Mills oppose Centre's levy sugar allocation process

Demand equal sharing system to lessen burden on some states

Banikinkar Pattanayak
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Sugar mills, especially those from north India, have demanded an equitable sharing system for supplying subsidised sugar to the Centre.

At present, mills are mandated to sell 10% of their output to the government for supplies through the public distribution system (PDS)-- called the levy sugar quota. This is done at prices that cover just around 65% of their cost of production, according to an industry estimate. However, of late, while some mills have been asked to offload more levy sugar, although within the 10% quota, some others have been directed to release less.

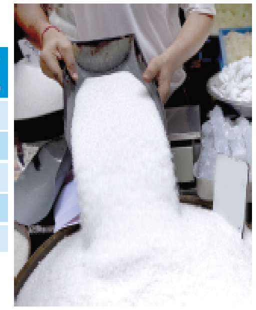
The sector is already cash-starved due to various government controls, including subsidised sugar sales for the PDS and restrictions on quarterly sugar sales in the open market, and any disparity in the sharing of the levy burden just worsens the cash flow into affected mills, said a senior executive with a UP-based company.

"After calculating the levy sugar allocation for the October-December period among various sugar mills, it is noted that the allocations of levy sugar up to December 2012, made out of the 2011-12 season's (ending September 30) production, indicates that whereas almost 9% to 10% of the 2011-12 season's production has been fully allocated in the case of several sugar mills, only about 2% to 3% have been allocated in the case of several other sugar mills, mostly located in a particular region or couple of states," the Indian Sugar Mills Association (ISMA) said in a October 22 letter to the chief director of sugar in the food ministry.

LEVY SUGAR BURDEN

Key states	Levy entitlement	Quantity released	Levy stocks
Maharashtra	9,41,620.22	5,52,326	3,97,438.26
Uttar Pradesh	6,95,504.75	5,62,666	1,39,555.24
Karnataka	3,81,425.22	2,16,708.9	1,64,716.32
Tamil Nadu	2,42,401.95	1,38,689.60	1,03,712.35
Andhra Pradesh	1,13,599.28	1,08,333.9	5,346.43

(Figures in tonne; levy sugar to be released by December 2012)
Source: Directorate of Sugar



Interestingly, many mills in Maharashtra, the country's largest sugar producer, and Karnataka have been asked to release levy the sweetener in the range of 2% to 3% until December against their entitlement, while those in other parts have been directed to offload more.

The levy sugar price is fixed at just over ₹19 a kilogram, compared with the current ex-factory rate of ₹35. India, the world's top sugar consumer and second-biggest producer, needs around 2.8 million tonnes of levy sugar a year.

The levy obligation costs the industry more than ₹3,500 crore a year, based on current market rates, and mills have often complained as to why they should bear the burden of the government's own welfare programmes, which is biting into their earnings.

ISMA said of the 800,000 tonne of unreleased levy sugar stocks from 2011-12, mills that have supplied in the range of 2% to 6% of their production should be asked to sell until December 2012 to "avoid any undue advantage to any particular region/state or category of sugar mills".

The association also said "fresh allocations from the 2012-13 season be restored only when such an equity has been achieved across the country".

The government had 2.1 million tonne of additional levy sugar stocks from the 2010-11 season, and mills were required to supply 2.6 million tonne of levy sugar in 2011-12, based on the estimated production of slightly over 26 million tonne.

This means the total levy sugar available for 2011-12 season was 4.67 million tonne after factoring in the conversion of 0.26 million tonne of levy sugar into non-levy sugar earlier, compared with the requirement of 2.67 million tonne.

Last month, industry executives had said even if the Centre used these stocks until March 2013, it would still have around 300,000 tonne of surplus levy sugar stocks from the 2011-12 season.

The government and industry bodies expect the sugar output to be in the range of 23 million to 24.5 million tonne, compared with 26.2 million tonne a year before.

This means the levy burden for mills in 2012-13 would be in the range of 2.30 million tonne to 2.45 million tonne if the government keeps the levy burden at the same level.

The percentage of levy sugar quota is usually fixed by the food ministry on the basis of expected production in a year and the requirement under the PDS, and it changes accordingly.

Earlier this month, a panel headed by Prime Minister's Economic Advisory Council chairman C Rangarajan, suggested the scrapping of the levy sugar burden on the industry, as part of its recommendations to deregulate the sector.