"Decontrol of sugar would attract investments"

The sugar industry in India, one of the largest producers and consumers of the commodity in the world, has been long awaiting the reforms suggested by Rangarajan Committee in its path towards further growth. **ABINASH VERMA**, director-general, Indian Sugar Mills Association (ISMA), in an email interaction with **ABHITASH SINGH**, shares details on how the industry can march towards the same. *Excerpts:*

Elaborate on how decontrol of sugar sector will benefit the sugar industry in the long run.

Decontrolling the sugar sector would, inter alia, involve abolition of regulated release mechanism, removal of levy sugar obligation from sugar industry, freer export-import policy, removal of sugar from compulsory packing in jute bags only and a transparent policy linking sugarcane price with sugar price and by-products price realisation. There is no industry in India which is regulated in this fashion in which the government decides on the quantity of product that can be sold by the manufacturer or the government takes a certain percentage of the production on a discounted price much below the cost of production for the PDS. Both these regulations on the sugar sales directly impact the cash flow planning, liquidity, returns to the mills and thereby the payment to the farmers. In addition to this, the opportunity lost due to quantity and time restrictions imposed on export of sugar, especially when the international prices are viable, means that the industry has to unnecessarily carry forward sugar inventory and is not able to encash the benefits when the global market offers accordingly.

Similarly, jute bags are harmful for sugar, allowing moisture regain, (sugar being hygroscopic in nature) and also permits sugar leakage from the large gaps. To give an example, levy sugar supplies and compulsory packing in jute bags together lead to an annual loss of about Rs 4,500 crore to the industry, which also means that the farmers directly lose Rs 3,500 crore. Due to no direct linkage between cane price and sugar price realisation and because of a politically determined price by most of the states, the cost of production in India is probably the highest in the world. We must be paying the highest sugarcane price anywhere. Not only does this lack of linkage and high costs of raw material lead to losses to the industry and delayed payment to the farmers, it makes the Indian sugar industry uncompetitive in the international market. Therefore, decontrol of the above areas, would clearly benefit the sugar sector by improving the returns to the sugar mills and the farmers which, in turn, would lead to investments both at the farm level and the factory level and improve sugarcane productivity, sugarcane availability and a stable sugar production to meet the domestic requirement on continuous basis. This, in turn, will control the sugar cycle and impact India, a net exporter of sugar. This will clearly benefit the consumers too who will not be exposed to high international prices in some years.

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"Govt procures 27 lakh tonnes of sugar every year"

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Since the production of sugar in the major sugarcane producing states was not upto the mark, what will be the impact of lower production?

Due to lower rainfalls in central and southern parts of Maharashtra and Northern parts of Karnataka, sugarcane availability from these areas during 2012-13, is estimated to be lower due to lower productivity and some diversion for fodder. But the sugarcane area across the country is slightly higher than 2011-12. Therefore, the expected sugarcane availability throughout the country in 2012-13 is not expected to be substantially lower to 2011-12. In fact, the cane acreage in UP is at the highest ever. Therefore, ISMA has estimated sugar production of 240 lakh tonnes. With an opening balance of around 60 lakh tonnes and an estimated domestic consumption of 225 lakh tonnes, there will still be surplus sugar availability of 75 lakh tonnes during the year. Hence, there is no issue of adequacy in availability of sugar or any major increase in the sugar price. Also, since the availability is more than the domestic requirement, there will be no necessity to import sugar. Therefore, the slightly lower production by 20 lakh tonnes as compared to last year is not a cause of concern.

Explain to us the reasons behind availability of inferior quality of sugar at Public Distribution System (PDS).

Sugar mills are obliged to supply 10% of its annual sugar production for a social welfare programme run by the Central government. The government allocates about 27 lakh tonnes of levy sugar for distribution under PDS to all states/UTs, out of which states/UTs lift only on an average of 16-17 lakh tonnes every year. The remaining unlifted or any unreleased quantum of levy sugar is required to be carried forward physically, earlier for an indefinite period by the sugar mills until the same is re-released for dispatch under levy. At present, the unlifted levy sugar is still required to be carried forward physically by two years. Last year too, sugar mills were directed to supply levy sugar out of sugar production of 2008-09 season and earlier. Therefore, sugar supplies are from previous sugar seasons, in some cases more than 3 to 5 years, it is obvious that the sugar quality would have deteriorated in the interregnum period.

What difficulties are being faced by the Indian sugar industry?

The highly regulated environment under which the Indian sugar industry has to still operate is continuing to cause losses to both the industry and the farmers. As explained above, due to lack of freedom to sell sugar in the open market especially when there is need of liquidity during the crushing season to pay to the farmers and the financial burden to supply levy sugar on a discounted price much below the cost of production as well as forcibly pack sugar only in jute bags, which are usually not even available in adequate quantity and proper quality, lead to continuous losses to the sugar industry affecting its ability to pay to its farmers on time. Also, the continued announcement of SAP at unreasonably high levels, without any consideration of the returns to the sugar mills, increases the costs and thereby makes the industry uncompetitive. All these controls lead to losses to the industry and delayed payment to the farmers, which majorly contribute to the cyclicality in the sugarcane and sugar production, exposing the Indian sugar industry to low-cost international sugar.

The biggest way the government could help the sugar sector to grow further is to carry out the reforms as suggested by the Rangarajan Committee. Abolition of regulated release mechanism, removal of levy sugar obligation, and freer export-import policy should be taken up immediately

In what way government should help the industry to grow further?

The biggest way the government could help the sugar sector to grow further is to carry out the reforms as suggested by the Rangarajan Committee. Abolition of regulated release mechanism, removal of levy sugar obligation, freer export-import policy and removal of sugar from jute packaging should be taken up immediately by the government since not only do these directly impact the sugar sales side giving better control to the mills over their cash flows and liquidity, but will directly be beneficial to the sugarcane farmers when they get their payments on time. The recommendations on the sugarcane side like cane price - sugar price realisation linkage and cane area de-reservation etc. should be taken up for discussion with the farmers, industry and state governments to evolve a framework which is beneficial to all stakeholders. We feel that as decontrolled environment for sugar industry similar to the other industries in the country or sugar industries in the world, would attract lot of investments in the sector because of a stable and predictable policy environment, which in turn, will help the industry achieve its potential of 15-20% growth every year.

How has the levy sugar order that was passed by Patna HC earlier this year impacted the industry?

The Central government procures 27 lakh tonnes of levy sugar every year for distribution under PDS whereas average lifting of levy sugar against the allocation made by Central government was in the range of 16-17 lakh tonnes per year. Thus, sugar mills were having unlifted levy sugar quantity of at least 10-11 lakh tonnes of levy sugar every year. In addition to this, there were situations that levy sugar of a particular season even not got released for so many months. Prior to the order of the Patna High Court, the government carried forward the unlifted and unreleased levy sugar of sugar mills for two years. This not only forced sugar mills to carry sugar stocks physically but led to deterioration in quality and choked cash flows for the mills.

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"We are the world's largest consumers of sugar"

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Even if some mills were allowed to sell this sugar, they were forced to provide sugar at previous years' rates. Mills are doubly hit by selling the already discounted sugar at previous years' price. The court had ordered that at start of every sugar season the old liabilities must expire, even though the matter is sub-judice in the court.

The government has since decided to carry forward the levy sugar obligation of sugar mills by six months from the close of a season, effective from 2012-13 sugar season. This will not only reduce the inventory burden but also ensure mills get open market price for their sugar not lifted by the government, after a period of six months.

What steps will be taken by ISMA in order to increase the demands for sugar?

We are the world's largest consumers of sugar and in most of the years, the domestic demand is enough to take care of the domestic sugar production.

As concerns adequacy of our demand for our produce, there is no problem. But with increase in income, the demand for sugar generally goes up. The per capita consumption of sugar in India is around 18.9 kg, which is lower to the international per capita consumption of 23.7 kg. With an annual increase in the consumption of products like beverages, biscuits, chocolates etc. which consume almost 65% of our domestic sugar production, the domestic sugar consumption is generally estimated to grow at about 3-4% every year.

Even though we are the second-largest producer of sugar why the rates of sugar in our country keep on increasing on regular basis?

The sugar prices in India are controlled by Central government through the regulated release mechanism. If one looks at the sugar prices in the last couple of years, it was flat till about July 2012. News of lower production from Maharashtra and Karnataka pushed up the prices slightly in July, but it has since come back to the earlier levels from November 2012. Therefore, it is not correct to say that the sugar rates in the country keep on increasing on a regular basis. Secondly and more importantly, the sugar prices need to cover the costs of production of sugar, for the sugar mills to allow them to break even and continue paying the farmers their cane price on time. Taking the example of UP alone, during the last three years, the State Advised Price for cane has been increased by 70% from Rs 165 per quintal in 2009-10 season to Rs 280 per quintal for 2012-13 season. As compared to this, sugar prices would have gone up by just 15%. Most of the sugar mills have been bleeding very badly, and, therefore, there has been almost no investment in the UP sugar industry. There might have been fall in production with accumulation of cane price arrears, when the country would have imported sugar to meet the domestic demand and if the international prices were significantly higher, the domestic prices would have got impacted. Otherwise, the sugar prices have remained almost stable in the last 2-3 years.

What are the initiatives taken by ISMA to boost the sugar industry?

ISMA's very firm opinion is that the Indian sugar sector desperately requires investments both at the farm level and factory level, to enhance sugarcane productivity, for better seed varieties, increase sugar recovery and improve the seed varieties. ISMA has taken initiatives to identify better sugarcane varieties throughout the country and has propagated a few varieties amongst its members. For example, in UP alone, three new varieties have been propagated in the last 2-3 years, namely, Co 0238, Co 0118 and Co 0239 which have reportedly given higher productivity of over 100 tonnes per hectare as compared to 65 tonnes per hectare in UP and also better sugar recovery. Further, in order to improve sugarcane production estimates, ISMA in association with the National Cooperative Federation, has adopted a technology-backed satellite mapping system to better estimate the sugarcane acreage and thereby sugarcane availability and sugar production. During the 2011-12 season, satellite mapping of

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acreage and distribution of sugarcane was done for 80 individual sugar mills. Such an exercise will vastly improve the planning of sugarcane harvesting and would in the long run help the sugar mills to improve sugarcane sowing in the right areas.

Considering your expectations about sugar production in the 2012-13 season and the global scenario, how do you see sugar prices next year?

As mentioned above, sugar production during 2012-13 is estimated to be slightly higher to the domestic requirement. The small surplus should not be a big bother for the sugar industry, which is very much manageable. The opening balance for the current season was also reasonable. Therefore, considering the fundamentals that sugar production more or less matches the domestic requirement and there is a negligible carry forward of cane price arrears this year, which does not put much pressure on the sugar industry for the past arrears, the domestic sugar price should remain range-bound. However, there is an expected surplus of over 6 million tonnes in the global market and with forecasts for a similar global surplus in 2013-14 season too, global sugar prices are continuing to prevail at significantly low levels and almost threatening to impact Indian sugar prices. However, we feel that since there is surplus sugar availability in the country, there is absolutely no necessity to import sugar, and, therefore, ISMA has very strongly requested the government to check against sugar imports. Therefore, if sugar is not imported, the low international prices will not have much impact on the domestic sugar prices.

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