



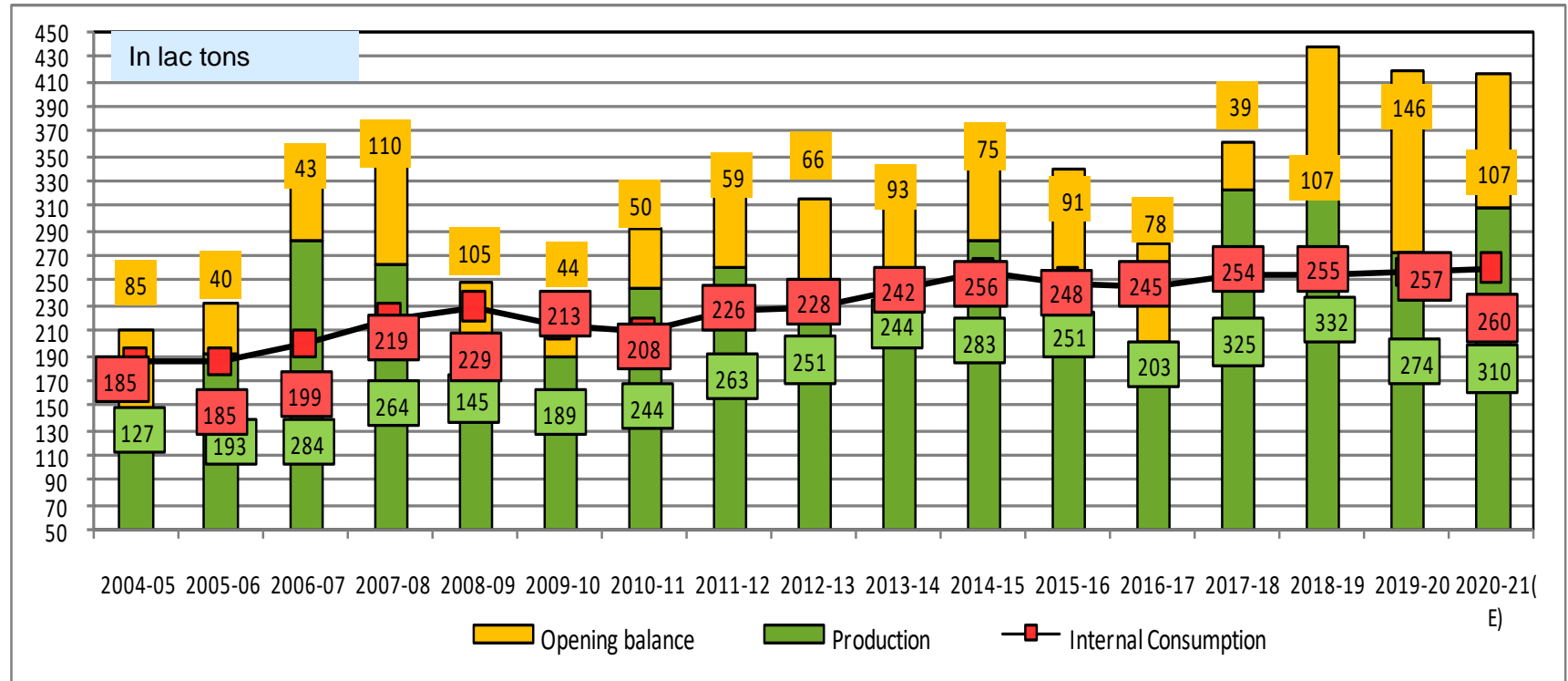
PRICING POLICY of SUGARCANE for 2021-22 SS

INDIAN SUGAR MILLS ASSOCIATION

27 Oct 2020

India is a structural surplus sugar producer

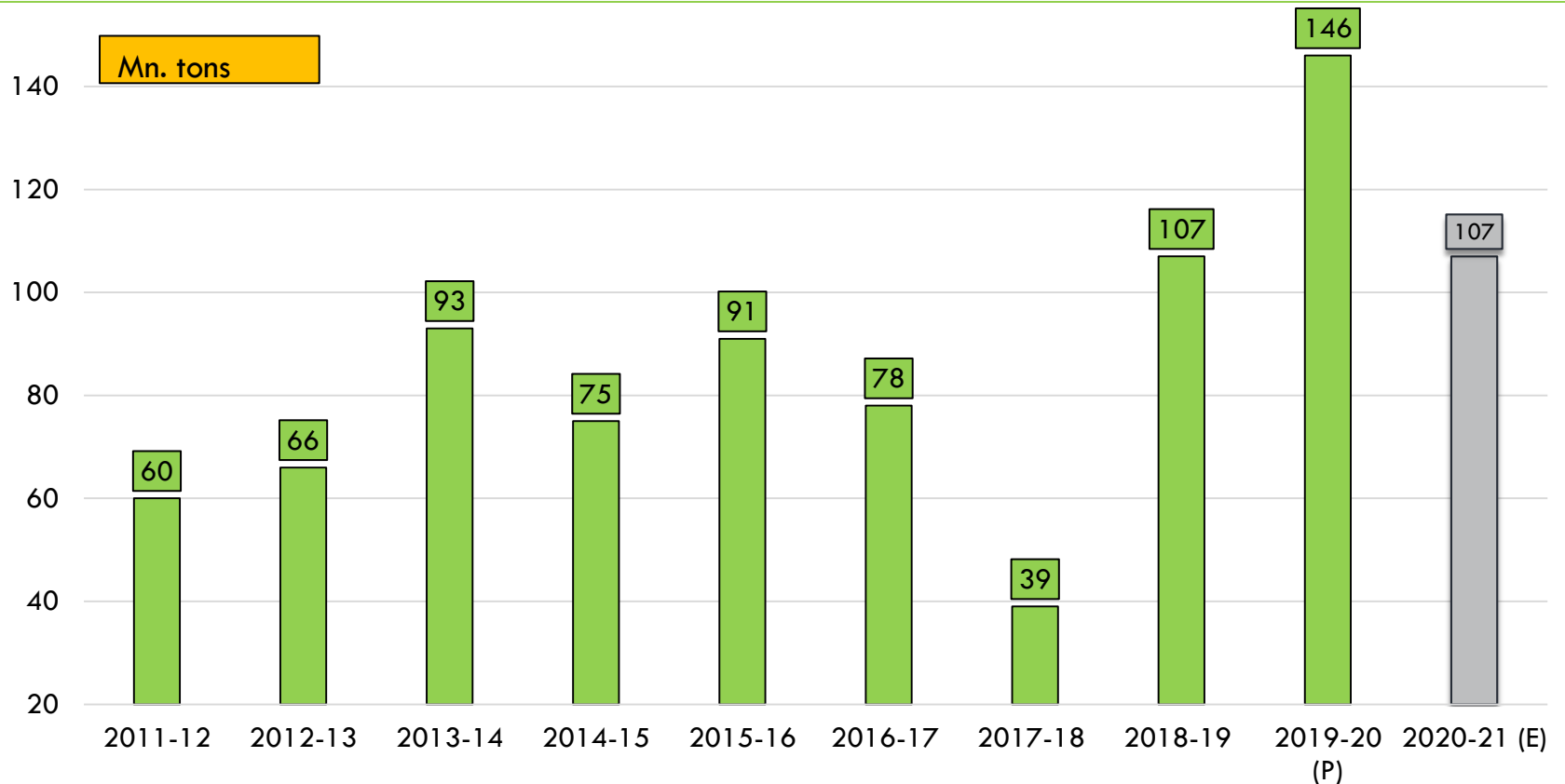
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- Sugar availability in last 3 years (2017-18 to 2019-20) of 364, 439 & 420 lakh tons was very high against domestic requirement of around 255 lakh tons
- Availability expected to be very high again next year at 417 lakh tons

Opening Balance for every sugar season

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- Carry forward stocks continues to be very high in last 3 years
- 107 lakh tons of **inventory is blocking Rs.35,000 crore** of funds + bumper production will further block more working capital

Sugar balance sheet & surplus

(in lakh tons)

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Sugar season	2018-19	2019-20	2020-21
Opening balance (as on 1 st Oct)	107	146	107
Estimated sugar production	332	274	310
Sugar availability during the season	438	420	417
Estimated sugar consumption	255	257	260
Estimated exports	38	56	??
Closing balance (as on 30th Sept)	146	107	157

- CACP should keep the continuous high sugar surplus in view, while recommending FRP and other related policies

Relative returns: sugarcane outcompeting others

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Crops	Relative Gross Returns over A2+FL with respect to sugarcane	
	2020-21	2019-20
Sugarcane	100	100
Cotton + Wheat	50	50
Paddy + Wheat	47	49
Paddy + Paddy	31	36
Soybean + Wheat	37	34
Soybean + Gram	28	29

Source: CACP report for 2019-20 & 2020-21

- Returns from sugarcane continues to be very high as compared to other crops
- Problem of surplus cane & sugar can be addressed by correcting this distortion

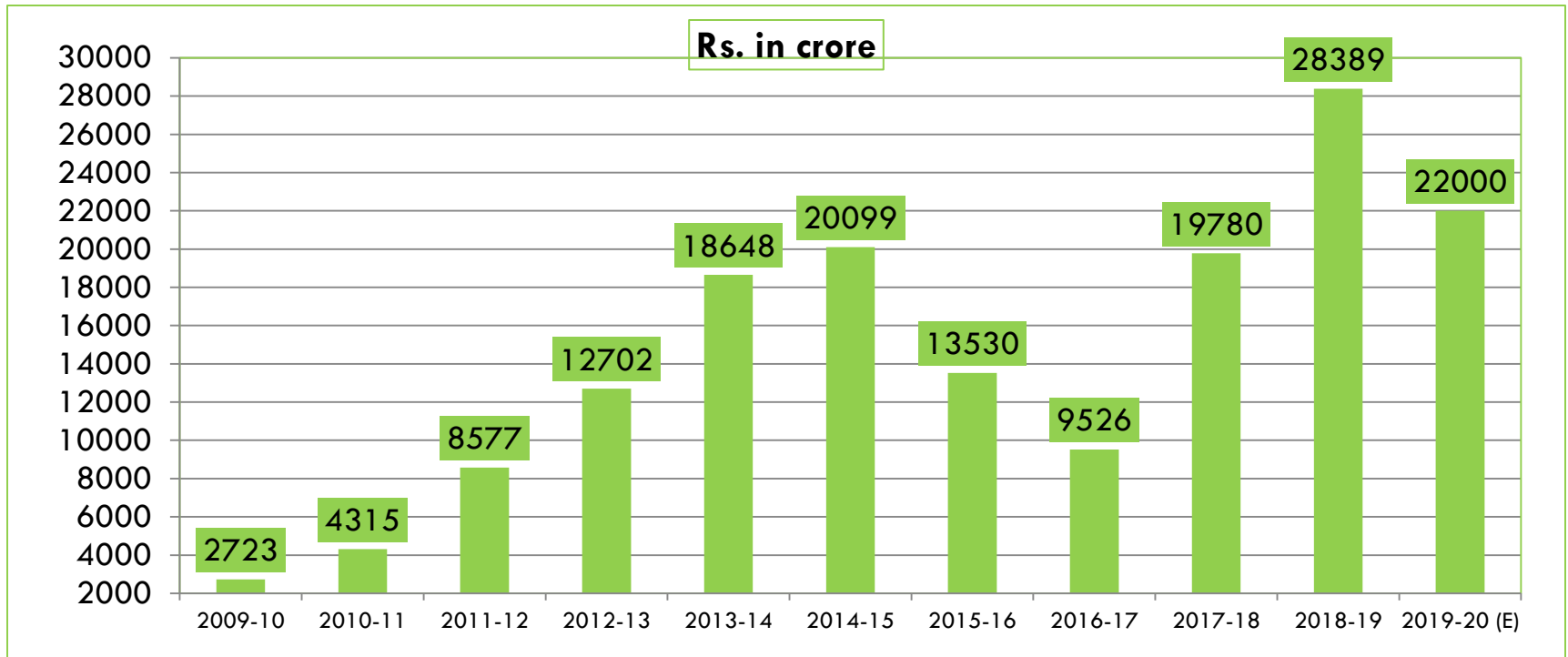
Projected FRP over A2+FL cost for 2020-21 too high

State (1)	Modified A2+FL plus trans. & ins. ch. (2)	FRP at State specific recovery (3)	FRP higher than A2 + FL cost (4)=(3)/(2)
Andhra Pr	228	278.73	1.22
Karnataka	158	301.53	1.91
Maharashtra	183	330.03	1.80
Tamil Nadu	237	270.75	1.14
Uttar Pradesh	183	332.03	1.81
Uttarakhand	158	319.20	2.02
All-India	184	318.34	1.73

Source: CACP, 2020-21 report

- Sugarcane farmers getting 1.73 times of A2+FL cost, at all India level
- Considering Govt's target of giving 1.5 times A2+FL, **all India average FRP should be Rs.276 and not Rs.318.34 per quintal**
- Distortion too high in major cane growing States like UP, Maharashtra & Karnataka

Cane price arrears direct result of current cane pricing system



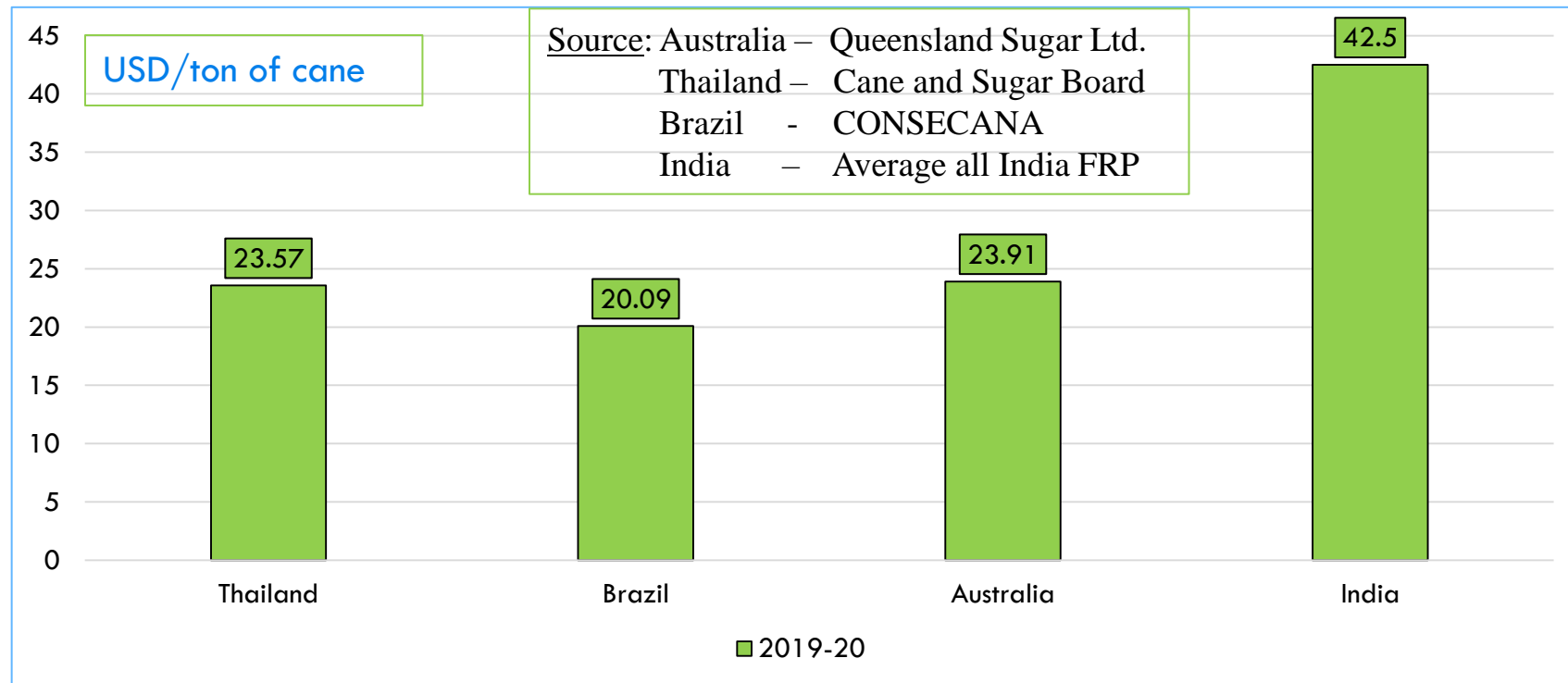
Cane price arrears are because of mismatch between:

- cane price and sugar price and
- cash inflow and cash out go

- Lack of linkage between cane price and sugar price making cane price unaffordable
- Exports are unviable adding to high inventory, blocking cash flows

Amongst large producers, India pays the highest cane price

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- If India is a structural surplus sugar producer, it needs to export regularly
- Such high cane prices make Indian sugar uncompetitive, and always dependent on Govt. subsidies on exports
- With export subsidies not possible after 2023 (as per WTO), Indian cane pricing policy needs reforms urgently

Indian cane pricing policy challenged in WTO

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- Brazil, Australia and Guatemala have complained against Indian sugar and sugarcane policies in WTO
- Complaint is also against high FRP
 - Stating FRP has “doubled in 9-10 years”
 - Causing surplus sugarcane production resulting in surplus Indian sugar
 - Causing global glut, depressing global prices
- GOI’s legal experts feel there is need to amend Indian cane pricing policy
- RSF along with PSF is WTO compliant

ISMA's SUBMISSIONS

Rationalise cane pricing policy

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- India should adopt global practices & systems
 - ISO's report of June '19 says 16 out of 22 countries have RSF for cane price
- Govt. has to adopt the RSF system
 - Along with PSF to protect interests of farmers
 - Cane price at 75% of sugar price realisation (any higher % will burden millers – Rangarajan Committee done a detailed calculation).
- To export surplus sugar, Indian sugar has to become globally competitive
 - For that, sugarcane pricing has to be rationalized and made reasonable
- Freeze FRP at current levels till 50% above A2+FL catches up with FRP
 - Consider the recent increases in yield levels in FRP
 - To control continued surpluses, correct the distortion in crop/ farm economics

Some long pending requests

- The premium above basic recovery of 10%
 - Should be shared 50:50 between mills and farmers
 - CACP should clearly recommend the sharing
- 3 instalment payment of cane price
 - CACP may recommend exact formula/ system of the instalment payments
- Transport rebate for 'purchase centre' procurement be revised
 - For both rate and the ceiling on distance between centre and mill-gate
- Rebates for mechanical harvesting & binding material be revised
 - Non-cane material in mechanical harvesting increases by 12-14%
 - Rebate on binding material of 1% is too low as compared to actuals
- Increase in base recovery from current 10% to 10.5%
 - With premium, rebates & discounts for higher & lower recoveries

ISMA's request to CACP

- CACP should give clear recommendation on the following:
 - Prescribe the system and timing for 3 instalment payment of cane price
 - The sharing percentage/formula between millers and farmers, of the premium above base recovery
 - Rebates for transport, binding material & mechanical harvesting
- Instead of leaving it on any Committee
 - These recommendations will be deliberated upon by Govt. before acceptance
- Long term objectives of using sugarcane and molasses to produce ethanol along with enough sugar for domestic requirement
 - The ad-hoc policies/schemes intending to temporarily discourage sugarcane or give cash incentives for other crops should not be encouraged

Most important: sugar price to support the FRP

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- With Govt. fixing a minimum selling price (MSP) for sugar since June '18
 - CACP should suggest the MSP which can support the FRP recommended
- The mismatch between cane price and sugar price is the main reason for cane price arrears, so
 - The cane price be determined as per sugar price realization i.e. RSF
 - But till such time that happens, MSP should be determined as per FRP
 - And the best placed Authority to suggest the correct MSP for sugar is CACP
- CACP's recommendations should be accepted in toto
 - Or GOI should stop fixation of FRP

Thank you