



SHARAD PAWAR

Member of Parliament
(Rajya Sabha)

11th May 2015

Dear

Sub: Alarming high sugarcane price arrears of famers

It is a matter of grave concern that outstanding unpaid arrears of our sugarcane farmers for 2014-15 sugar season alone, is over Rs.21,000 crore, the highest ever in the history of the Indian sugar sector. This means that over 35% of the farmers and their dues have not been paid.

Sugar prices have fallen quite steeply in the last 18-20 months, and are at the lowest in the last 6 years. The prices are Rs.6 to 8 per kilo lower than the cost of producing the sugar. Sugar mills are incurring huge losses, and are either unable to pay the dues of farmers or are defaulting in repaying loans of banks, thereby becoming NPA accounts.

The current situation is unprecedented because of surplus sugar production continuously in last 5 years, and an expected 100 lakh tons of carry forward stocks at the end of the current season. With a glut in the global market and depressed prices therein, Indian mills are unable to export the surplus. The export incentive scheme announced on 27th Feb. 2015, has not helped, and against 14 lakh tons of sugar allowed under the scheme, only about 2 lakh tons could get exported.

The recent decisions of the Government to increase import duty to 40% and to remove excise duty from ethanol from next sugar season, will be helpful in the long run, after a year or so. Nothing has however, been done to solve the current crisis of surplus sugar and depressed domestic sugar prices. That is why, even after your approvals on 29th April 2015, the domestic prices have, instead of improving, only fallen further.

To solve the immediate problems of the sugar sector, there is need to improve both the liquidity of mills as also the ex-mill sugar prices, which in turn will ensure that our cane farmers get their dues. Both these objectives can be achieved by reducing the burden of surplus sugar from the mills. The industry has requested that 10% of the current sugar season's production should be purchased by the Government at the FRP based cost of production, and held back from the market for 2 years. This will give around Rs.8500 crore of cash flows, which will straightaway reduce the arrears of farmers. Once most of the surplus is removed from the market, the domestic ex-mill prices will also improve to inch closer to the cost of production.



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There was some suggestion on giving interest free loans from banks to all sugar mills to pay cane price to farmers, as was done last year, amounting to Rs.6500 crore. The loan will further burden the mills, and will still not solve the problem of sugar surplus sugar. This loan can instead be given to a Government agency, like FCI or MMTC/STC, who can buy the sugar from the mills, and the interest burden could be borne from SDF.

My understanding is that Government buy out of 10% sugar production is the best and possibly the only solution in the short run to solve the current crisis of the sugar sector, and the quickest way to reduce the cane price arrears of our farmers. Otherwise, the industry fears that a quarter of them may not be able to start their crushing operations in 2015-16 sugar season, less than 5 months away.

In the meanwhile, till the health of the industry improves, I request you to consider financial restructuring of the sugar mills.

May I therefore, urge upon you to take a quick decision on the above.

With warm regards

Yours

(SHARAD PAWAR)

Shri Narendra Modi
Hon'ble Prime Minister of India
New Delhi