Govt mulls selling surplus levy sugar stocks in open market

Banikinkar Pattanayak
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THE department of food is planning to direct mills to supply sugar — meant for sale through the public distribution system — to interested state governments for offloading in the open market through designated outlets.

While the department wants to use the surplus stocks meant for the poor to curb prices in the open market following a 20% rise in prices in two months, mills are concerned such a proposal — once approved — would set a bad precedent. They also fear it would distort their open market sales by broadening the scope of public distribution policy in sugar.

At present, mills are mandated to sell 10% of their output to the government —called the levy sugar quota — at subsidised rates that cover just around 65% of the cost of production. The percentage of levy sugar quota is usually fixed by the food ministry on the basis of the expected production in a year and the requirement under the PDS, and this changes accordingly.

Few states, such as Kerala and Tamil Nadu that undertake market intervention, buy additional sugar from mills through tenders at market rates. The exact financial implication of the latest move depends on the size of such operations by these states. As for the levy sugar, the government offers mills slightly below ₹20,000 for each tonne, while the open market price is around ₹35,000.

To better the public distribution system, the Centre had in 2001 restricted the supply of levy sugar only to people below the poverty line and those covered under the Antyodaya Anna Yojana in all states, except northeastern states and Jammu and Kashmir where universal coverage is allowed. Requests of other states in the past for additional levy sugar supplies to target even those above the poverty line had been rejected on this ground.

The levy obligation costs the industry around ₹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.

"With the aim of fruitful utilisation of surplus 2011-12 levy sugar stocks and to check market prices, we may, therefore, consider offering the surplus levy stock to the interested state governments for their market intervention operations," a food department note said.

The latest proposal only compounds the problems faced by the mills, leading to fears that the government may resort to maintaining high levy sugar quota even when it needs less for the PDS and then diverting the surplus stocks for sale to the general consumers.

Moreover, they fear if state designated outlets offload sugar at much cheaper rates, mills' non-levy quota, meant for sales in the open market each month, may remain unsold.

According to the current policies that strictly regulate the sugar sector, a failure to complete non-levy sugar sales within the month could result in a conversion of the unsold quantity into the levy quota.

Asked about the impact of such a move, Abinash Verma, director-general of the Indian Sugar Mills Association (ISMA) said. "The surplus levy stocks have been piled up today due to the increase in the levy sugar percentage in 2009-10 from 10% to 20% as the government was expecting 14.5 million tonnes of sugar production, but instead, actual production rose to 18.9 million tonnes... Surplus obligation should be converted into non-levy quota, as the levy sugar is meant for BPL families and not for the populist programmes of few states."