







The Indian Sugar Industry

Presented to:

Honorable Finance Minister,
Government of India

isma
indian sugar mills association

Overview of Sugar Industry

- 2nd largest producer and largest consumer of sugar in the world
- **50 million cane farmers and dependants**
- **Rs.80,000 crore sugar industry**
- **Estimated cane price payment for 2011-12 is Rs 55,000 crores**
  - Paid to farmers directly without involvement of any middlemen
- Located in rural heartland, directly contributes to rural economic development and employment
- 65% of sugar consumed by bulk consumers viz. beverage, biscuit, confectionery etc. manufaturers

isma
indian sugar mills association

Challenges Facing the Indian Sugar Industry

- Irrational cane pricing: driven by politics
  - North India and Tamil Nadu (about 50% of production) are governed by State Advised Prices
  - **Sustained sugar production and avoidance of the infamous sugar cycle is possible only if remunerative cane price paid on time**
- Government controls on domestic sales and exports make commercial planning very difficult
- Erratic financial returns have made the business less bankable

isma
indian sugar mills association

Cane Price Arrears of Farmers

- 2007-08 arrears peaked at Rs.5607 crore on 30 April 2008
- 2010-11 arrears reached Rs.4862 crore on 15 Feb 2011
- Arrears in current season may touch Rs.8000 to 10000 crore
  - Mainly because of substantially high cane price/SAP fixed by States
- Arrears are the main reason for
  - Reduction in cane acreage, shortfall in cane and sugar production
- Rs.7000 crore of subsidy and other financial assistance given in 2007-08 by Central Government to clear cane arrears

Cane Price Arrears of Farmers can be controlled

1. Removal of levy sugar obligation from sugar industry

- **Mills are obligated to supply 10% of their production as levy sugar**
- At highly discounted price
  - 60% of cost of production; 2/3rd of open market price
  - **Yearly loss to mills of around Rs.2500-3000 crore**
- Only industry in the country to bear financial burden of a social welfare programme of the Government

Removal of levy sugar obligation from sugar industry

<u>Benefits of removal of obligation from mills to supply levy sugar</u>

- Better and timely payment to farmers
- **Reduction in cane price arrears by Rs.2500 to 3000 crore**
- This will not increase the open market price of sugar
- Mills become commercially more viable
- Reduces carry of levy sugar obligation by 3 years as at present, reducing sugar inventory and blockage of working capital

Our proposal ……..

<u>Convenient and more efficient procurement & delivery of levy sugar , more acceptable to States</u>

- FCI or any Central agency to float open tenders amongst sugar mills for price and supply of levy sugar to States
- Sugar mills to deliver levy sugar **FOR destination** in the States
  - **No botheration to States: sugar delivered at their doorstep**
- Payment to supplier mills
  - By States for basic price of Rs.13.50 per kilo (present practice)
  - By FCI/Agency for transportation etc. (reimbursable by Food Ministry, similar to wheat/paddy etc.: addl. burden of Rs.2000 crore)

Cane Price Arrears of Farmers also can be controlled

2. By the Ethanol Blending Programme of Govt. of India

- CCEA approvals of Oct 2007, Nov 2009 and Aug 2010
  - 5% mandatory ethanol blending & provisional price of Rs.27/litre
  - Appointed Dr Saumitra Chaudhuri Committee for final price formula
- Chaudhuri Committee recommended in April 2011 linking ethanol price to domestic price of petrol : **Government approval awaited**
  - Supplies being made at provisional price of Rs.27 for last over one year
    - Even though current export price of ethanol is Rs.36 per litre
    - And price of alternate products like alcohol etc. is Rs.34 per litre

Benefits of final ethanol price linked to petrol price

- Will ensure stable price for molasses and **thereby reduce cane price arrears**
- Ethanol price will always be lower to domestic petrol price
  - OMCs would save Rs.20 per litre of ethanol
  - Translates into Rs.1 per litre of 5% ethanol blended petrol
  - Price of petrol can be reduced by Re.1 per litre
- Requirement at 5% blending is 100 crore litres: it will save Rs.2000 crore for OMCs or will reduce Govt subsidy by Rs.2000 crore annually
- **Final pricing policy of ethanol will attract/ encourage more ethanol supplies, blending can go upto 10% (BIS standards already fixed) and will save Rs.4000 crore for OMCs/Government**

isma
indian sugar mills association

Industry request

- Chaudhuri Committee recommendations linking ethanol price to petrol price be approved quickly **(9 month delay already)**
- 'Declared Goods' status for denatured ethanol to facilitate inter-state movement
- **The Rs.2000 crore savings to OMCs/ Government could be used to finance the additional subsidy burden to Government for direct procurement of levy sugar**

isma
indian sugar mills association

Cane Price Arrears of Farmers can also be controlled

3. <u>Through more exports: required soon</u>

- With higher cane price this year, arrears could still be higher, unless cash flows improved or bank loans increased
- Exports will give cash flows to pay to farmers
- So permission for 30 lakh required by March 2012 i.e. before end of peak crushing

Early Exports ……

- Around 40 lakh tons surplus sugar in 2011-12
  - Govt. estimates puts the surplus at 30 lakh tons
- 10 lakh tons of export gives cash flows of Rs.3000 crore to sugar mills: reduces cane price arrears to that extent
- Ex-mill sugar price below cost of production for over 1 year
- Indian sugar exports just about viable by Rs.1500 per ton or so
  - Need for a more aggressive export policy to improve cash flows and support domestic sugar prices above cost of production

isma
indian sugar mills association

Problems of high sugar stocks/ surplus

- Depresses domestic price: Financial losses to sugar industry
- Cane price arrears build up
- Un-harvested cane in fields (cane burning, farmers unrest)
- **Requirement of higher working capital**
  - Average interest rate of 14-16%, adding to high cost of production
  - Peak season fund requirement in March-April (Rs.45,000 crore)
    - **Cane arrears: may go upto Rs.8000 to 10000 crore this year**
  - **Problems of bank loan repayment and defaults**
  - Priority sector lending: at 10% interest rate

isma
indian sugar mills association

4. Cash Flow and Regulated Monthly Releases

- Cash flow planning/ freedom not with sugar mills, but decided by Govt. through monthly sugar sale quota
- Release mechanism only distorting market, affects cash flows and timely cane payment to farmers
- Market forces should be allowed to determine price and requirement of sugar, like all other commodities/ products in the country
- In case of even edible oil, where over 50% requirement is imported, market forces allowed to determine demand and price
  - In case of sugar we often export, or import just about 10% of requirement

5. Cane Price linkage to Sugar Price/ Realisation

- Will reduce cyclicality in cane and sugar production, which will
  - Benefit all farmers, millers and consumers by ensuring steady supplies and stable price
  - Improve bank confidence and ensure continuous availability of bank credit
- Such a system prevalent in Brazil, Thailand, Australia, Mauritius etc. including African countries
- Nanda Kumar Committee recommended a formula in 2010

PMO appointed 4 member Dr. Rangarajan Committee in 2010, including Chief Economic Adviser: Report still awaited

isma
indian sugar mills association

Summarizing our requests ……..

- **Request for immediate action**
  - Removal of obligation on sugar mills to supply levy sugar for PDS
  - Ethanol Blending- Final price/ approval of recommendations of Chaudhuri Committee
  - Management of 3-4 million tons of surplus sugar in 2011-12

Other measures to make this important agro industry viable

- Further reform the industry, in phases:
  - Abolition of monthly regulated release mechanism
  - Cane price linkage to sugar price
- Priority sector lending to sugar industry

isma
indian sugar mills association

Thank You