Cane arrears at record ₹12,500 crore, mills ask government to check imports

Banikinkar Pattanayak
New Delhi, July 1

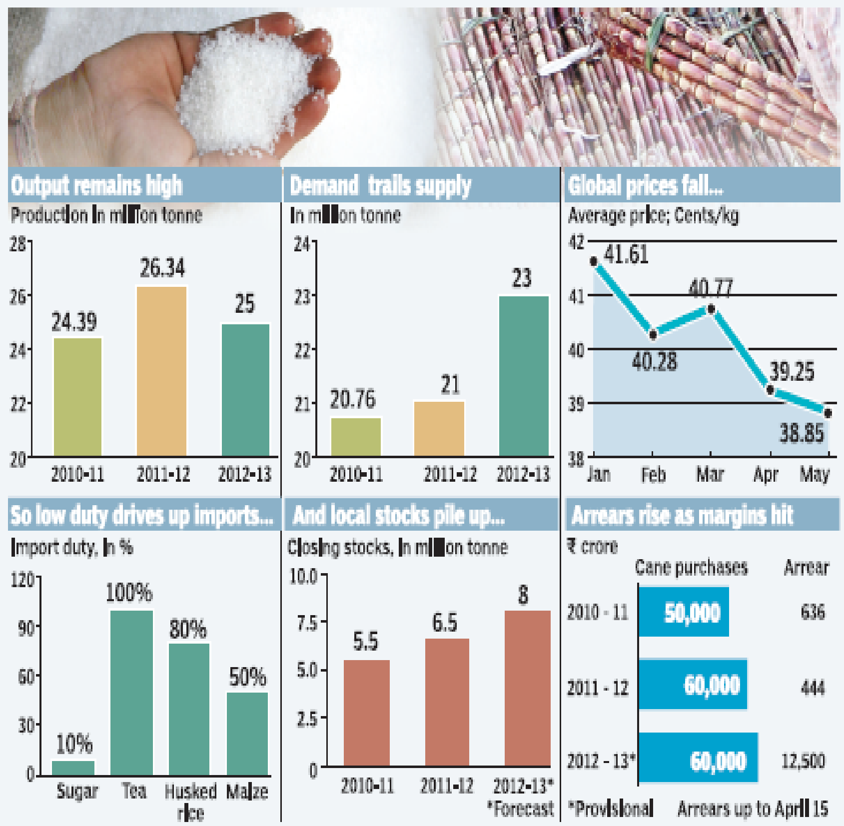
SUGAR mills owed farmers a record Rs 12,500 crore for cane purchases till April 15 as prices remained elevated while returns from sugar sales failed to catch up, according to latest official data.

Cash-starved mills, sitting on a sugar inventory of around Rs 48,000 crore as buyers stayed away from stocking up expecting prices to dip, are seeking a hike in the import duty on raw sugar to 40% from the current 10% to stop the dumping of cheaper supplies from overseas, industry executives said.

This brings to the fore the indispensability of the next stage of reforms in the form of cane price rationalization and a viable trade policy after the recent decontrol move by the government. Some states, including UP, fix a much higher price for cane than the Centre.

The executives said although arrears have somewhat eased since mid-April, battered finances of mills due to a 10-15% drop in sugar prices over the past 6-7 months have significantly eroded their ability to pay farmers for raw material purchases.

A third straight year of surplus output, ample stocks and 6,50,000 tonnes of sugar imports since the marketing year started in October have dragged down wholesale prices of the sweetener, while state-fixed cane prices have been raised by up to 17% to Rs 280 a quintal.



Adding to their worries, the prospect of a fourth straight year of surplus output in 2013-14 indicates domestic prices may remain subdued in the coming months if imports continue unabated.

"Our sugar stocks are ample and with good monsoon forecast, our production in 2013-14 is also expected to be good as well. So a prohibitive import duty needs to be imposed," said Abinash Verma, director-general of the Indian Sugar Mills Association.

At Monday's price, each tonne of sugar processed from imported raw sweetener would cost roughly Rs 31,250 in the domestic market, factoring in the costs of purchase, duty, handling, transportation and refining.

It makes sense for refiners closer to the port, including Shree Renuka Sugars, to import raw sugar and sell in the domestic market after refining. In a letter to food minister KV Thomas late last month, two key sugar industry bodies said the white sugar produced from imported raw sugar would be cheaper by Rs 2,000 to Rs 5,000 a tonne than the sweetener produced from local cane.

As much as 5,50,000 tonne of raw sugar landed in the country, while another 1,00,000 tonne of refined sugar has come from Pakistan through Wagah. A subdued trend in sugar prices in the international futures markets suggest imports may rise in the coming days, while another round of hike in cane prices in 2013-14 by states like UP will make it even harder for mills to cope with soaring cost of production, one of the executives said.

Although the food ministry feels the current import duty of 10% is in sync with the recommendations of the Rangarajan panel, industry executives said this should be followed only when all suggestions of the panel, including linking the cane price to its by-products, are implemented.

The panel suggested a higher tariff "during the periods when world prices are either very high or very low". "Farmers will be discouraged to plant the crop and may shift to some other crop due to delayed payments and ultimately, we will be back to the regular cycle of boom and bust in the sugar sector," said the executive of a UP mill.

Mills in UP face the maximum hurdles in paying farmers in time as the cane price in the state are roughly 20% higher than that in central Maharashtra, while its recovery rate is around 9%, compared to 11% in Maharashtra.

Some states fix very high cane prices to woo vote bases in the farming community. Cane price accounts for around 65-70% of the cost of producing sugar. Of the Rs 12,500 crore arrears, UP alone accounted for Rs 7,800 crore, although these have now come down to around Rs 4,700 crore in the state. The latest data for other states are yet to be compiled.

In April, the Centre decided that states would float tenders to buy sugar for the PDS system and it would offer subsidy on purchases subject to the maximum price of Rs 32 a kg. States have to fork out from their own coffers the additional subsidy if the purchase price of sugar for the PDS exceeds Rs 32 a kg.