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ASHOK GULATI/CACP & ABINASH VERMA/ISMA

Linking sugar and cane pricing will result in fair returns to farmer, industry

BY VIVEK LAW

Sugar mills in Uttar Pradesh, the country's second-largest producer of the sweetener, have ended their impasse with the state government over pricing and resumed crushing of cane.

Ashok Gulati, chairman of Commission for Agricultural Costs and Prices, which advises the government on price policy for agricultural commodities, and Abinash Verma, director general of Indian Sugar Mills Association (ISMA), however, say in an interview the problems are far from over. Edited excerpts:

Dr Gulati, there have been dramatic developments in India's sugar sector over the past few days. In late November, the biggest sugar companies in the country took on the Uttar Pradesh government led by Akhilesh Yadav, but just as the month came to a close, the companies blinked first, stayed down by the state government which was unwilling to budge and flexed its muscle threatening legal action. The companies walk away from the fight bruised, with little to take away than a small subsidy here or a tax sop there. A similar compromise is being worked out in Maharashtra as well. Sir, you have seen these events play out. While the stand-off supposedly seems to be over, do you believe the larger problem still exists? How would you explain the entire issue and what would your solutions be?

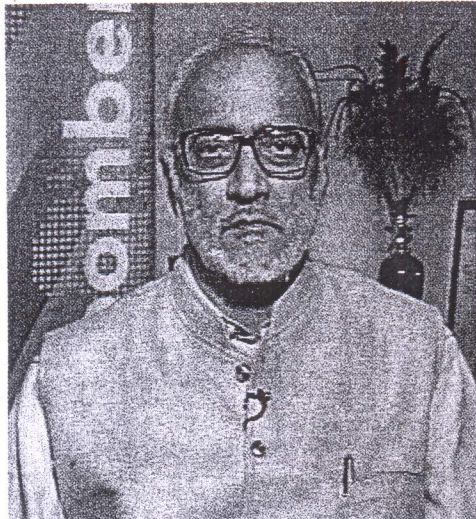
Ashok Gulati: Well, it's very clear that for the time being, there is a painkiller that has been given and the pain will subside for at least one night. But when you will wake up in the morning, the same pain will be there again. Unless we reform the sugar distortions in the sugar sector, I think we can't find permanent solution.

The Rangarajan committee had talked about giving up the levy system and the monthly release system which has given some viability and some profitability to the sugar sector. But there are still many other distortions, especially what happens to molasses, what is happening to ethanol production and pricing of ethanol. Does the government want a buffer stock policy at all or not?

These are some of the options that we have to think of and convert this crisis of today into an opportunity for reforming it permanently. Unless we do that, this problem will be repeated every third year.

I'm afraid what we are sitting on right now is a downward cycle for the next three years in the sugar sector.

Abinash, would you agree with what Dr Gulati says, that basically you as an industry agreed to take that pain killer, probably with a gun held to your head, and bought



Temporary relief: Gulati (left) and Verma say tax sops and subsidies from Uttar Pradesh are merely painkillers for the sugar industry.



INTERVIEW

yourself and the industry some time, but the larger problem still remains?

Abinash Verma: Yes, certainly. I agree that the larger problem needs to be resolved and that problem can be resolved only if the state governments get out of the politics of fixing the sugarcane prices arbitrarily. The Rangarajan committee, of which Dr Gulati was a member, has recommended a very good formula, which is followed over the world in which the sugarcane price automatically would get determined as a certain percentage of the sugar price and the byproducts realization.

If that is done, there are fair returns to both the farmer and the industry and the industry keeps on growing year on year.

What is happening in various states today is that there is an arbitrary price fixed; sugarcane prices have gone up by 70-75% in the last three years but on the contrary, sugar prices have not gone up by the same percentage. That is what is killing the industry.

Thus, the basic problem is rationalization of the sugarcane pricing policy. Determine the sugarcane price as per the sugar price realization. That is the agitation across the country—in Maharashtra, North Karnataka and Uttar Pradesh. This is the basic issue—link the sugarcane price as per the sugar price realization.

Then why did you buckle down? You were going through an agitation and you were raising those issues, but it almost seems like you were threatened into agreeing.

Abinash Verma: There are two or three positives that

have come out. It's not like we buckled down or gave up. After all they are there for doing business; it's not a trade union or not an agitation which doesn't have to end. It has to end because about 40 lakh (4 million) of our farmers have grown their sugarcane. They cannot be left distressed because they were selling their sugarcane at ₹120-150 to the jaggery manufacturers, whereas we are offering ₹225-230 to them. Now, there have been a couple of positive from the state government (Uttar Pradesh). Firstly, they have not increased the sugarcane price this year compared to the last year, which I thought in an election year is a big move by the state government.

Secondly, they have also allowed us to pay our sugarcane prices in two instalments, ₹260 and later ₹20.

Thirdly, they have also given small concessions, though I would have loved greater concessions. Fourthly and most importantly, there is an assurance from the state government that a committee will be set up under the chief secretary to examine the possibility of rationalizing the sugarcane pricing, which actually gave us that kind of confidence that here is a long-term solution; let's go for it.

We can sacrifice one year, we may lose money one year, but in the long run if that pricing policy comes up and rationalization policy comes up, then there is a chance of survival and there is a chance of growth in Uttar Pradesh, too.

Dr Gulati, would you agree with that or do you believe that the industry is being a bit too naive in letting things going for a year? You just articulated the point that

for the next three years, we could continue to see serious problems with the industry. What is your sense on this?

Ashok Gulati: This is the typical infamous sugar cycle—we produce more when we are in the upswing. At present, our production and the global production is all in excess of demand. So naturally, the prices had to come down, globally and domestically. Now unless 10-15% excess production is absorbed somewhere, price pressure will remain on the downward side and when it is on the downward side, then people start getting away from sugarcane, although sugarcane is still one of the most remunerative crops across all other field crops.

Still, when people will leave this 10-15% correction to bring back the market equilibrium, that is what is going to happen. It doesn't happen over one year; it happens over 2-3 years, when there is pressure because the costs of the farmers are increasing. Now, if you are freezing the price, in real terms you are reducing their margins. And that will actually incentivize them to look towards other crops. This correction will take place over the next three years.

Now, the only thing that worries me is that we are still talking about pricing of just the cane and sugar and just trying to relate the two. There are also issues related to what is the price of molasses and part of the molasses is reserved for potable liquor industry. That price is one-third to one-fourth the price available in the open market. The second big question—sugar industry of tomorrow is not really sugar; it is going to be more

and more of energy, so what is happening to ethanol blending? We are not talking much about that. We had this mandatory order of 5% blending, we haven't even done 2.5% and by 2017 we are supposed to be doing 20% blending.

Now, what is the price of ethanol? What should be the rationale behind that? These are structural issues and they should be discussed and fixed for long-term growth of the sector.

I feel major potential growth of the sector is seen more as an energy industry of tomorrow, especially in eastern Uttar Pradesh and Bihar where there is lot of water. God has given you water which needs to be converted into energy and profits, both for the farmer as well as for the industry. That will be a win-win situation.

Just fighting over sugar alone is looking at less than half the picture of tomorrow.

So do you believe, Dr Gulati, that this is nothing but short-term political goals compromising what could be the creation of a stronger and more vibrant industry in the medium term?

Ashok Gulati: Yes, I do feel that by nature perhaps we wake up only when there is a bigger crisis and then we try to do some quick fix, and that is what we are attempting right now. Yes, there is a crisis and there needs to be a short-term solution, but unless we find a medium to long-term solution, I don't think we are wise enough. This is a good time for both the farmers and the industry to realize that they cannot pull on without each other. So both are partners, both are wheels of the same car and it must run faster. And to run faster they have to envision the

future of this industry and find a better, rationale pricing, not only of sugarcane but also of ethanol; the pricing of power generated through bagasse, which is another area that needs to be looked into.

Abinash, how distressed are the balance sheets of your members, of some of the sugar companies, looking? You said one year is going to continue to be a period of pain. How much more losses do you anticipate? We could actually be adding on to an already beleaguered industry?

Abinash Verma: If the current prices of sugar continue like this, it's a very depressed price; therefore if the central government comes out with some kind of assistance to push out the surplus sugar that we have in the country, then I believe about 40 lakh tonnes can be exported, as mentioned by Dr Gulati. We have become uncompetitive because of the very high cost of production.

So if there is support, if 40 lakh tonnes of sugar is exported, I'm sure the domestic prices will firm up. It needs to improve because today we are selling sugar at ₹29-29.50 (a kg) in Uttar Pradesh or ₹27 in Karnataka and Maharashtra, whereas the cost of production in these places are almost about ₹6 higher than that.

So, therefore, there is a need for the sugar prices to go up.

But to answer your question, if the sugar prices remain at these levels, in Uttar Pradesh or in Maharashtra or in Karnataka, I believe all of them will be losing about ₹4-5 per kilo of sugar produced. In Uttar Pradesh, that translates to almost ₹4,000 crore in this year.

Therefore, as I have always maintained that at these sugarcane prices and sugar prices, there will be build-up of cane price arrears, which this year in March-April 2014 might cross ₹10,000-11,000 crore, which has never ever happened in Uttar Pradesh. The highest it went up last year was ₹7,800 crore.

So during election time this kind of a sugarcane price arrears, which is huge, is going to create a problem unless and until the sugar prices improve.

The second issue that Dr Gulati mentioned, the ethanol issue, that's a central government basic policy. The central government has placed its policies before the OMCs (oil marketing companies) and the sugar industry.

Unfortunately, implementation by the OMCs is still not on the ground level as it should have been. Therefore, once the implementation and initial teething problems are sorted out, I believe we have the potential to move to 10% ethanol blending in the country, which can save \$2 billion of foreign currency by way of ethanol blending in the country.

So that's certainly another excellent programme that we need to move on to and that can be another solution to the problems that the Indian sugar industry is having or the problem of payments to the farmers today can be resolved through the byproduct route also.

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