

Respected Shri Vijay Paul Sharma, Chairman, CACP,

Senior Officials from the Government,

My fellow members of the Indian Sugar Mills Association

Friends from our National Federation of Cooperative Sugar

Factories Ltd. and other Associations, our friends from the trade and media,

Ladies and Gentlemen,

1. On behalf of the Indian Sugar Mills Association, I feel privileged to welcome all of you to our 83rd Annual General Meeting. This will also be my last meeting as President of the Association.

2. The last one year has been a journey of interesting interactions and realizations of many facts important to the industry and economy which need a lot of deliberation.

B. RATIONALISATION OF SUGARCANE PRICING POLICY

3. Even after the decontrol of sugar sales from April 2013 and sugar prices now being determined by market forces, the prices for sugarcane are still controlled and fixed by the Government. Sir, this is distorting the market, wherein our revenue side is market determined but the raw material side is controlled.

4. In October 2012, the Expert Committee, set up by the then Hon'ble Prime Minister, gave clear recommendations that the sugarcane price should be determined at 75% of the revenue realization from sugar. It included a 5% weightage for the primary by-products. The Central Government then issued an advisory to States to consider adoption of the Revenue Sharing Formula, but did not make it mandatory. Accordingly, Maharashtra and Karnataka, contributing for 50% of the country's sugar, adopted the formula in 2013 itself.

5. However, other States have not adopted the formula yet. There are five States which continue to be unreasonable and are fixing SAPs, much higher to FRP.

6. Media had reported that CACP has recommended a further 20 rupee hike per quintal in the FRP of sugarcane to INR 275 per quintal for next season 2018-19.

7. High FRP is killing the sugar industry, especially when the sugar prices are depressed when we have high sugarcane and sugar production, which would be the case next sugar season i.e. 2018-19. It will make the Indian sugar industry uncompetitive in the global market, and in years when we need to export sugar, we will be unable to do that without Government's assistance.

8. In our attempt to restructure debt of the sugar mills including SEFASU loans, Soft loans and SDF loans, we approached Hon'ble Finance Minister, Food Ministry, the Department of Financial Services and also met the Deputy Governor, RBI. Even the RBI Deputy Governor advised us to do away with the mismatch between the sugarcane price and sugar price 4 and be realistic about the viability and continuity of sugar mills, when the sugarcane prices were being fixed.

9. ISMA has also been continuously pursuing with the Government for creating Price Stabilization Fund (PSF), something that the CACP has been continuously recommending for the last few years. We have had several discussions and made several presentations before top officials in the last couple of months. The response of the Government seems positive.

10. FRP of sugarcane has increased 97% in the last 8 years as compared to MSP increase of 47% in the case of wheat and paddy in the same time. Once RSF and PSF are decided, the sugar industry in India will not only become viable but farmers will also get their payments on time, and our industry will become competitive in the global market.

11. The Revenue Sharing Formula is followed by all the major sugar producing countries. The Fund to bridge the gap, will protect the farmers and will ensure that the Indian sugar industry is competitive, viable and financially strong.

12. We need to have a uniform sugarcane pricing policy – one nation one price similar to GST - ONE NATION ONE TAX.

C. SUGAR PRICES

13. Last sugar season 2016-17 started with an opening balance of 77 lac tons and a production of 203 lac tons because of drought in the Southern and Western States. There was pressure on the Government to import large quantity of sugar, on rumours that otherwise the sugar prices would cross unprecedented levels. There were demands made for imports of quantities as high as 30 lakh tons. Interactions by ISMA with the Government, helped convince the Government as well as the market, that only a small quantity of imports were required. The Government, on concerns of regional deficits, allowed for just 5 lac tons of imports and that too only after confirming the actual sugar production in the season, which was done in April 2017. Further, instead of allowing the 5 lac tons of imports to come in through any port, the Government assessed that there might be a regional shortage in the Southern part of the country and, therefore, allowed 3 lakhs tons to be imported through the ports in the South and 1.5 lakh tons in the Western region and 0.50 lakh tons in the East. This conscious and well calculated decision of the Government ensured that the domestic prices were stable for the consumers, and the sugar mills were able to cover their costs and pay cane price to the farmers on time.

14. But in the last one month since the sugar season 2017-18 has started, prices have dropped. Increased supply of sugar in the market has driven prices down. Further, the extension of the stock limit on sugar traders by another two months till December 2017 has kept sugar prices low.

15. Unfortunately, the ex-mill sugar prices have fallen by Rs. 4 per kilo in the last couple of months. The fall is not based on fundamental reasons. It seems to be more out of fear about 2018-19 season's production, which is unfortunate. Only 10% of cane for the next year has been planted and yet speculators are throwing all kinds of sugar production figures for 2018-19 SS. That is not based on any analysis and is at best theoretical and speculative. All of us need to be careful of such rumours and not base our selling decisions on it.

D. SUGAR AVAILABILITY

16. Traditionally, the norm of stocks on 1st October every year was taken as equivalent to the consumption requirement of three months. These stocks ensure that the consumption requirement in the beginning of the season is met, before the new season's production comes into the market.

17. Under the regulated release mechanism, there was a gap of around 45 days between production and sales, because of the need to report production figures to Government and then wait for release orders. So, sugar produced in November could be sold only in January. However, after abolition of the release mechanism in 2013, new season's sugar is now available in November itself.

18. Therefore, the norm for the opening balance needed a re-look. The Government has accepted that opening stocks as on 1st October, equivalent to 2 months consumption requirement, is good for the country and enough to meet the needs for the time by when the new season's sugar hits the market. This helps in reducing our carrying costs and interest burden.

19. The stocks as on 1st October 2017 of 39 lac tons, equivalent to just about 2 months of consumption requirement, has also been well accepted by the market. Unlike rumours by vested interests that it would spike sugar prices, there was absolutely no increase in the prices during September and October 2017. The debate on norm of 2 months has now been put to rest and everybody has accepted this.

E. SUGAR PRODUCTION AND DISPOSAL OF SURPLUS

20. ISMA is expecting 251 lac tons of sugar production in the current season. We expect the sugar consumption to be around this level in the current year and, therefore, see a very balanced demand and supply year.

21. However, we may start seeing small surpluses after a year or so. There will be pressure on the mills to generate cash flows to pay cane price of farmers on time. Surplus sugar production depresses domestic sugar prices. Whenever that happens,

sugar mills lose money which affects their cane price paying capacity, which in turn, leads to accumulation of cane price arrears of farmers.

22. On one side, there is nothing one can do about surplus sugarcane, but on the other side, we can take early steps to tackle the surplus sugar availability. One way to dispose of the surplus is to export the same into the international market. The global prices may not be viable for such exports from India, especially when our domestic sugarcane price is the highest in the world.

23. However, India is very close to large sugar deficit countries, having good business relations and large trades with us. While China and Indonesia are the top sugar importers, Bangladesh and Sri Lanka, import 25 to 30 lac tons every year.

24. India has a bilateral Free Trade Agreement and SAARC Free Trade Agreements (SAFTA) with both Bangladesh and Sri Lanka. There are several countries which offer preferential import duty to the neighbouring countries under Regional Cooperation, like Indonesia offers to Thailand and Australia and like the Trade Agreements within North American countries and South American countries. Such preferential trade tariff should be offered for sugar imports by Bangladesh and Sri Lanka to India. Efforts should be started from now itself, so that these markets are available for Indian sugar exporters at concessional import duties from the beginning of the next season, when we would like to export sugar.

F. ETHANOL BLENDING PROGRAMME

25. The Government has been very supportive of the ethanol blending programme in the country. Hon'ble Prime Minister and Petroleum Minister have driven this programme so well in the country in the last three years. In December 2014, a fixed pricing policy was adopted and the programme has been progressing smoothly. The sugar industry has also responded very positively.

26. Industry supplied a record 111 crore litres of ethanol in 2015- 16, which, however, fell to about 66 crore litres in 2016-17, only because of drought and also because of a reduction in the ethanol procurement price.

27. The Government has now revised the procurement price of ethanol upwards by 5%. As expected, this improved price attracted more offers and we offered 155 crore litres for 2017-18. The oil companies have finalized 113 crore litres of supplies in 2017-18. The tenders this year were invited late and it seems that ethanol supplies may not start in full swing before January 2018. Due consideration should be given for this in the contract.

28. Ethanol blending can be used to balance sugar production. In years of surplus sugar when the sugar prices fall, some of the surplus sugar especially 'B' heavy molasses can be diverted into ethanol. One million tons of surplus sugar can be diverted to produce 60 crore litres of ethanol. However, for this to happen, the ethanol prices at the distillery

gate should be remunerative enough to compensate for the loss in revenue which would have come from sugar. A standard calculation would suggest that if the ethanol prices are about 1.5 times the price of sugar, some sugar companies would start looking at diversion of 'B' heavy molasses away from sugar into ethanol. A suitable mechanism for conversion of 'B' heavy molasses to ethanol may be worked out which may be acceptable to both millers with and without distilleries.

29. Sir, this will serve several purposes, namely, reduction in surplus sugar, ensuring sugar prices cover costs, better supplies of ethanol for blending purpose, reduction in net foreign exchange outgo, better returns to the sugarcane farmers, better cash flows for the sugar mills as well as reduction in environmental pollution from transport vehicles.

G. GST RATE ON SUGAR INDUSTRY

30. We are very grateful to the Government for deciding to keep taxes on sugar at the same rates as it was prior to introduction of GST.

31. Even though the Government has time and again stated that GST on sugar will be 5%, including for raw and refined sugar, there is a small confusion wherein if a four digit HSN code is mentioned, the GST rate applicable would be 5% but if a 8 digit HSN code is mentioned, it might get into 12%. We have requested the GST council and officials therein for clarification, and await clarification.

32. As producers of molasses as well as alcohol and ethanol, the industry would have benefitted if all products from molasses were included under GST. Currently, there is a wrong interpretation by a couple of State Governments, wherein they want to collect State taxes on ENA and Rectified Spirit (RS), under the impression that these are potable and fit for human consumption. It is a matter of fact that neither ENA nor RS are fit for human consumption in their current form. Also, there are a few Tribunal orders prior to introduction of GST, wherein it has been said that RS and ENA are matters of the Central Government. We made our representations before the Ministry of Finance and GST Council and the officials therein, some months back and await clarification.

H. ACKNOWLEDGEMENTS

33. Before I end my Presidential Address, I wish to acknowledge with deep sense of gratitude the positive policy decisions and financial assistance that the sugar sector has received continuously from the Hon'ble Prime Minister Mr. Narendra Modi.

34. I wish to also thank the Hon'ble Minister of Consumer Affairs, Food and Public Distribution Mr. Ram Vilas Paswan, Hon'ble Finance Minister Mr. Arun Jaitley, Hon'ble Minister of Petroleum and Natural Gas Mr. Dharmendra Pradhan and Hon'ble Minister of State for Food and Public Distribution Mr. C.R. Choudhary, for their continued support and help to us.

35. I am also thankful to Mr. Sharad Pawar, former Agriculture Minister for his continued support to the sugar industry.

36. I am very much thankful to Mr. Nripendra Misra, Principal Secretary to Hon'ble Prime Minister and Mr. Anurag Jain, Joint Secretary, Prime Minister's office for their help and guidance.

37. I would specially thank Ms. Preeti Sudan, former Food Secretary and Mr. K.D. Tripathi, Petroleum Secretary for all the encouragement, their patience and positive attitude towards our problems and demands. I would also thank Mr. Ravi Kant, the Food Secretary who has assumed the charge of Department of Food and PD couple of months back for his support.

38. I am thankful to Dr. Vijay Paul Sharma, Chairman, Commission for Agricultural Costs and Prices for regularly meeting us and appreciating our problems.

39. I am thankful to Mr. Nikhilesh Jha, Special Secretary & Financial Advisor, Mr. Subashish Panda, the Joint Secretary (Sugar), Department of Food and Public Distribution, Mr. G.S. Sahu, Chief Director (Sugar) and Director (Sugar Policy), Ministry of Consumer Affairs, Food and Public Distribution and other officials of the Sugar Directorate and Department of Food for their help and assistance.

40. I am thankful to Mr. Sandeep Poundrik, Joint Secretary Ministry of Petroleum and Natural Gas, Mr. Santosh Sarangi, Joint Secretary, Ministry of Commerce and Mr. Manish Sarda, Bio-fuel Cell of Ministry of Petroleum and Natural Gas for their help and guidance.

41. I am thankful to Mr. Dilip Walse Patil, Chairman, National Federation of Cooperative Sugar Factories Ltd., and Mr. Prakash Naiknavare, Managing Director, National Federation of Cooperative Sugar Factories Ltd. for their help and assistance extended to us from time to time. A special thanks to Mr. Adhir Jha, CEO and MD of Indian Sugar Exim Corporation for his continued contribution for the welfare of the Indian sugar industry.

42. I wish to record my appreciation of our Past Presidents, including Chairpersons of various Sub-Committees and the Regional Associations for their continued guidance. I would like to make a special mention of my colleagues on the Committee, especially the Vice-President Mr. Gaurav Goel who has always been available for consultation and advice.

43. I wish to record my appreciation for the hard and dedicated work put in by the officers and staff of ISMA – a special thanks to Director General Mr. Abinash Verma for his continued guidance and support during my tenure. I also thank the officers and staff of ISEC for their support and assistance.

44. I thank the distinguished guests who have so kindly responded to our invitation and the Media for giving the industry positive recognition and support during the entire year.

45. Sir, I thank you for your patience in listening to my rather long speech but it has been quite a year and I have learnt a lot during this year in my role as ISMA President and without all your help I would not have made any progress. With this, I request you to kindly inaugurate our proceedings.

JAI HIND. <-><-><-><-><-><->