POLICIES & CONTROLS IN SUGAR SECTOR IN INDIA

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Flow of presentation

- Policies and controls on sugar sector
- Policies adopted in the past to solve demand-supply mismatch
- Implications of the policies & controls on sugar sector
- Suggested short term and long term policies

Controls prior to 2013

- Sugar side
  - Regulated release mechanism
  - Levy sugar supplies for PDS
  - Packaging in jute bags
  - Tariff rate and quotas on export or import
- Sugarcane side
  - Minimum distance between two sugar mills
  - Cane area reservation
  - SMP/ FRP for sugarcane price (North Indian States have SAP)

Post 2013 controls

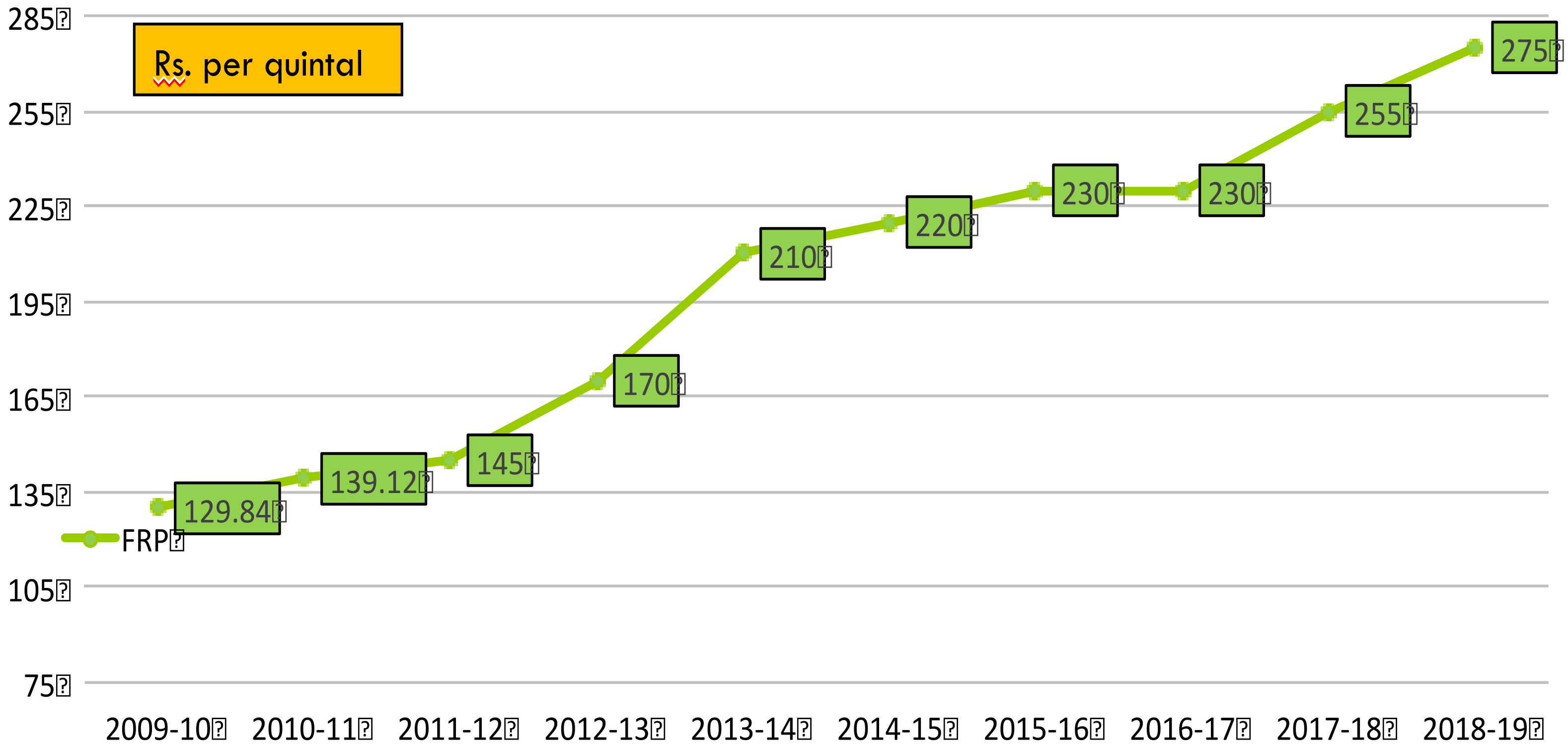
- Government controls removed on sugar sales
  - No levy sugar supplies by mills at discounted prices
  - No regulation on monthly sugar sales/ quota by each mill
- So what were/ are the controls left??
  - All controls on sugarcane continue
    - North Indian States continue to fix SAP much above FRP
  - And export-import controlled through tariff rates and quotas

2018: Old control back, along with a new one

- Maximum monthly sugar sale quota on mills re-introduced from June 2018
- Minimum ex-mill sugar price from June 2018
  - @ Rs.2900 per quintal
- **So, in addition to sugarcane price, quantity of sugarcane and area, quantum of monthly sugar sales and price for the same are decided through Government controls**

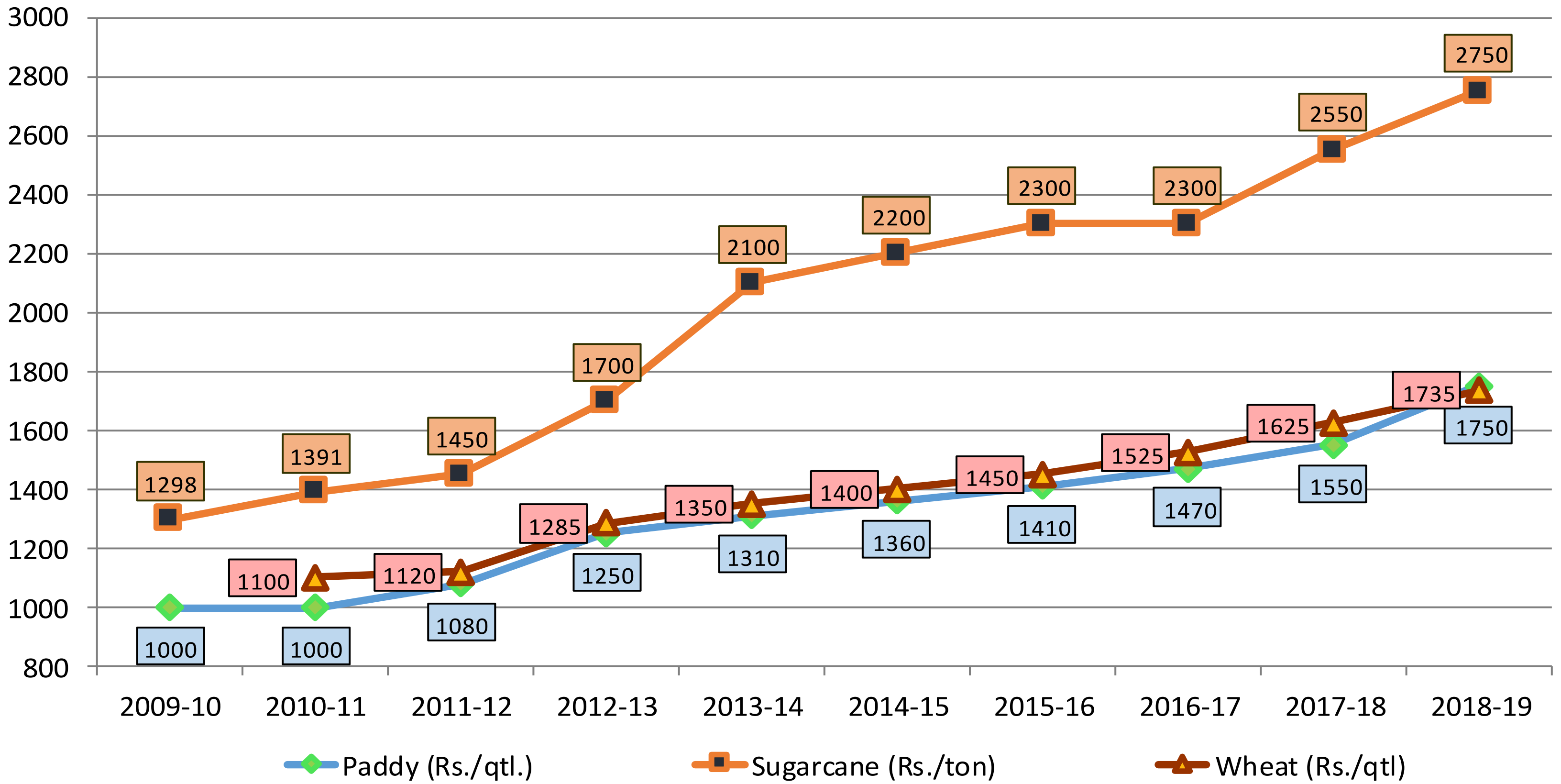
Implications of Government controls

FRP for sugarcane increasing very fast



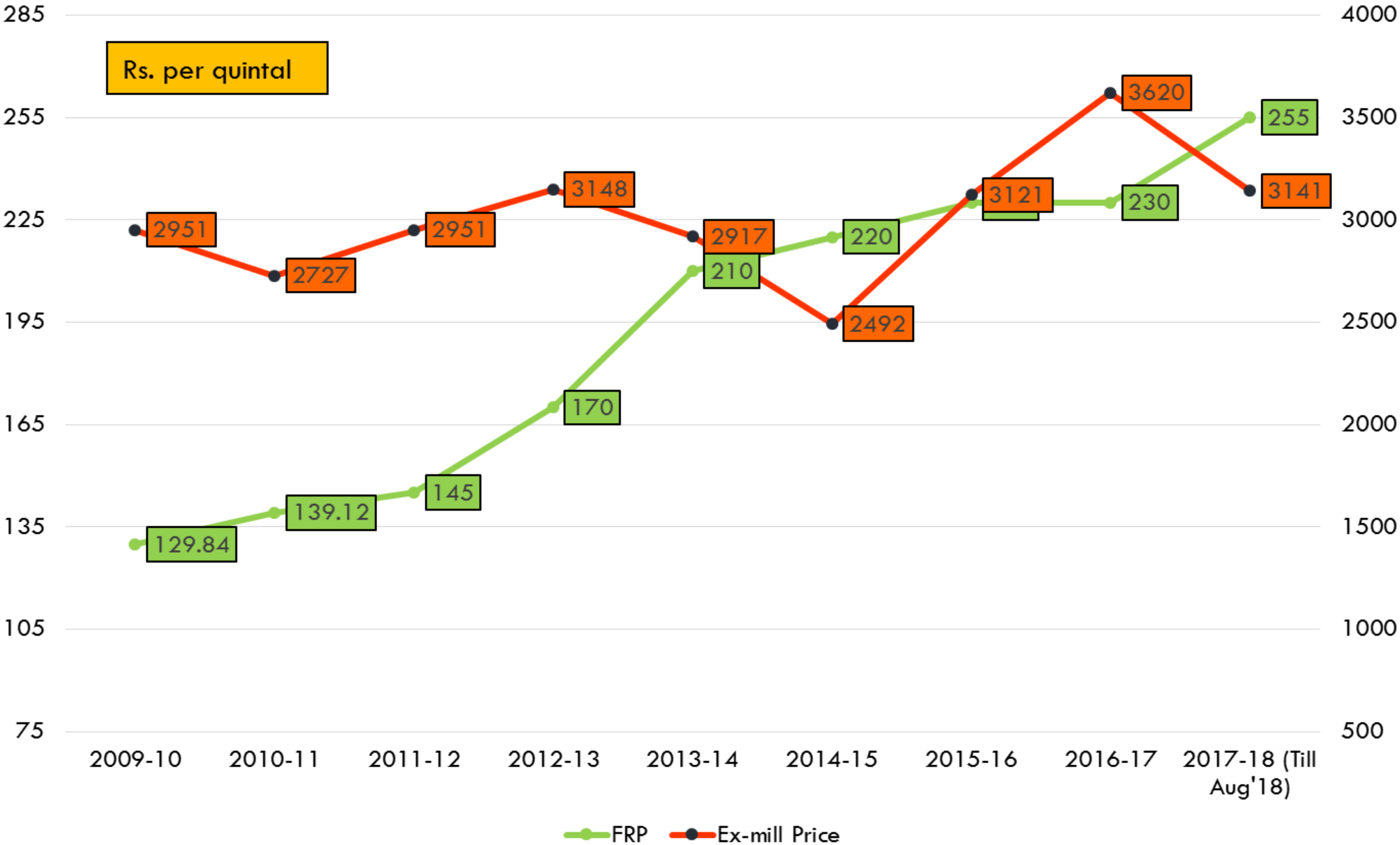
- Average FRP of Rs.297 per quintal, in 2018-19 SS, will be 92% above A2+FL cost (Rs.155 per quintal).
- The returns to farmers would be higher if the increased yield of 25% in last two years alone (will be even more for UP, Maharashtra, Karnataka etc.) is considered

Remuneration to farmers from sugarcane highest

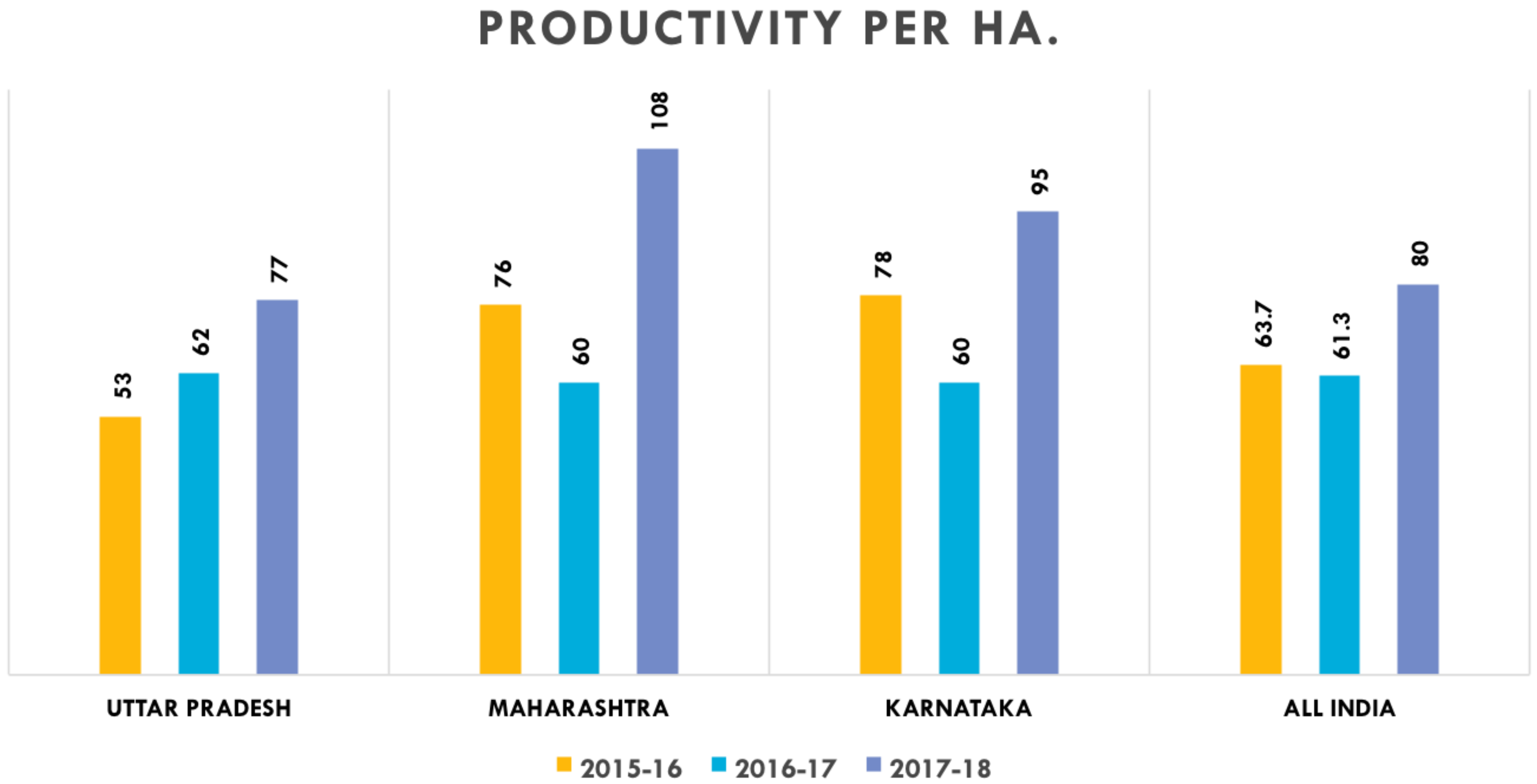


- **In report for 2018-19 FRP, CACP has stated that net returns of sugarcane will be 245% higher than (paddy + wheat) and 252% higher than (cotton + wheat)**
- **Therefore, even though FRP payment is delayed, farmers get more than other crops even if part of FRP is paid on time (rest can be taken as a bonus)**

Average ex-mill price has not kept pace with FRP

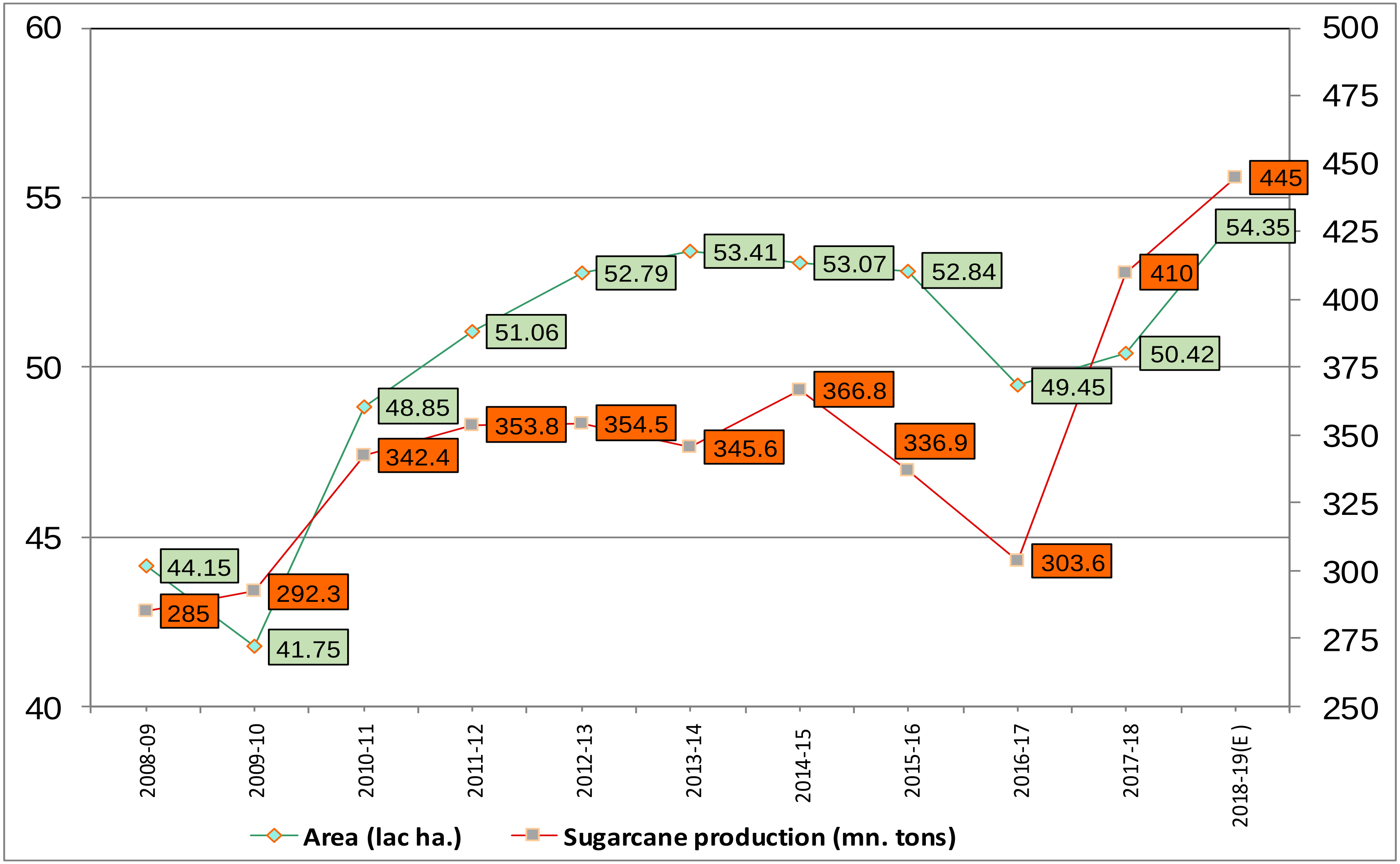


Farmers' incomes increased due to higher productivity

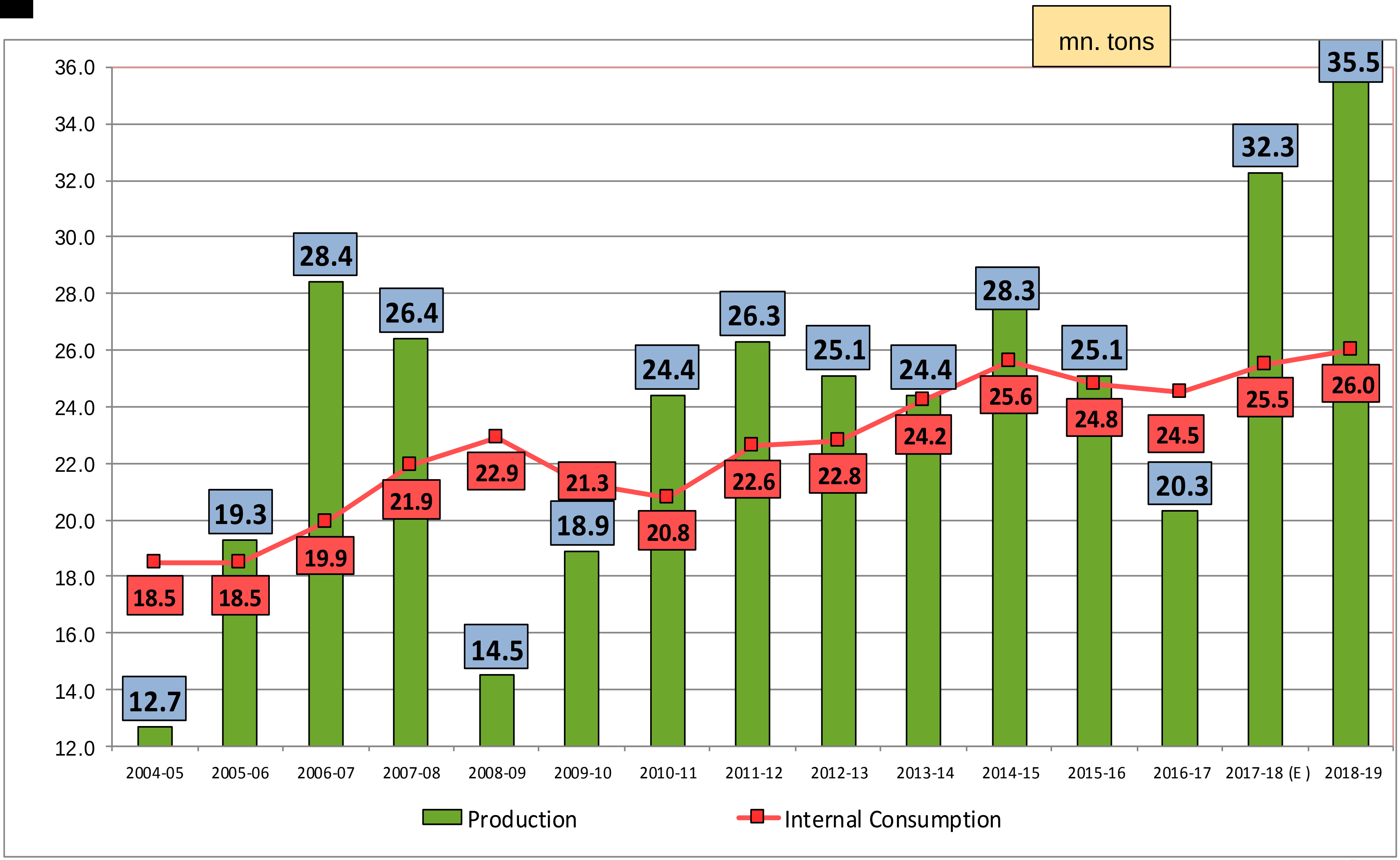


- **Increase in farmers income due to higher productivity has also been accepted by CACP in its 2018-19 report, but not included in FRP calculation**

Sugarcane acreage and production increase



Surplus sugar, reaching record levels



Past Government supports

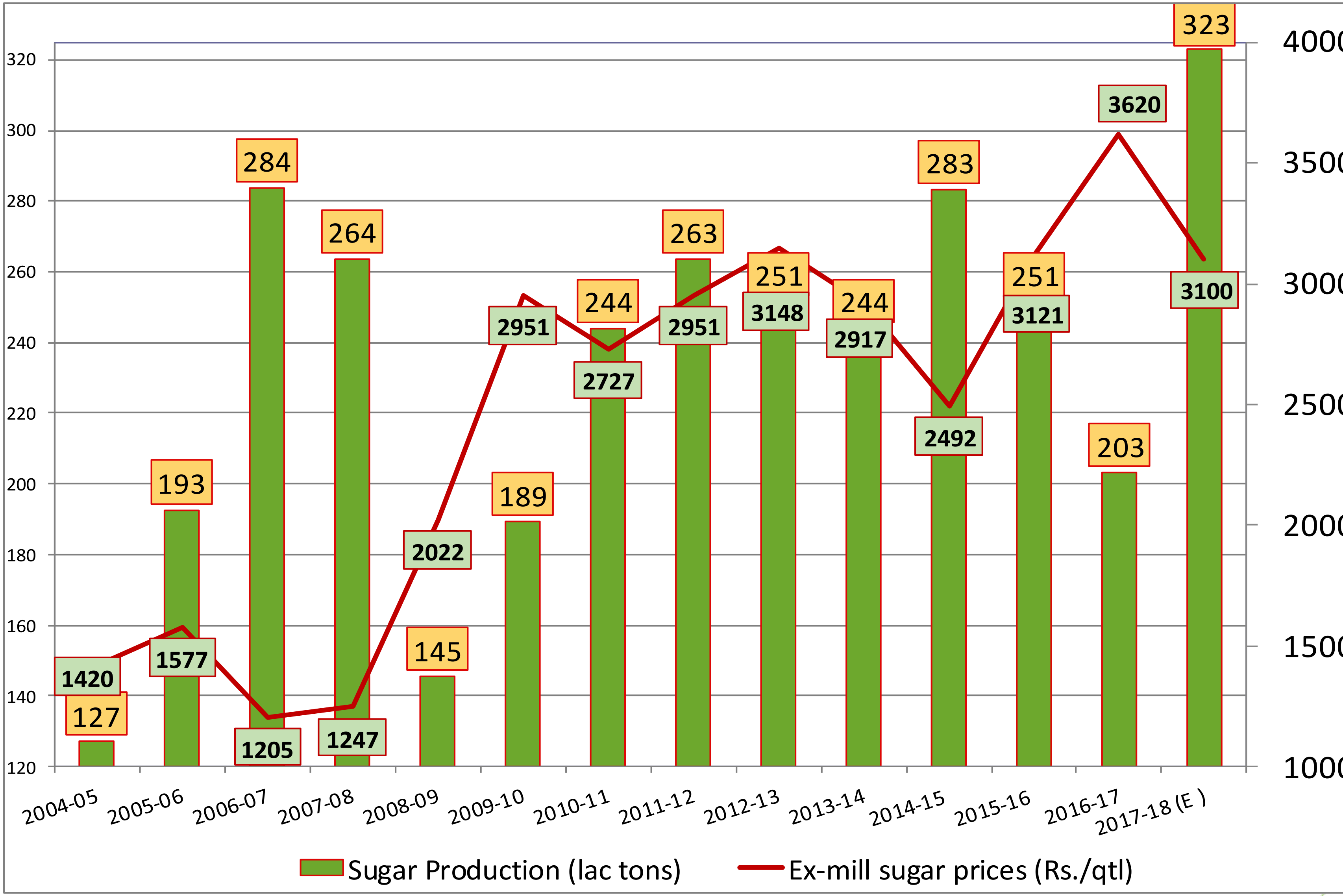
- Created buffer stock in 2006-07 & 2007-08 SS and provided subsidy for storage and insurance charges.
- Reimbursed internal transport, ocean freight charges on sugar exports in 2006-07 and 2007-08 SS.
- Imports allowed under AAS in 2008-09 and 2009-10 when there was deficit.
- Exports allowed in tranches (5 lac tons each) in 2010-11 and 2011-12 SS.
- Incentives on exports given in the form of marketing and promotion services in 2013-14.
- SEFASU and soft loans provided to sugar industry and interest subvention was borne by Government in 2007 & 2014.

Recent policies to import-export sugar

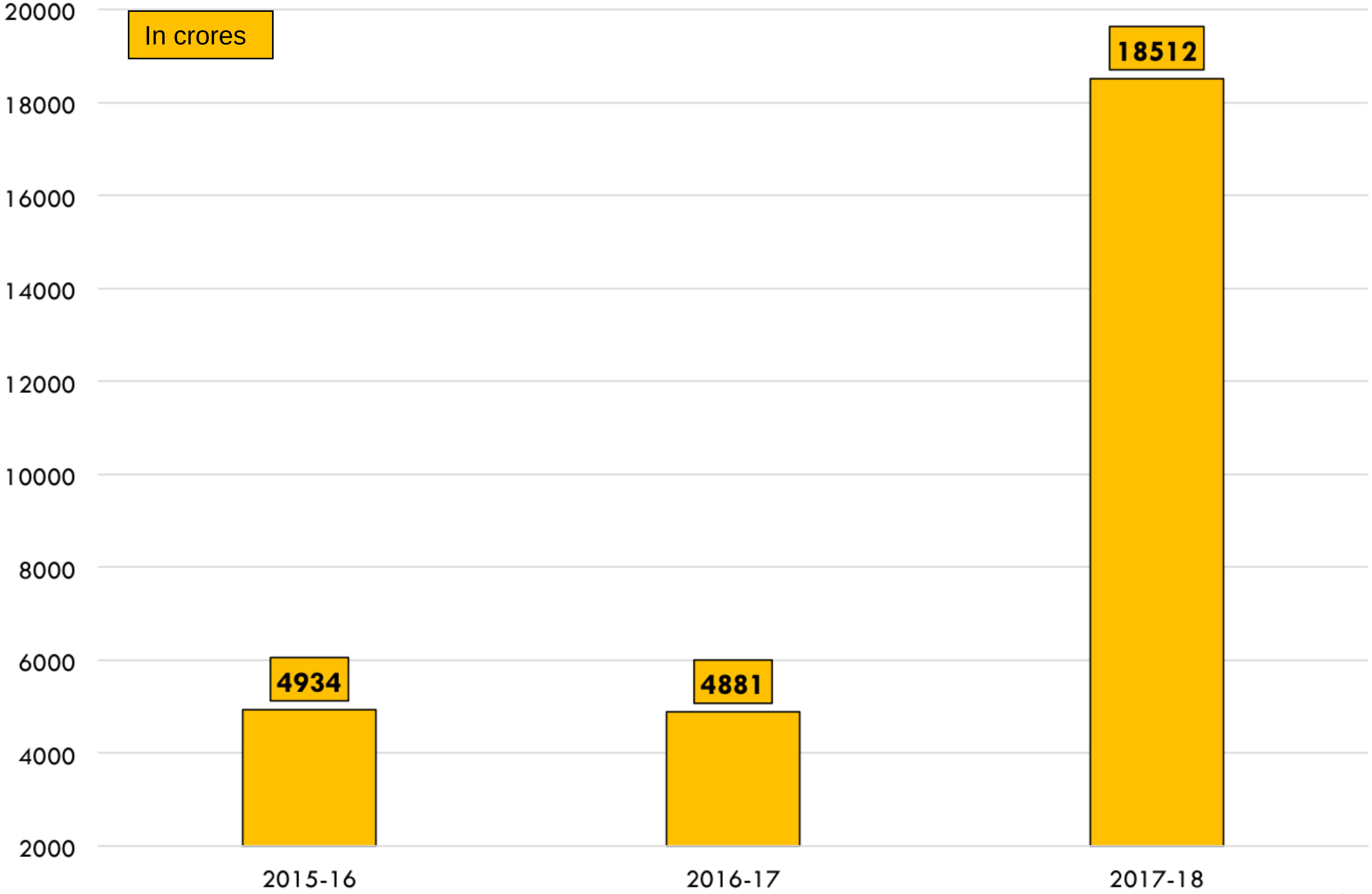
- To tackle the surplus sugar in 2015-16
  - Export quotas for each sugar mill under 40 lakh tons of MIEQ
  - Production subsidy on cane as part of FRP given, which helped reduce losses, and also indirectly a part of the export loss
- To tackle deficit due to drought in 2016-17
  - Allowed raw sugar imports in specific regions by sugar mills only
- To tackle the surplus sugar in 2017-18
  - Export quotas for each sugar mill under 20 lakh tons of MIEQ
  - Production subsidy on cane as part of FRP being given, which helped reduce losses, and also indirectly a part of the export loss

Negative impacts of the controls & policies on the sector ??

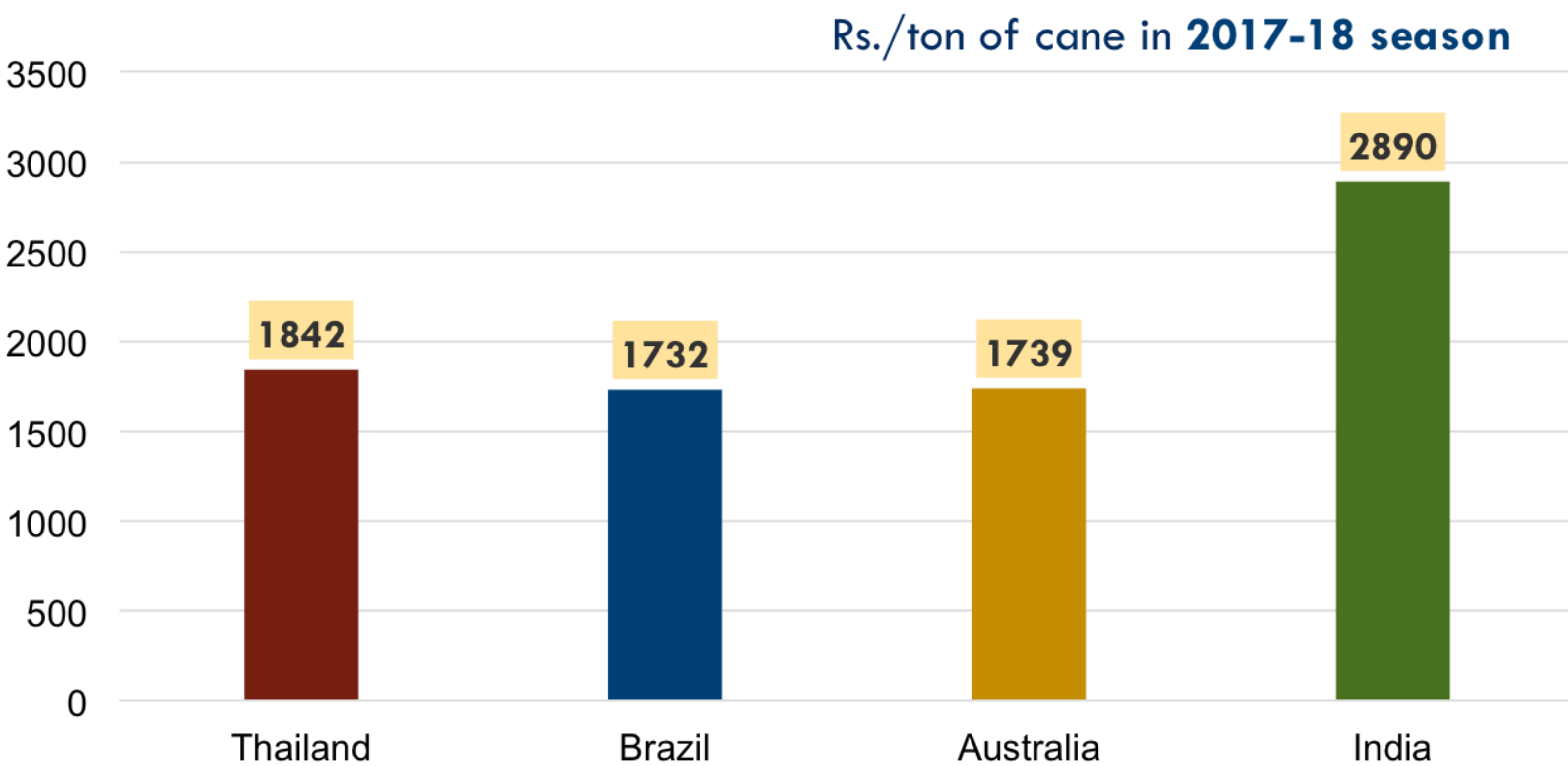
Sugar prices have become unremunerative



Cane Price Arrears as on 30th June



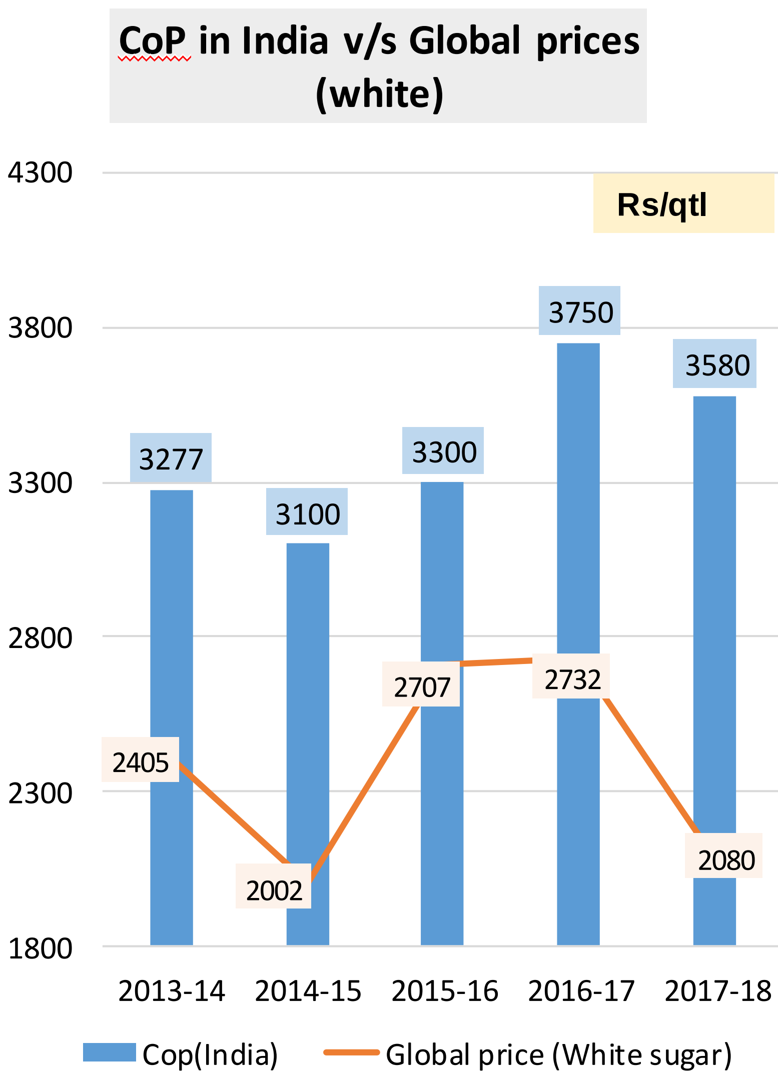
India pays the highest cane price

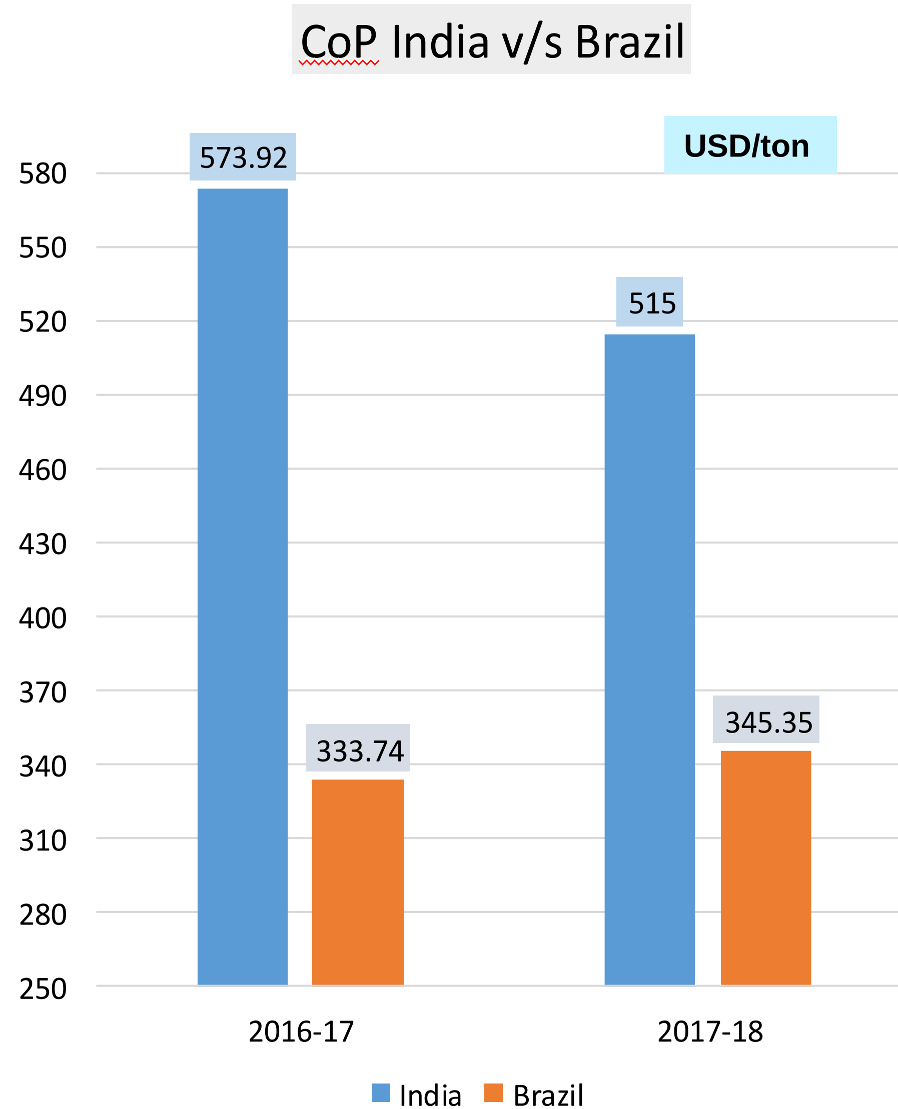


Note: Prices include cost of harvesting & transportation

Source: Australia – Queensland Sugar Ltd.
Thailand – Office of Cane and Sugar Board
Brazil - CONSECANA
India – Average FRP at all India average recovery of 10.77%

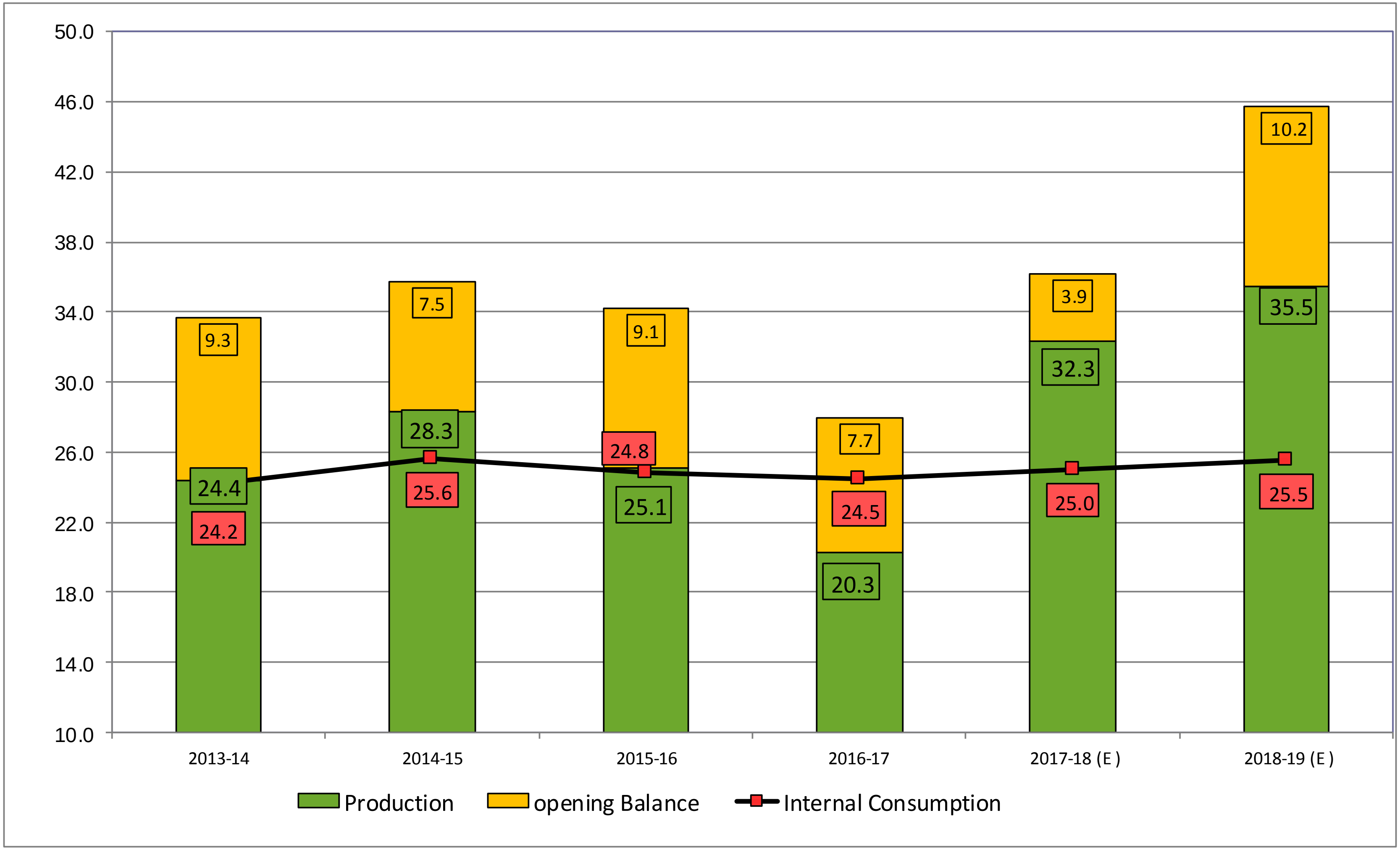
Indian sugar uncompetitive in global market





Surplus sugar produced and high sugar inventory

In mn. tons



2018-19 SS scenario

- OB sugar inventory: 100-105 lakh tons
- Sugar production: 350-355 lakh tons (E)
- Sugar consumption: 260 lakh tons (E)
- CB sugar inventory: 190 lakh tons

(CB will reduce by the quantum of exports in 2018-19 SS)

- CB of 190 lakh tons = 9 months consumption requirement, as also blocks over Rs.60,000 crore of funds/ working capital

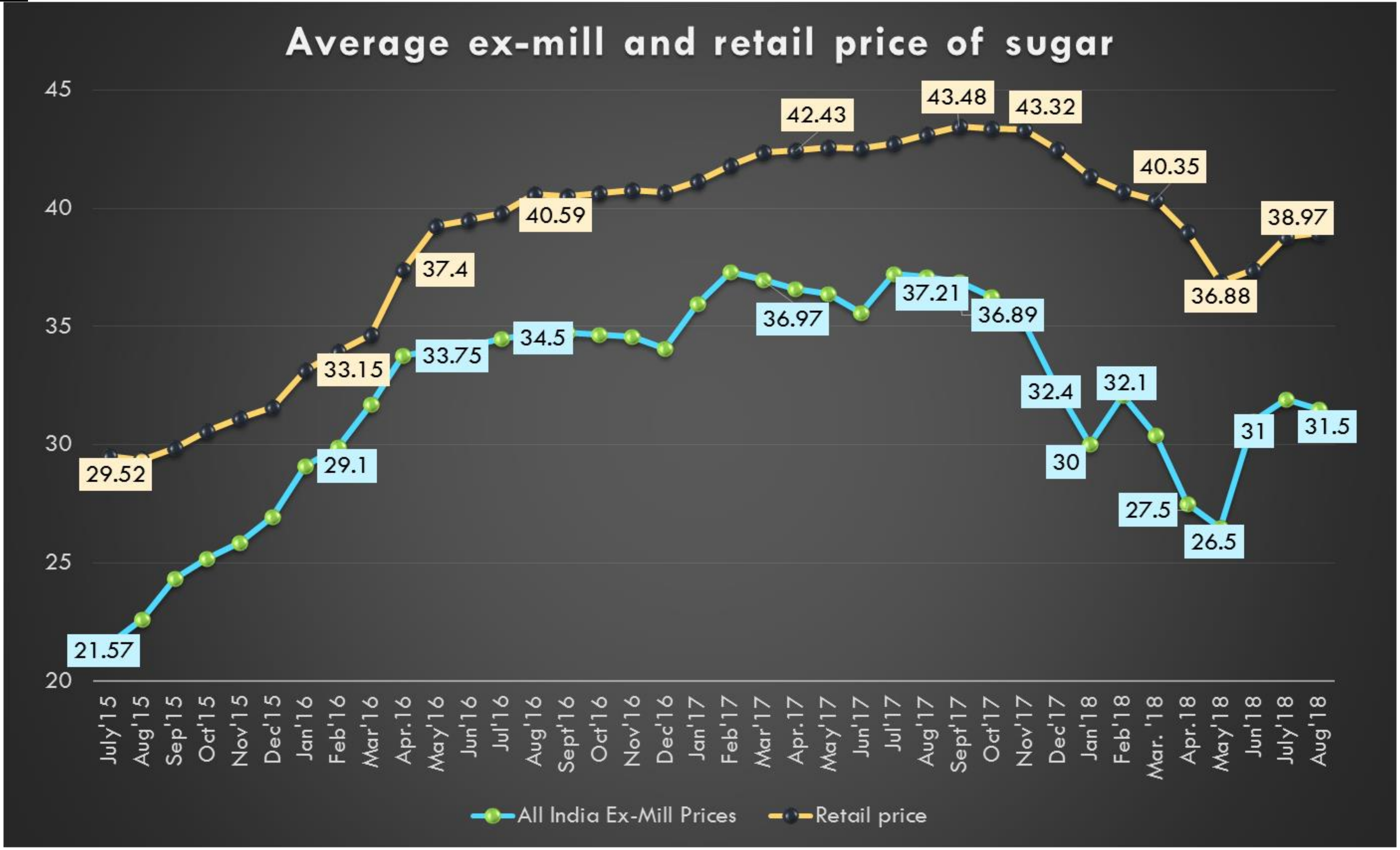
2018-19 SS looks extremely difficult

- Cane crushing: 325 million tons at FRP of Rs.96,500 crore
  - Will cross 1 lakh crore of cane price payable if SAP considered
- 260 lakh tons of domestic sales at Rs.3000 per quintal will give Rs.78,000 crore of revenue from Oct 18 to Sept 19
  - But by end of April 2019, cane price payable of over Rs.1,00,000 crore, whereas revenue from sugar sales of 150 lakh tons of Rs.45,000 crore
  - Unpaid cane price could be Rs.50,000 crore (+ Rs.10,000 from 17-18)

To solve the current crisis

- Increase minimum ex-mill domestic price to Rs.3600 per quintal
  - On 80% of production sold in domestic market, mills will recover costs
- Supplement revenue by exports of 60-70 lakh tons
  - Make exports compulsory, with power of seizure of unexported quota
- Advantages of above:
  - No subsidy required and thus no cess on sugar required
  - No WTO problem of subsidy
  - Sugar inventory gets reduced
  - Cane price of farmers will be paid on time

Domestic prices will remain reasonable



Ethanol policies: an attempt to balance sugar production

Surplus sugar to ethanol

- Indian ethanol blending target with petrol is 10%
  - From 'final' C-molasses, industry able to meet 5% blending only
- Un-met demand of 5% blending means 160 crore litres
- Some surplus sugarcane or C-heavy molasses can be converted into ethanol, instead of making too much sugar
- **Unmet demand of 160 cr litres =250-260 lakh tons of sugar**
- Distillation capacities have to increase/ expanded
  - 275 crore litres of capacities incl. with stand-alone distilleris
  - Another 25 crore litres being added next year

Government policies encouraging for ethanol

- New Bio-fuels policy allows diversion of sugarcane juice into ethanol
- Government extending subsidised loans for ethanol plants
- Price of ethanol has been fixed higher for next year
- For the first time a premium price has been fixed for ethanol made from B-heavy molasses
- Government examining possibilities of increasing blend percentage to 15%

Concluding: Policy framework; short & long term

- **Immediate policies required:**
  - To tackle the massive surplus sugar inventory
  - To tackle the very high cane price arrears already accumulated and which is threatening to cross extremely high levels next year
  - Policy framework should be able to address both these issues
- **Long term policies required:**
  - Rationalised cane pricing policy to link cane price with revenue
  - Robust futures market for sugar to help discover prices and hedge risks
  - Ethanol procurement, pricing and blending policy to draw away surplus sugarcane

Thank you

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