Implementation of recommendations of Task Force and Rationalization of Sugarcane Pricing

INDIAN SUGAR MILLS ASSOCIATION

Very relevant observations of Niti Ayog

- *“**More often than not, the sugar industry gets saddled with high inventories**, leading to fall in prices below the cost of production and high carrying costs and spoilage of sugar stocks, thus driving the industry to sickness.*
- *The sugarcane farmer, rather than benefiting from the high administered prices of sugarcane, suffers distress caused by resource crunches with ex-mills as they are unable to make timely payments for the crop.”*

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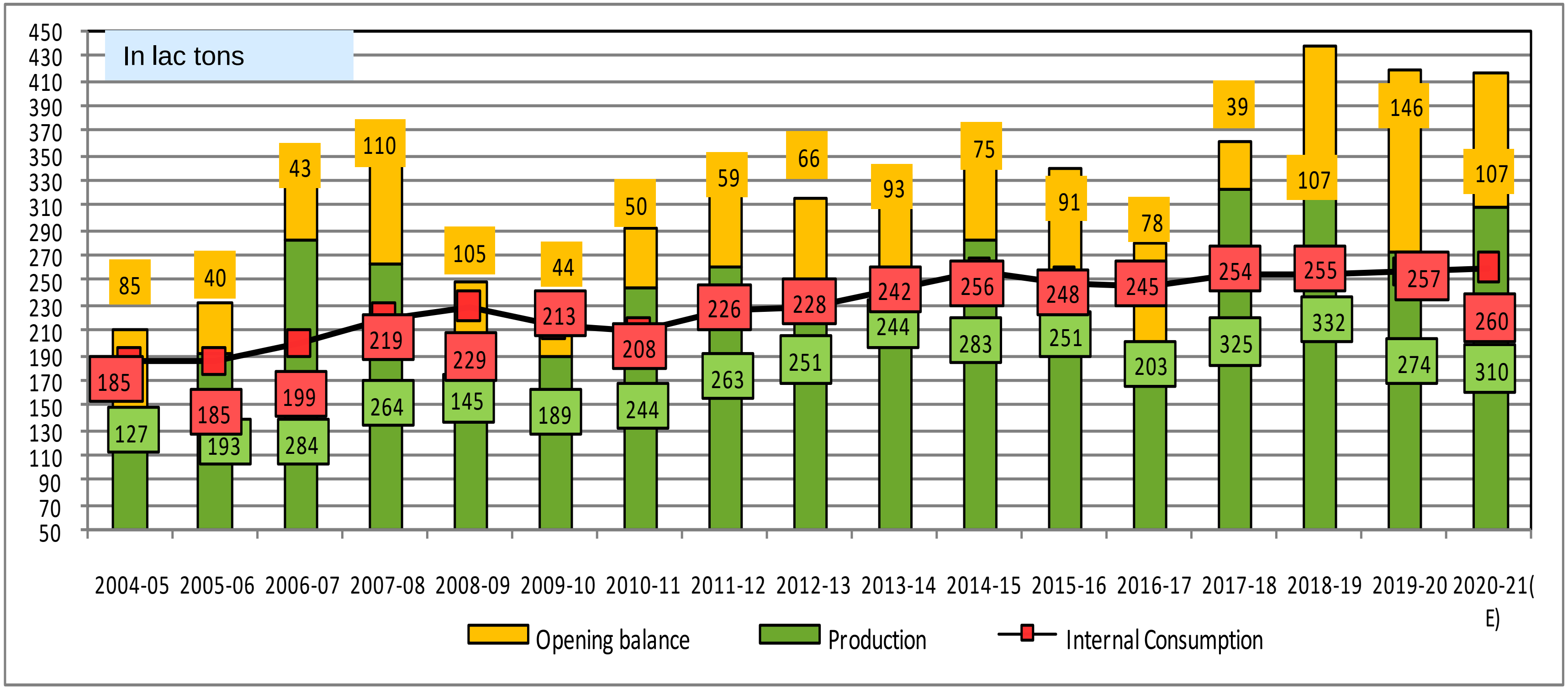
India is a structural surplus sugar producer



- Sugar availability in last 3 years (2017-18 to 2019-20) of 364, 439 & 420 lakh tons was very high against domestic requirement of around 255 lakh tons
- Availability expected to be very high again next year at 417 lakh tons

Relative returns: sugarcane outcompeting others

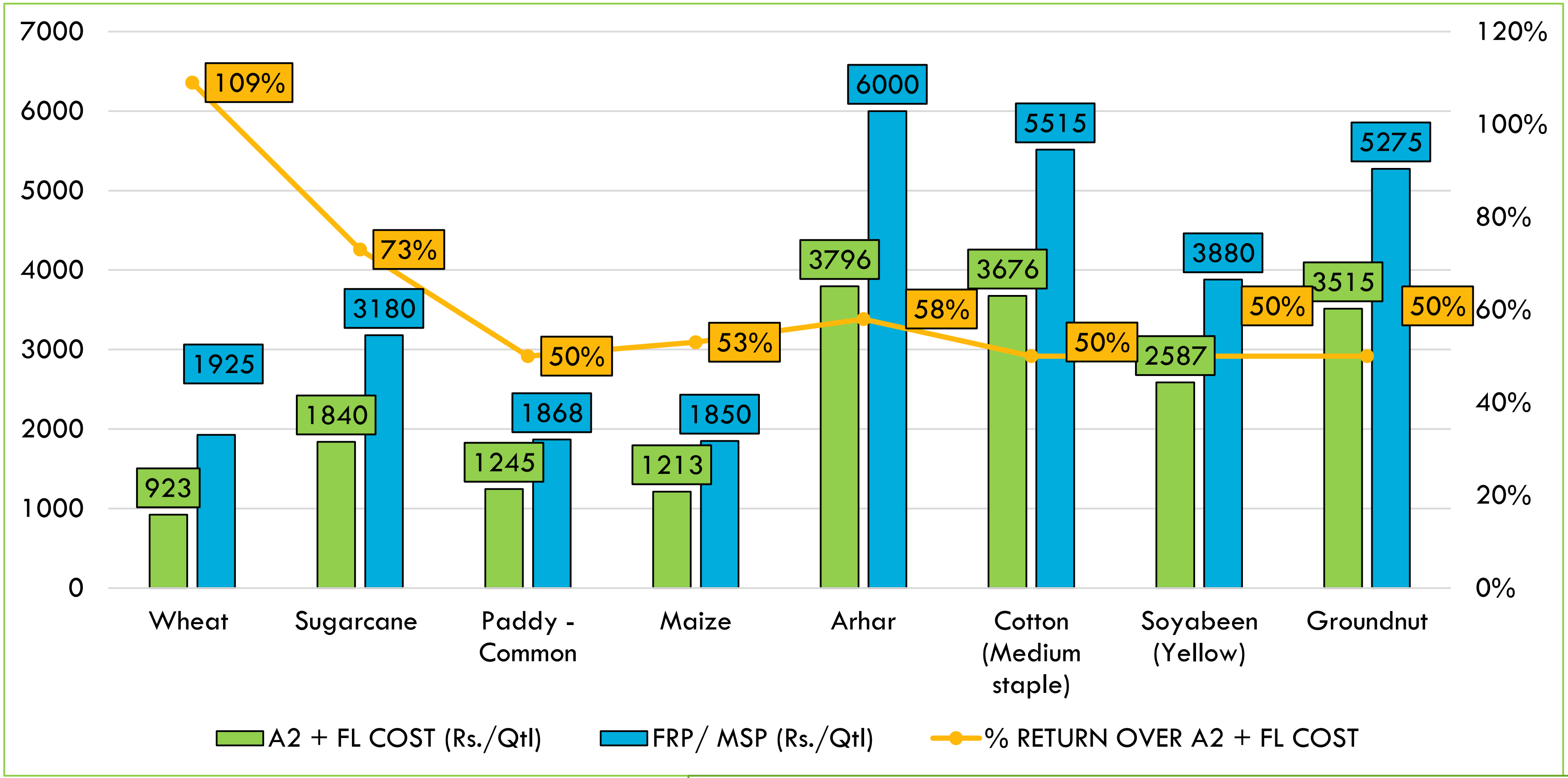
Crops	Relative Gross Returns over A2+FL with respect to sugarcane	
	2020-21	2019-20
Sugarcane	100	100
Cotton + Wheat	50	50
Paddy + Wheat	47	49
Paddy + Paddy	31	36
Soybean + Wheat	37	34
Soybean + Gram	28	29

Source: CACP report for 2019-20 & 2020-21

- Returns from sugarcane continues to be very high as compared to other crops
- Problem of surplus cane & sugar can be addressed by correcting this distortion

5.

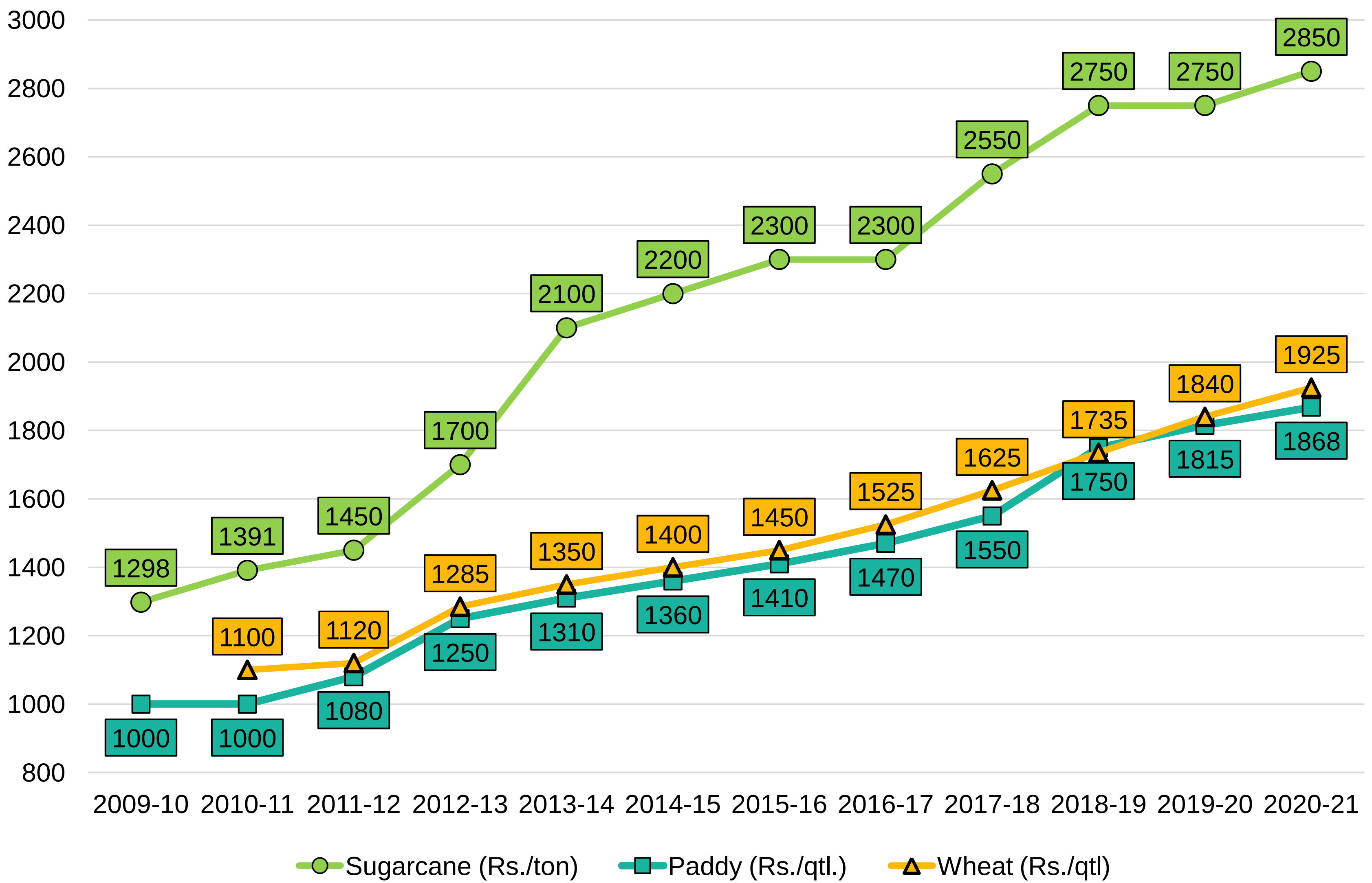
Gross Return over A2 + FL cost of different competing Crops



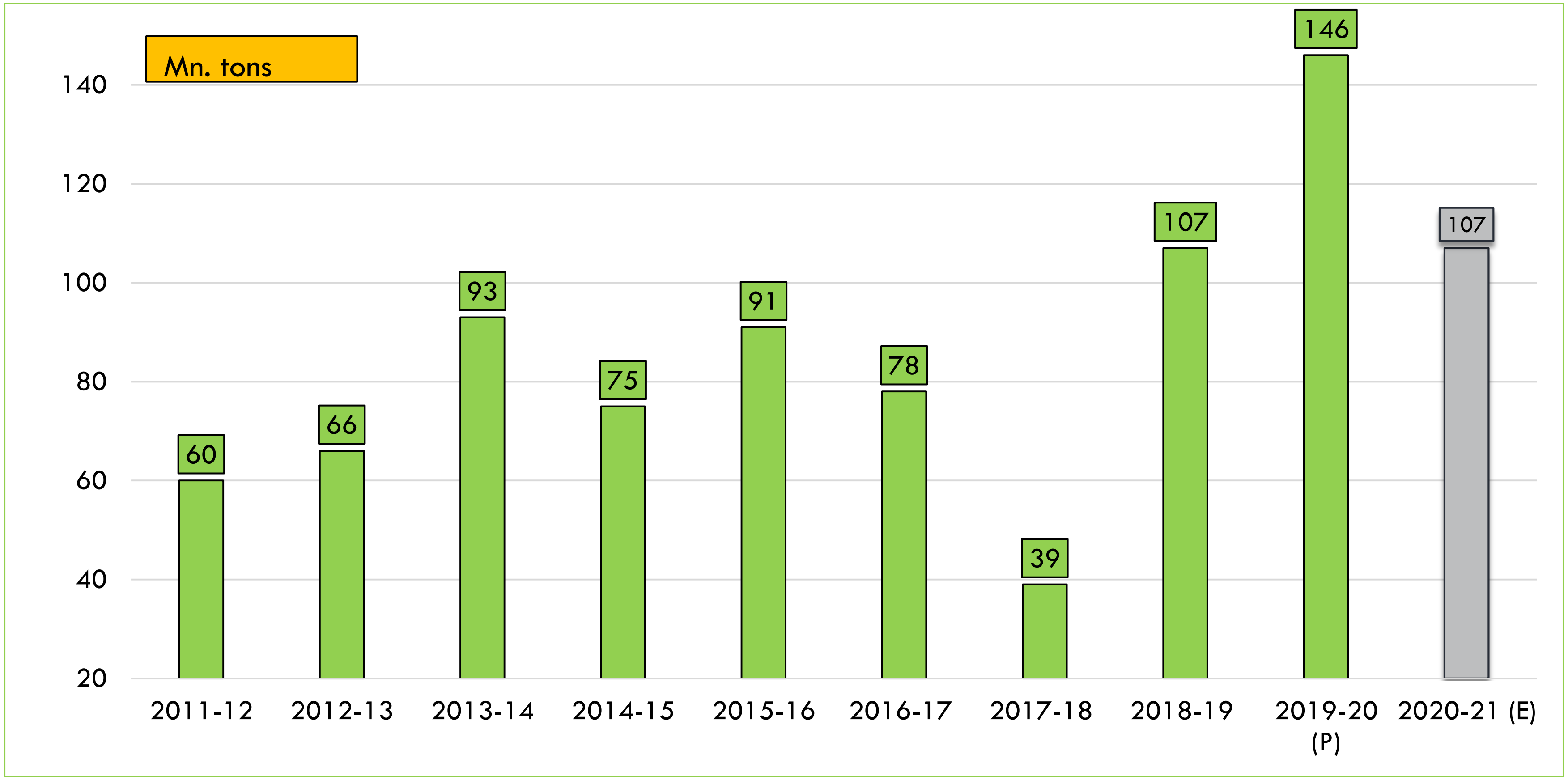
Source: CACP report – Sugarcane 2020-21; Kharif 2020-21; Rabi 2020-21

In addition to being 2nd most remunerative crop after wheat, Sugarcane has the advantage of being a sturdy crop, has an assured buyer, gets the assured price and does not have any middleman b/w farmers and mills.

Revenue from sugarcane substantially higher than competing crops



Opening Balance for every sugar season



- Carry forward stocks continues to be very high in last 3 years
- 107 lakh tons of inventory is blocking Rs.35,000 crore of funds + bumper production will further block more working capital

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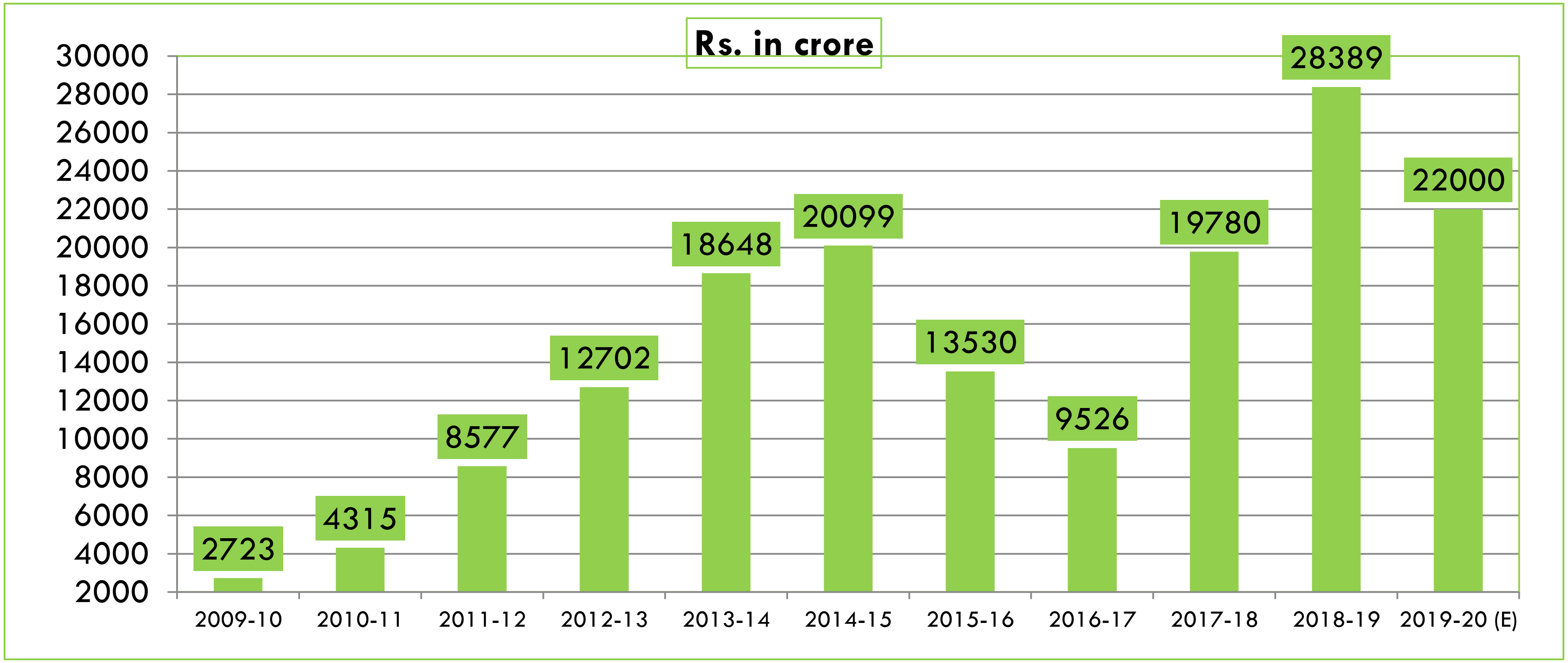
Cane price arrears direct result of current cane pricing system



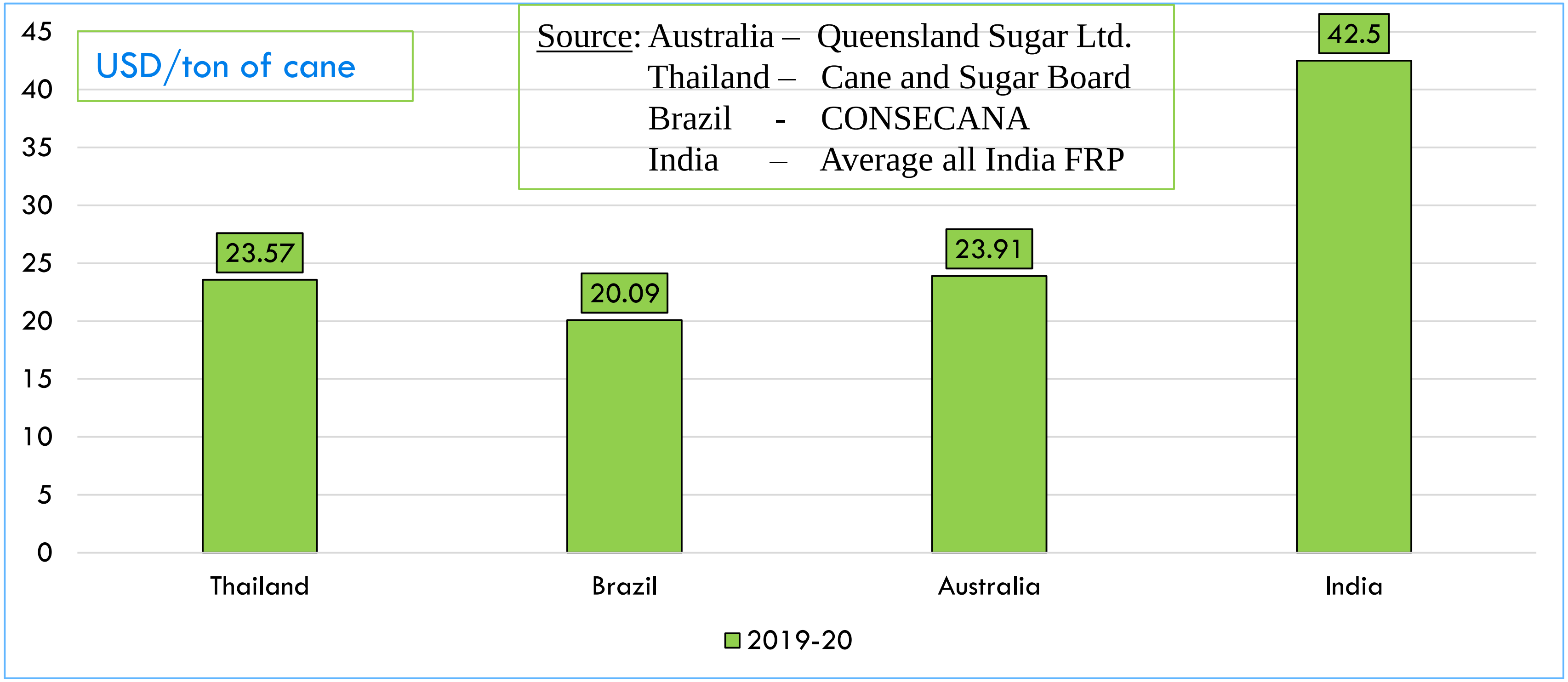
Cane price arrears are because of mismatch between:

a) cane price and sugar price and

b) cash inflow and cash out go

- Lack of linkage between cane price and sugar price making cane price unaffordable
- Exports are unviable adding to high inventory, blocking cash flows

Amongst large producers, India pays the highest cane price



- If India is a structural surplus sugar producer, it needs to export regularly
- Such high cane prices make Indian sugar uncompetitive, and always dependent on Govt. subsidies on exports
- With export subsidies not possible after 2023 (as per WTO), Indian cane pricing policy needs reforms urgently

Indian cane pricing policy challenged in WTO

- Brazil, Australia and Guatemala have complained against Indian sugar and sugarcane policies in WTO
- Complaint is also against high FRP
  - Stating FRP has “doubled in 9-10 years”
  - Causing surplus sugarcane production resulting in surplus Indian sugar
  - Causing global glut, depressing global prices
- GOI’s legal experts feel there is need to amend Indian cane pricing policy
- RSF along with PSF is WTO compliant

NITI AAYOG

RECOMMENDATIONS

MSP should cover costs/ FRP

- Niti Ayog has said that
  - *"MSP at ₹31/kg, ... does not even cover the cost of manufacture, given the FRP, which is at a reasonably high floor of **₹275 per quintal** (SAPs even higher). In 2017–18, the production cost for sugar was ₹3,580 per quintal (ISMA data)"*
  - *"One way of improving the liquidity situation of mills is to further **raise the Minimum Selling Price of sugar to Rs 33 per kg……** it would also help sugar mills to cover the cost of production, including interest, maintenance costs etc."*
  - *"Keeping in view the emerging developments, **MSP for sugar should be reviewed after six months of the notification**."*
  - *"If sugar prices in the market do not correspond to sugarcane FRP, then sugar mills are left in a distressed state"*
- Above FRP has since been increased to Rs.285 per quintal

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Niti Ayog's concerns about buffer unfounded

- *"Buffer stock is essentially to improve liquidity position of the mills and does not serve much purpose* ***in the context of food security of the people*** *as in the case of maintenance of buffer stock of wheat and rice by Govt."*
  - **Sugar buffer stock creation has <u>never</u> been with the purpose of food security**.
  - Govt. buys all wheat & paddy offered to them by farmers, but not sugar
  - Unlike wheat & paddy, bought by Govt, sugar buffer is still in godowns of mills
- *"Though reimbursement to sugar mills for maintenance of sugar stocks reduce cane arrears, it acts as an incentive for over-production in long run"*
  - **Surplus sugar is because of surplus sugarcane, and not because of sugar mills**
- *"The scheme, inter alia, helps to improve the liquidity position of sugar mills and* ***enable them to clear their cane-price arrears"***

Cane price in 3 instalments

- **<u>Niti Ayog</u>:** *"If farmers are paid 60% of the sugarcane FRP upfront, it will cover their entire A2+FL cost and provide a little margin over the same.*
  - *It is recommended that mills should be allowed to stagger the payment for sugarcane in following manner: 60% payment within 14 days of delivery of sugarcane to mills; another 20% within next two weeks and balance 20% within another one month (or upon sale of sugar whichever is earlier)"*
- Mills purchase sugarcane in 6 months, but sell sugar in upto 15-16 months
- Banks no longer funding as per sugar stocks, but more as per turnover
  - Hence, unsold stocks are not being funded
- Therefore, 2^{nd} and 3^{rd} instalments be scheduled after 6 and 9 months

NITI AAYOG:

ON CANE PRICING

Niti Ayog's observations on surplus sugar & high cane price

- *"The sector has been facing serious issues related to profitability as well as liquidity in the last few years due to depressed sugar prices inadequately covering cane prices and* ***mismatch between sugarcane prices and sugar prices***
  - *Some States fix State Advised Price (SAP) at higher levels, causing strain on the financial position of the mills*
  - *The basic factors in export competitiveness of sugar are the difference between the cost of cane to sugar mills and cost of producing sugar it in India vis-a-vis other major sugar- producing countries of the world."*

Niti Ayog's observations on surplus sugar & high cane price

- ***"Keeping sugar Industry healthy, needs major reform**:*
  - *Serious policy distortions in sugar sector are continuing to result in excess sugar production over domestic demand and rendered domestic prices highly uncompetitive for trade.*
  - *Therefore, there is a need for complete restructuring of sugar industry in a phased manner"*
- *"To prevent the problem of arrears for sugarcane farmers and to keep the sugar industry in sound financial health, **sugarcane prices must be linked to sugar prices"***
- *"The (Rangarajan) **Revenue Sharing Formula (RSF) needs to be introduced, with a Price Stabilisation Fund (PSF) to protect farmers from receiving prices below the FRP**"*

Rangarajan Committee formula

- It inter-alia, in 2013, recommended for RSF, such that
  - Cane price @70% of revenue from sugar and primary by-products
  - Or @ 75% of revenue from sugar alone (5% weightage to primary by-products)
- *"The fundamental principle underlying sharing of the value created from sugar and its by- products is that such value should be apportioned in the relative share of costs incurred by farmers and millers.*
- *An analysis of the costs incurred by sugarcane farmers and those incurred by sugar mills suggests that this value-sharing ratio between farmers and millers works out as 69:31 which, rounded off, can be taken as 70:30"*
- A scientific methodology was adopted to decide RSF, based on costs incurred

Niti Ayog's recommendation of 80% unviable/ unnecessary

- *"The prices of sugarcane may need to be adjusted slightly upwards keeping in view the improvement in recovery rates in the last few years*
  - *…….. formula can be 75% of sugar & by-products and 80% of sugar price"*
- RSF already accounts for higher recovery in calculation of cane price
  - As per RSF = (ex-mill sugar price) x (sugar recovery per ton of cane) x 75%
  - **Increase in sugar recovery** from 10.23% in 13-14 to 11.15% in 19-20 is **already included to give higher revenue and therefore higher cane price**
  - Increase from 75% to 80% will give same benefit twice
  - Yield per hectare has also increased by 20-25% for the farmers
- International Sugar Organisation (ISO) report of June 2019:
  - 16 of the 22 countries have RSF, @ 62-66% of revenue from sugar & by-products, so 70% for Indian RSF is already on higher side

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Suggestions for funds for PSF

- **Niti Ayog**: *"Levy cess on sugar at Rs.50 per quintal for …… 3 years"*
  - Under GST, all cesses abolished & sugar cess turned down by GST Council
- **Niti Ayog**: *"Dual pricing of sugar for industrial and household sector"*
  - Can't be implemented at factory gate
- **Niti Ayog**: "*In periods of high sugar price, part of the surplus generated under RSF can be retained and deposited in the PSF"*
  - Possible and will also ensure farmers get the FRP every year, and not too much
- ***Niti Ayog**: "The States that have been announcing State Advised Price, should be urged to desist from doing so*
  - *Unless they are willing to bear additional costs of SAP upon themselves and not forcing the mills to bear the load of sugarcane price above FRP"*

ISMA's SUBMISSIONS

Rationalise cane pricing policy

- India should adopt global practices & systems
  - ISO's report of June '19 says 16 out of 22 countries have RSF for cane price
- Govt. has to adopt the RSF system
  - Along with PSF to protect interests of farmers
  - Cane price at 75% of sugar price realisation (any higher % will burden millers – Rangarajan Committee done a detailed calculation).
- 3 instalment payment of cane price
- Freeze FRP at current levels till 50% above A2+FL catches up with FRP
  - Consider the recent increases in yield levels in FRP
  - To control continued surpluses, correct the distortion in crop/ farm economics

Sharing benefits beyond 10% sugar recovery levels

- Extra sugar recoveries beyond basic levels are because of both the sugarcane varieties and mill efficiencies
- Therefore, beyond basic recovery levels (currently 10%), premium should be equally shared between farmers and mills, in the ratio 50-50
  - Will directly incentivize mills to improve efficiencies
  - Will control the very high sugarcane price payment burden on mills

Most important: sugar price to support the FRP

- With Govt. fixing a minimum selling price (MSP) for sugar since June '18
  - CACP should suggest the MSP which can support the FRP recommended
  - And Govt. can then raise MSP accordingly
- The mismatch between cane price and sugar price is the main reason for cane price arrears, so ….
  - The cane price be determined as per sugar price realization i.e. RSF
  - But till such time that happens, MSP should be determined as per FRP

Some other requests

- Rebates for mechanical harvesting & binding material be revised
  - Non-cane material in mechanical harvesting increases by 12-14%
  - Rebate on biding material of 1% is too low as compared to actuals
- Increase in base recovery from current 10% to 10.5%
  - With premium, rebates & discounts for higher & lower recoveries
- Long term objectives of using sugarcane and molasses to produce ethanol along with enough sugar for domestic requirement
  - The ad-hoc policies/schemes intending to temporarily discourage sugarcane or give cash incentives for other crops should not be encouraged
  - Ethanol pricing formula be put out in the public domain

Thank you