Sugar decontrol gets Rangarajan push

Panel recommends scrapping of release order mechanism through which govt controls sugar sales in open market

fe Bureau
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LONG stifled by government controls, the sugar industry may finally get some relief. A panel, set up by Prime Minister Manmohan Singh, on Friday suggested deregulation of the ₹80,000-crore sector, recommending freedom to mills from the obligation of supplying subsidised sugar for state-run welfare programmes.

The committee, headed by Prime Minister's Economic Advisory Council chairman C Rangarajan, also pitched for the scrapping of the release order mechanism through which the government controls sugar sales in the open market.

Currently, mills are mandated to sell 10% of their output called "levy sugar", to the government for the public distribution system (PDS) at cheaper rates that cover just around 70% of their cost of production. This stipulation translates into an impost and has undermined the growth of the domestic sugar sector, which has failed to attract any foreign direct investment for years now.

The government also fixes the quarterly quota of sugar that mills are required to sell in the open market, aimed at discouraging hoarding and keeping supplies steady. These apart, regulations on stocks and cane pricing have led to a regular cycle of boom and bust in sugar production and also contributed to an inconsistent export policy.

Profit at the largest sugar producer, Bajaj Hindusthan, slumped by more than 76% to ₹12 crore in the year through September 2011, while margins of other companies, including Balrampur Chini Mills, Sakthi Sugars, Rajshree Sugars, Simbhaoli Sugars, Dwarikesh Sugars and Triveni Engineering, have also been under pressure.

If implemented, the scrapping of the levy burden alone would leave an additional ₹3,000 crore a year with the cash-starved sector, but it will also raise the Centre's food subsidy burden accordingly. The levy sugar price is fixed at just over ₹19 a kg against the current mill gate rate of ₹35. India, the world's top sugar consumer and second-biggest producer, needs around 2.8 million tonne of levy sugar a year.

"Levy amounts to a cross-subsidy between open market and PDS sugar and is not in the interest of the general consumer or the development of the sugar sector. Therefore, levy sugar may be dispensed with," the report, submitted to the Prime Minister on Friday, said.

There was no official word from the food ministry, which administers the plethora of controls on the sector, on what it intends to do in the light of the panel's views.

FE was the first to report in June that the Rangarajan panel had decided to recommend scrapping of the levy burden to improve liquidity in the sector and also linking cane prices with its byproducts.

The panel's recommendations follow other recent reform measures announced by the government, including raising the price of subsidised fuel to trim the fiscal deficit and opening up the retail sector to foreign supermarkets.

With the decontrol of the sector, the sugar industry could grow at an average of 15-20% a year for next five years or so, Indian Sugar Mills Association director general Abinash Verma said.

"The recommendations are forward looking and will give a boost to investment in the sector, both at the farm and factory levels. Mills will be able to plan their cash flows and sugar stocks and the financial burden of supplying levy sugar will now be rightfully taken over by the government. The proposed linkage between sugarcane price and the sugar price realisation will provide assured return to the farmers," he said.

"Additional revenue will be generated through the removal of the levy system and the cash that we were losing will help us pay better prices to the farmers for cane purchases. Factories can plan their financial management in an economical way and there will be no fear of extra release mechanism by the government," said Vinay Kumar, managing director, National Federation of Cooperative Sugar Factories.

Cane arrears to farmers have risen to ₹1,133 crore as of June 30.

The panel also suggested linking of sugarcane price with its byproducts, and recommended 70% of ex-mill prices of sugar and each of its three major by-products — bagasse, molasses and press mud — be paid to farmers for cane supplies. The benchmark price fixed by the Centre — the fair and remunerative price (FRP) — be the minimum price for cane purchases, it added.

"The actual payment for cane dues would happen in two steps. The first would be the payment of a floor price, based on FRP as per the extant mechanism. The rest of the payment of cane dues will be done subsequent to publication of half-yearly ex-mill prices, on the lines indicated," the report said.

It also suggested a "stable" export and import policy on sugar and "appropriate tariff in the form of a moderate duty on imports and exports, not exceeding 5% to 10% ordinarily, as opposed to outright ban or quantitative restrictions, should be used to meet domestic requirements of sugar in an economically efficient manner".

The panel's recommendations follow other recent reform measures announced by the government, including raising the price of subsidised fuel to trim the fiscal deficit and opening up of the retail sector to foreign supermarkets. The country is the world's biggest sugar consumer and second-largest producer after Brazil.

"Linking of sugarcane prices to those of byproducts will also promote development work in sugarcane. Problems of cane arrears will be removed. The stable export policy will be beneficial, and the government also needs to consider cost of sugar production in the domestic market while taking a decision of trade," said Ajay Shriram, senior managing director of DCM Shriram Consolidated, who had also chaired CII National Committee on Sugar.

Ajay Jakhar, chairman of Bharat Krishak Samaj, said dereservation of cane areas should be allowed at the earliest as mills will compete among themselves to buy cane and farmers would also get better prices. The government should also not intervene in the market frequently with curbs as such steps hurt farmers' realisations, and much will depend on the implementations of the suggestions.

"On the face of it, the panel's report looks fine to us, but the fine print shouldn't destroy the spirit of the recommendations," he said.

The panel also recommended scrapping of the mandatory provision of jute packaging in case of sugar, as it pushes up costs of the mills and scarcity of jute bags is a problem too. It has asked for rationalising PDS sugar sale price (after additional subsidy by the Centre), which has remained constant for many years now.

Efforts at lifting government control twice in the 1970s met fierce political resistance, mainly on concerns that domestic sugar prices would shoot up, and the issue was dropped. The benefits of liberalisation have also not been extended to the sugar industry, while the government has shed control over sectors such as telecom and cement over the years. Moreover, recommendations of panels, including the Mahajan committee, Tuteja committee and Thorat committee, set up in the past to consider decontrolling the sugar sector, were hardly implemented.

Still, industry executives this time around expect the Rangarajan panel's recommendations to be taken seriously by the government, as for the first time a panel appointed by the Prime Minister and headed by an economist of the Cabinet rank has submitted the recommendations. Moreover, apart from linking cane prices to the byproduct rates where states have a role, all other major recommendations, including on levy sugar and release order mechanism, can be implemented by the Central government, said ISMA,s Verma. "So there is no reason why the Central government can't implement the suggestions," he added.

JUST SWEET TALKS SO FAR

MAHAJAN COMMITTEE (1998)
BB Mahajan, *former food secretary*

- Remove levy obligation of mills and bear the subsidy on PDS sugar sales
- Go for full decontrol, but in a phased manner; lift control on sugar sale in open market
- Annual sugar export quota be fixed at one million tonnes

TUTEJA COMMITTEE (2004)
SK Tuteja, *former food secretary*

- Levy sugar obligation at 10% of mills' output should continue
- Lift control from Oct 2005 on sugar sale by mills open market
- Mills be allowed to sell levy quota in open market if states don't lift for PDS in 3 months

THORAT COMMITTEE (2009)
YS Thorat, *former chairman, Nabard*

- Lift control on sugar sale in the open market in a phased manner
- Sugar Industry should be given 3-5 years time-frame to take measures for decontrol
- A long term stable policy for export-import of sugar required

RANGARAJAN COMMITTEE (2012)
C Rangarajan, *chairman, PMEAC*

- Scrap levy sugar obligation and allow mills freedom to sell in open market as they wish
- Nearly 70% of ex-mill prices of sugar, bagasse, molasses and press mud be paid to farmers for cane purchases
- Stable exim policy needed; up to 10% of duty desirable, if needed, on exports or imports instead of ban on quantitative curbs

SUGAR STOCKS INTRA-DAY (on BSE, ₹)

	Open	High	Low	Close	% chg
EID Parry	252.45	256.9	243.7	**245.1**	-1.3
Bajaj Hindusthan	32.6	33.35	31.9	**32.2**	-0.6
Sakthi Sugars	33.5	34.7	32.7	**32.95**	0.0
Rajshree Sugars	59	59.35	57.1	**57.25**	0.3
Balrampur Chini	69.4	72.1	68.5	**70.05**	2.0
Dhampur Sugar	70.1	74.5	69.75	**71.5**	3.2
Dwarikesh Sugar	49.75	51.25	48	**48.35**	-0.6
Sh Renuka Sugar	37.5	37.9	36.05	**36.3**	-1.2

CANE PAIN

Season	Prices payable	Prices paid	Arrears	% (Arrears vs prices payable)
2011-12*	51132.17	49899.04	1233.13	2.41
2010-11	44530.04	43748.3	781.74	1.76
2009-10	38400.14	38017.85	382.29	1.00
2008-09	18706.75	18588.22	118.53	0.63
2007-08	23987.85	22739.8	1248.05	5.20
2006-07	29033.8	26045.31	2988.49	10.29

*up to June 30; figures in ₹ crore

Source: Directorate of Sugar

BITTER PILL

Figures other than for 12 months are annualised

Company	Year end	Net sales	PAT	Year end	Net sales	PAT	Year end	Net sales	PAT
EID Parry	Mar 2012	12486.55	312.7	Mar 2011	9360.17	312.28	Mar 2010	7557.51	393.6
Bajaj Hindusthan	Sep 2011	5007.1	21.45	Sept 2010	3201.43	44.03	Sep 2009	2025.82	61.78
Sakthi Sugars	Mar 2012	2128.92	-54.11	Mar 2012	2450.52	-75.04	Dec2009	1998.14	26.51
Rajshree Sugars	Mar 2012	836.3	-0.14	Mar 2012	737.98	-33.57	Mar 2010	583.56	46
Balrampur Chini	Mar 2012	2309.54	0.43	Mar 2012	1984.38	108.46	Sep 2009	1768.12	209.05
Dhampur Sugar	Mar 2012	1537.52	29.63	Mar 2012	1565.9	8.72	Sep 2009	933.71	55.61
Dwarikesh Sugar	Sep 2011	584.04	-13.16	Sep 2010	555.07	-9.06	Sep 2009	461.87	25.08
Sh Renuka Sugar	Mar 2012	8246.08	-20.68	Sep 2010	7669.44	703.41	Sep 2009	2815.99	223.56

Source: Capitaline