex-mill sugar prices improve to allow us to at least cover our costs of production which, on an all India basis, would be around Rs. 32 per kilo. Till this happens, there is always a risk that cane price of farmers may not get fully paid on time.

D. BLENDING OF ETHANOL WITH PETROL

17. The sugar industry is highly appreciative of the Government steps taken in the last one year to improve supplies and off-take of fuel ethanol for blending with petrol. Adoption of the fixed pricing policy for ethanol, which was adopted by the Government from January 2015, is a step in the right direction. It gives a lot of confidence to the sugar mills on the pricing front and at the same time substantially reduce the time taken between submission of offers and finalization of contracts. There is no delay because of negotiations on the price front.

18. The industry is also thankful to the Government on the decision taken to remove excise duty from fuel ethanol and

also make cenvatable the duty paid on molasses used to produce ethanol. This should improve returns to the ethanol suppliers by around 10% and, therefore, should encourage production and supplies. The oil companies also invited offers for blending ethanol with petrol at the rate of 10% at all the depots across the country. It clearly indicates the resolve of the Government to move towards achieving 10% substitution of petrol by ethanol which has given some confidence to the ethanol manufacturers about the growing market for their product. We can see some manufacturers trying to take steps towards increasing their distillation capacities and some others trying to build up distilleries.

19. During 2014-15 sugar season, the contracts for ethanol supplies were finalized for 80 crore litres which were entered into during the whole season against 4 or 5 invitations by the OMCs. During the current sugar season, for which supplies will have to be made between December 2015 and November 2016, OMCs have issued only one invitation till now and I am happy to mention that the industry responded very well by offering 147 crore litres, against which the OMCs could finalise contracts for 104 crore litres. The increase is already by 24 crore litres over last year and we expect this to only increase more and more in the other EoIs during the season. As against the blending of around 2.5 to 3% last year, the blend is expected to touch 5% or more

during 2016-17 SS.

20. There are several impediments which continue to restrict ethanol supplies and prohibit smooth movement of the same. Most of these impediments are because of controls exercised by States. Some of the State Governments levy export and import duties on Inter-State movement of ethanol, which in some cases are upto even 8% of the final price realization. Since the fixed price for ethanol includes taxes and duties on account of the suppliers, the net realization to suppliers reduces and, therefore, discourages them to participate in supplies to these States.

21. In addition to the above problem, there is a requirement of obtaining excise permissions for moving denatured ethanol from a distillery to the oil depots. The problem becomes acute when permissions have to be obtained from 2 States when there is movement of ethanol between States. The delays in excise permissions sometimes is to the extent of 30 to 40 days also. Some of the States continue to insist on issuing the permissions manually, which means movement of the paper physically between 2 States, which currently has to be done by the sugar mills themselves.

22. Thirdly, there are some States like Tamil Nadu, which do not give permission to make ethanol at all. During the last

season, Tamil Nadu mills had contracted for supplying almost 4 crore litres of ethanol but could not supply even 1 litre because the State Government did not give them permission. Similarly, the Bihar Government also allows only 5% of molasses to be used for production of ethanol.

23. Sir, we need to solve these problems which the mills are facing at the time of getting permissions and moving ethanol from distilleries to OMCs. Another issue which the Central Government needs to address is on moving ethanol over longer distances. The fixed price decided by the Cabinet in December 2014, has 3 slabs and generally covers distances upto 450 kms. About 80% of the ethanol is produced in 3 States, which have to be moved over long distances sometimes over 1000 kms also. In addition to the extra burden on inter-state taxes and duties, this extra burden of transport cost for beyond 450 kms, is discouraging ethanol suppliers to offer ethanol to States far away, like Odisha, West Bengal, Jharkhand, Madhya Pradesh, Rajasthan etc. Sir, this needs to be taken up on priority, which will improve ethanol supplies.

24. Here Sir on a lighter note, if prohibition can be imposed in most States as it is being proposed in Bihar, then the Ethanol policy will come out in flying colours.

E. NEED FOR FINANCIAL RESTRUCTURING OF THE SUGAR SECTOR

25. The sugar industry has been going through the worst financial crisis ever. It has incurred losses continuously in the last few years. The losses have been financed through extra loans by the banks or by the Government. Most of the assistance which has come from the Government, has been to pay cane price to the farmers, but has only added to the debt of the sugar industry.

26. The debt burden of the industry increased by more than 3 times in just about 5 years and currently for the private and cooperative sugar mills, the debt burden would be around Rs. 50,000 crore. Several banks are hesitating from extending loans to the sugar industry. A lot of sugar mills have become sick and several others have become NPA accounts. The situation is so bad that more and more mills may very soon become sick or may be declared NPA accounts.

27. The burden to service the debt is so large now that several sugar mills are either defaulting on the repayments, or are unable to pay cane price to the farmers on time. There is an urgent need to restructure the outstanding loans of sugar mills including the working capital loans. The need has never been so important ever, as is now.

28. The loans given by the Government to clear cane price in 2014 will be due for repayment from January 2016. This will be in addition to the repayment of term loans, SDF loans as well as working capital loans. We understand that the Indian Bank Association is examining the current financial situation of the sugar industry. Sir, through you, we wish to submit that the Government should be impressed upon to restructure all the outstanding loans of the sugar industry including the loans from the banks, financial institutions, SDF, loans under SEFASU etc., to allow repayment in the next 12 years including a moratorium of 2 to 3 years. A part of the working capital loans may be converted into medium term loans. It will allow the sugar mills to pay cane price and allow them time to revive from the current difficult financial condition that they are in.

29. Sir, we would request that this should be taken up as the top most priority of the Government, as sugar is an important sector.

F. EXPORT OF SUGAR

30. The Government has fixed a target of 32 lac tons of sugar exports during 2015-16 SS and has distributed the same as an export quota for each sugar mill in the country. It is a challenging target and the industry is trying its best to respond well.

31. India has been exporting mostly to Sri Lanka, Middle East and East African countries and the exports are mostly in the form of white sugar. The biggest importers in the world, namely, China, Indonesia, Bangladesh, Malaysia etc. are currently not importing any sugar from India. That clearly means that India has almost no access to more than 10 million tons of sugar imports. The Government decided to take steps to explore some of these markets and find ways to negotiate with the respective Governments to give preferential treatment to Indian sugar. We are thankful to the Government for the same. We also understand that these are a time consuming process, but the important thing is that the process has begun and the concerned Ministries, namely, Food Ministry, Commerce Ministry and External Affairs Ministry are taking keen interest in the same. The respective Indian embassies have been responding very well, which we acknowledge with gratitude.

32. On our visit to Indonesia, we realized that the Indonesian Government gives preference to Thailand sugar by allowing a much lower import duty for the sugar from Thailand. We were told that this is because of the understanding under ASEAN. We have a similar regional cooperation under SAARC and also have an agreement called SAFTA amongst the SAARC countries. However, sugar has been kept out of SAFTA, because of which, the import duties in two important importing countries in this region, namely, Bangladesh and Sri Lanka, is

similar for all countries including India.

33. Bangladesh and Sri Lanka together import around 2.2 million tons of sugar annually which is substantial. There is need to have a preferential import duty for Indian sugar by these two countries, similar to what Indonesia offers to Thailand. We understand that the Government is aware of this and is working to achieve the same. We would request you Sir, to use your good offices, so that this happens as quickly as possible, to help us export a part of the targeted 32 lac tons this year to Bangladesh and Sri Lanka.

G. ACKNOWLEDGEMENT OF GOVERNMENT ASSISTANCE AND OTHER ACKNOWLEDGEMENTS

34. As has been mentioned above by me, the industry is very grateful to the Government for appreciating the financial crisis which the industry is passing through and taking some steps to alleviate the situation, like, fixed price for ethanol, removal of central excise duty on ethanol and duty paid on molasses to be cenvatable, interest free loan of Rs. 6000 crore to sugar mills to pay cane price etc.

35. The latest decision of giving production subsidy for payment of a part of the cane price fixed by the Government as FRP, has been received by the industry positively. We welcome

the step of the Government to bear a part of the burden of the FRP fixed by the Government itself.

36. The industry is satisfied by the fact that the Government, for the first time ever, has recognized and accepted the fact that at the current sugar prices, the industry is unable to afford to pay the FRP to the farmers and, therefore, the Government has come forward to bear a part of the burden and give Rs. 4.50 per quintal of sugarcane directly to the farmers.

37. Even though the loss of the industry is higher and the industry was generally expecting a higher assistance, but the concept and idea to participate in the payment of cane price of the farmers and accept the responsibility of the FRP is a very big and bold step taken by the Government.

38. It is also a step towards filling up a part of the gap between what the industry is able to pay to the farmers as per revenue sharing formula and what the Government wants the farmers to get as FRP. We would, however, pray to the Government to formalise a structure, wherein this becomes a permanent feature, such that the CACP recommendations are accepted and the gap between what the industry is required to pay as per the revenue sharing formula and FRP that the Government wants to give to the farmers, is automatically sourced from a Price Stabilization Fund or any other Fund that

the Governments wants to create. We feel that this is the best solution for the cane farmers, industry and the consumers. It will stabilize the cane price, ensure that the farmers get their payment on time, the industry becomes viable and consumers get sugar at the price which is reasonable. This will also make the sugar industry competitive and they can export sugar to control the sugar stocks.

39. Before I end my Presidential Address, I wish to acknowledge with deep sense of gratitude the positive policy decisions and financial assistance that the sugar sector has received continuously from the Hon'ble Prime Minister.

40. I wish to also thank the Hon'ble Minister of Road Transport, Highways and Shipping Mr. Nitin Gadkari and Hon'ble Minister of Consumer Affairs, Food and Public Distribution Mr. Ram Vilas Paswan for their continued support and help for us.

41. I would also like to thank the Hon'ble Finance Minister Mr. Arun Jaitley, Hon'ble Agriculture Minister Mr. Radha Mohan Singh, Hon'ble Minister of Petroleum Mr. Dharmendra Pradhan, Hon'ble Minister of State for Commerce and Industry Ms. Nirmala Sitharaman and Dr. Sanjeev Ballyan, Minister of State for Agriculture, for their understanding and help.

42. I am also thankful to Mr. Sharad Pawar, former Agriculture

Minister for his support to the sugar industry.

43. I am very much thankful to Mr. Nripendra Misra, Principal Secretary to Hon'ble Prime Minister, Dr. P.K. Mishra, Addl. Principal Secretary to Hon'ble Prime Minister and Mr. Anurag Jain, Joint Secretary, Prime Minister's office for their support and guidance.

44. My special thanks go out to Ms. Vrinda Sarup, Food Secretary, Mr. Sudhir Kumar, former Food Secretary, Mr. K.D. Tripathi, Petroleum Secretary, Ms. Rita Teotia, Commerce Secretary and Mr. Anup Wadhwan, Director General, Foreign Trade for all the encouragement, their patience and positive attitude towards our problems and demands.

45. I am thankful to Mr. P.K. Jha, Additional Secretary & Financial Advisor, Ministry of Consumer Affairs, Food and Public Distribution for his help and support.

46. I am also thankful to Mr. Prashant Trivedi, Joint Secretary (Sugar), Department of Food and Public Distribution, Mr. Sandip Poundrik, Joint Secretary Ministry of Petroleum and Natural Gas, Mr. Santosh Sarangi, Joint Secretary, Ministry of Commerce, Dr. Ashok Vishandass, Chairman, CACP and Mr. Nagaraj Naidu, Director, Ministry of External Affairs for their help and guidance.

47. I am thankful to Mr. G.S. Sahu, Chief Director (Sugar) and Director (Sugar Policy), Ministry of Consumer Affairs, Food and Public Distribution and other officials of the Sugar Directorate and Department of Food for their help and assistance.

48. I am thankful to Mr. Dilip Dattatray Walse Patil, Chairman, National Federation of Cooperative Sugar Factories Ltd., Mr. Kallappa Awade, former Chairman, National Federation of Cooperative Sugar Factories Ltd., and Mr. M.G. Joshi, Managing Director, National Federation of Cooperative Sugar Factories Ltd. for their help and assistance extended to us from time to time.

49. I would like to express my thanks to Mr. Adil Zainulbhai and his team at McKinsey for putting together an independent report titled "Revitalizing the Sugar Industry in India" which served as an informative guiding document both for Government and the Industry.

50. 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 Tarun Sawhney who have always been available for consultation and advice.

51. I wish to record my appreciation for the hard and dedicated work put in by the officers and staff of ISMA. I also thank the officers and staff of Indian Sugar Exim Corporation for their support and assistance.

52. 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.

53. Sir, I thank you for your patience in listening to my rather long speech but it has been quite a long year and I have learnt a lot during this year in my role as ISMA President and without all your help I would not have made any progress. With this, I request you to kindly inaugurate our proceedings.

★★★★★★