Long way to go

Marginal hike in import duty fails to energise the sugar industry

The recent hike in import duty on raw and white sugar from 10 per cent to 15 per cent by the Union government has failed to cheer up the bearish sentiment of the domestic sugar industry, which has been demanding a higher duty of about 40 per cent. The industry is of the view that a meagre 5 per cent increase in duty will not be able to put the desired curb on imports of sugar into the country that has been witnessing a surplus for the last three years.

Taking into account the sugar production, consumption and imports in the current season (2012-13), Indian Sugar Mills Association (ISMA) has estimated that the opening balance of sugar as on 1 October 2013 – for the new season 2013-14 – will be around 8 million tonnes, which is about 2 million tonnes more than the normative opening balance that the government would like to have.

ISMA, in its preliminary estimates for the new sugar season 2013-14, has estimated the sugar production at 23.7 million tonnes, which is only about 5 per cent lower than the expected sugar production of 25 million tonnes for the current season (2012-13), ending on 30 September 2013. During 2011-12, the country's sugar production stood at 26.6 million tonnes. As against this, the average sugar consumption hovers about 22 million tonnes. Nearly 600,000 tonnes of raw sugar and another 125,000 tonnes of refined sugar have been imported into the country so far in 2013-14, as international prices have fallen below 16.5 cents per pound of raw sugar and below $480 per tonne of white sugar on account of improvement in overall supply.

"Such a small hike will not serve any purpose," says M. Srinivaasan, president, ISMA. "It will fail to deter imports since the international prices are ruling quite low due to bumper production in Brazil. Though the rupee has depreciated with regard to the dollar, the Brazilian Real has also depreciated, making the imports from the South American country a viable proposition".


SANJAY BORADE

Small hike has no effect on the industry

"For the last three years, we have surplus availability of sugar due to higher production," says Vijay Banka, whole-time director & CFO, Dwarikesh Sugar Industries. "In this scenario, imports are only going to add to our discomfort. This marginal rise in import duty will not have any impact on the overall scenario".

Under pressure

G.S.C. Rao, CEO, Simbhaoli Sugars, believes that, in the given situation when there is enough stocks in the market, there is a need to discourage imports. The industry as well as market sentiment is otherwise dampened due to many reasons. The recent decontrol of sugar sales announced by the Centre has not helped the millers to clear up the cane dues, as ample supplies in the market have kept the prices of sweetener under pressure for quite some time now. In fact, sugar prices have fallen by ₹3-4 per kg in the last five-six months, even as sugarcane prices have failed to relent on account of state governments rendering to populace measures.

While realisation of mills continues to be under pressure, the cost of production has gone up. Currently, ex-factory price of sugar in Uttar Pradesh and Maharashtra is ruling at ₹31 and ₹28.50 per kg respectively, as against the production cost of ₹35 and ₹31 per kg. Such an anomaly has severely affected the cash flows of millers, which are at present burdened with an all-time high cane arrears of ₹12,500 crore. According to ISMA, due to unfavourable market condition, the mills are currently holding 16 million tonnes of sugar stock, valued at ₹50,000 crore in their factory warehouses.

"We are forced to hold on to such a huge stock. This is not only adding to our interest burden and cost, but also blocking some vital cash flows, which could have been used for clearing the mounting cane arrears of farmers," says Srinivaasan. According to him, there is also no justification of such a low import duty on sugar, when similarly-placed other agricultural goods like coffee, tea, milk, etc, attract duties ranging from 30 per cent to as high as 100 per cent.

Industry sources are of the view that curbing imports can only bring about some temporary relief – more so on the sentiment front. But the long-term solution for the industry lies in the fact that the government completes the decontrol process as recommended by the Rangarajan Committee. While recently the Union government has abolished the decades-old levy quota mechanism, as also dismantled the sugar release mechanism, there is need to carry out similar reforms on the sugar cane side also, in order to rationalise sugarcane pricing.

Currently, sugar cane, being an agriculture commodity, comes under the purview of a state, which decides upon the cane pricing, as also cane area reservation and minimum distance criterion. There is no linkage between sugar cane prices and sugar prices. While, over the years, sugar cane prices have gone up significantly on account of higher SAP being announced by states, there has been no commensurate rise in sugar prices. This is making the entire sugar industry non-viable.

◆ ARBIND GUPTA