



POLICIES & CONTROLS IN SUGAR SECTOR IN INDIA

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Flow of presentation

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- Policies and controls on sugar sector
- Policies adopted in the past to solve demand-supply mismatch
- Implications of the policies & controls on sugar sector
- Suggested short term and long term policies

Controls prior to 2013

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- Sugar side
 - Regulated release mechanism
 - Levy sugar supplies for PDS
 - Packaging in jute bags
 - Tariff rate and quotas on export or import

- Sugarcane side
 - Minimum distance between two sugar mills
 - Cane area reservation
 - SMP/ FRP for sugarcane price (North Indian States have SAP)

Post 2013 controls

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- Government controls removed on sugar sales
 - No levy sugar supplies by mills at discounted prices
 - No regulation on monthly sugar sales/ quota by each mill
- So what were/ are the controls left??
 - All controls on sugarcane continue
 - North Indian States continue to fix SAP much above FRP
 - And export-import controlled through tariff rates and quotas

2018: Old control back, along with a new one

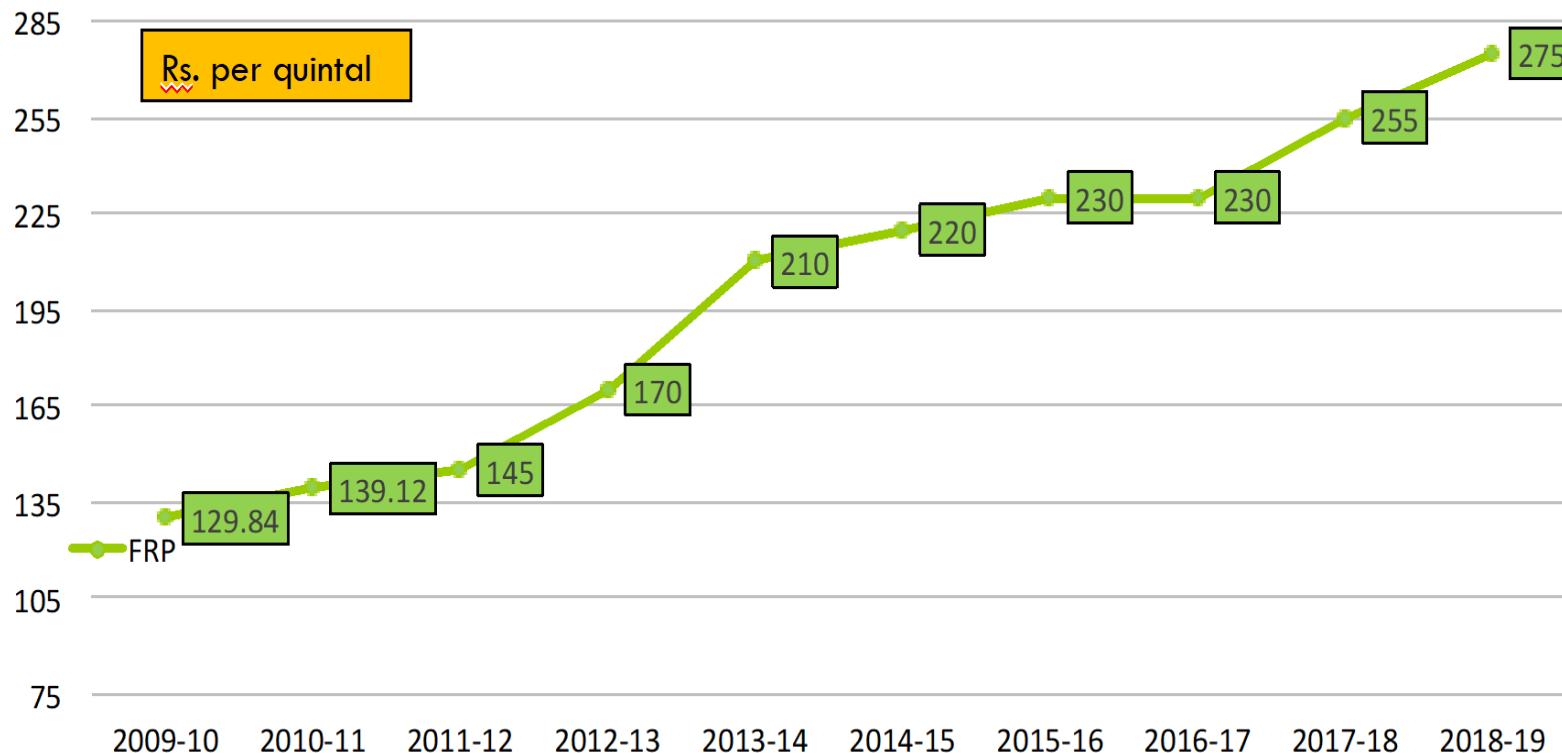
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- Maximum monthly sugar sale quota on mills re-introduced from June 2018
- Minimum ex-mill sugar price from June 2018
 - @ Rs.2900 per quintal
- **So, in addition to sugarcane price, quantity of sugarcane and area, quantum of monthly sugar sales and price for the same are decided through Government controls**

Implications of Government controls

FRP for sugarcane increasing very fast

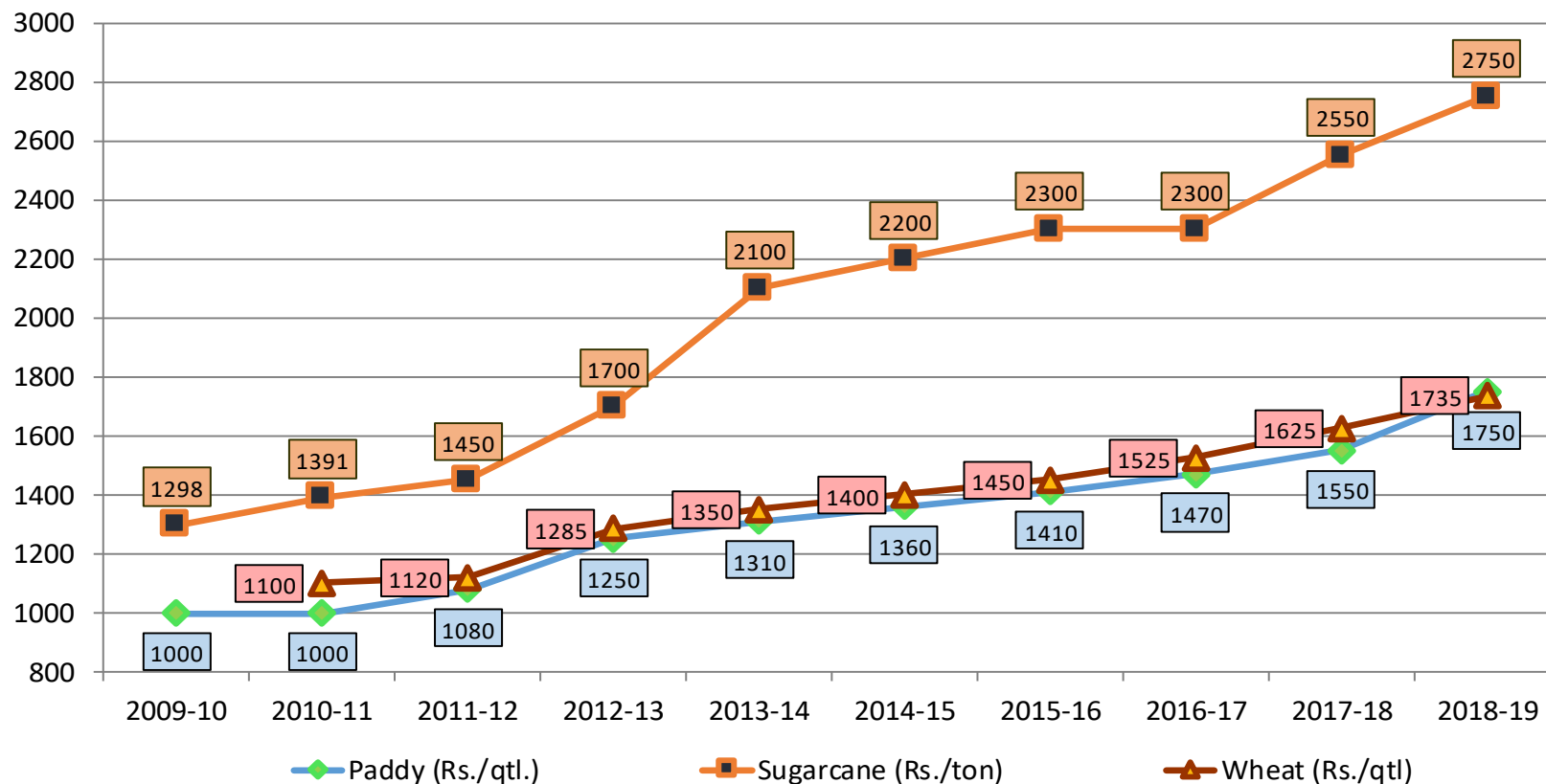
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- Average FRP of Rs.297 per quintal, in 2018-19 SS, will be 92% above A2+FL cost (Rs.155 per quintal).
- The returns to farmers would be higher if the increased yield of 25% in last two years alone (will be even more for UP, Maharashtra, Karnataka etc.) is considered

Remuneration to farmers from sugarcane highest

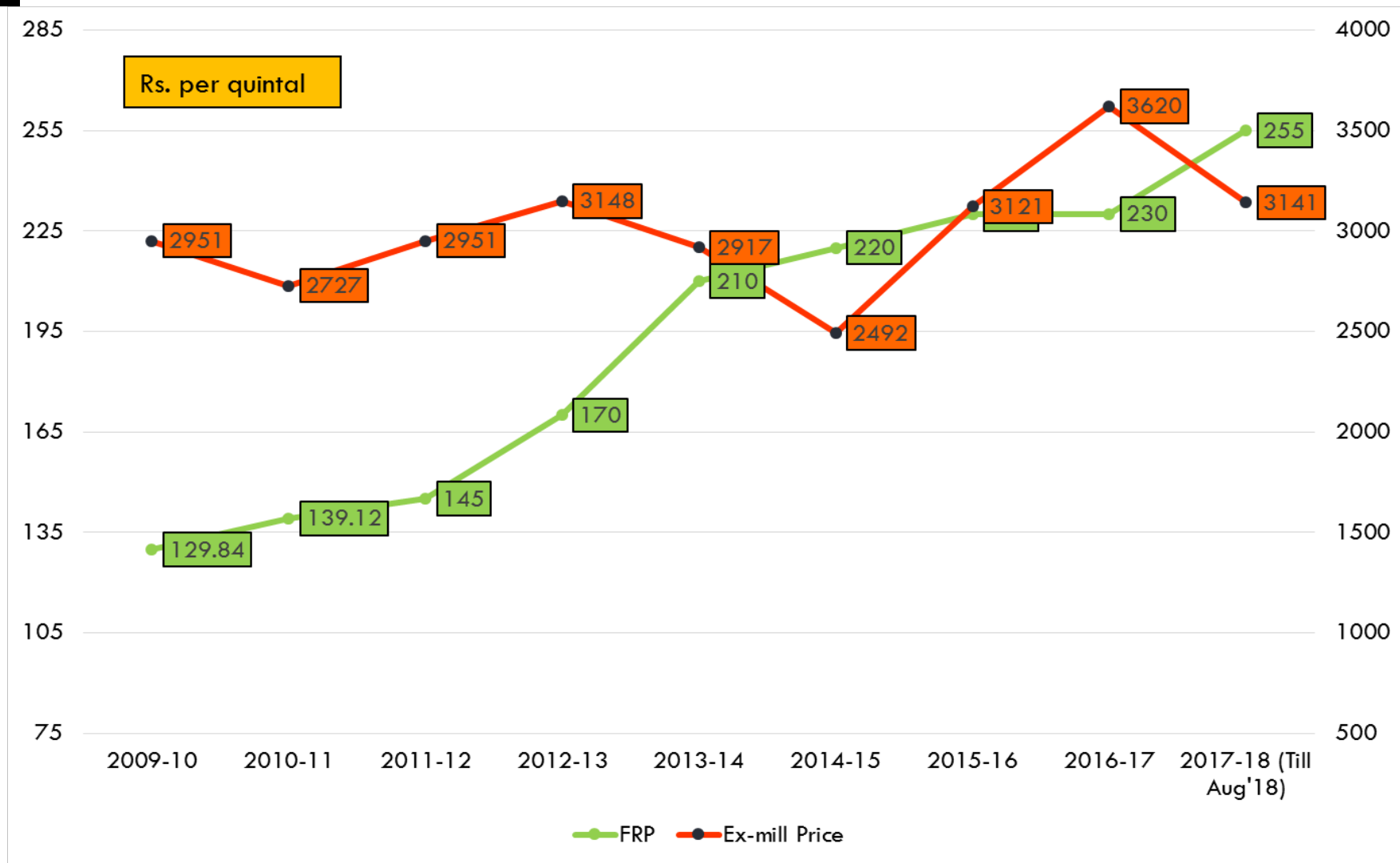
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- In report for 2018-19 FRP, CACP has stated that net returns of sugarcane will be 245% higher than (paddy + wheat) and 252% higher than (cotton + wheat)
- Therefore, even though FRP payment is delayed, farmers get more than other crops even if part of FRP is paid on time (rest can be taken as a bonus)

Average ex-mill price has not kept pace with FRP

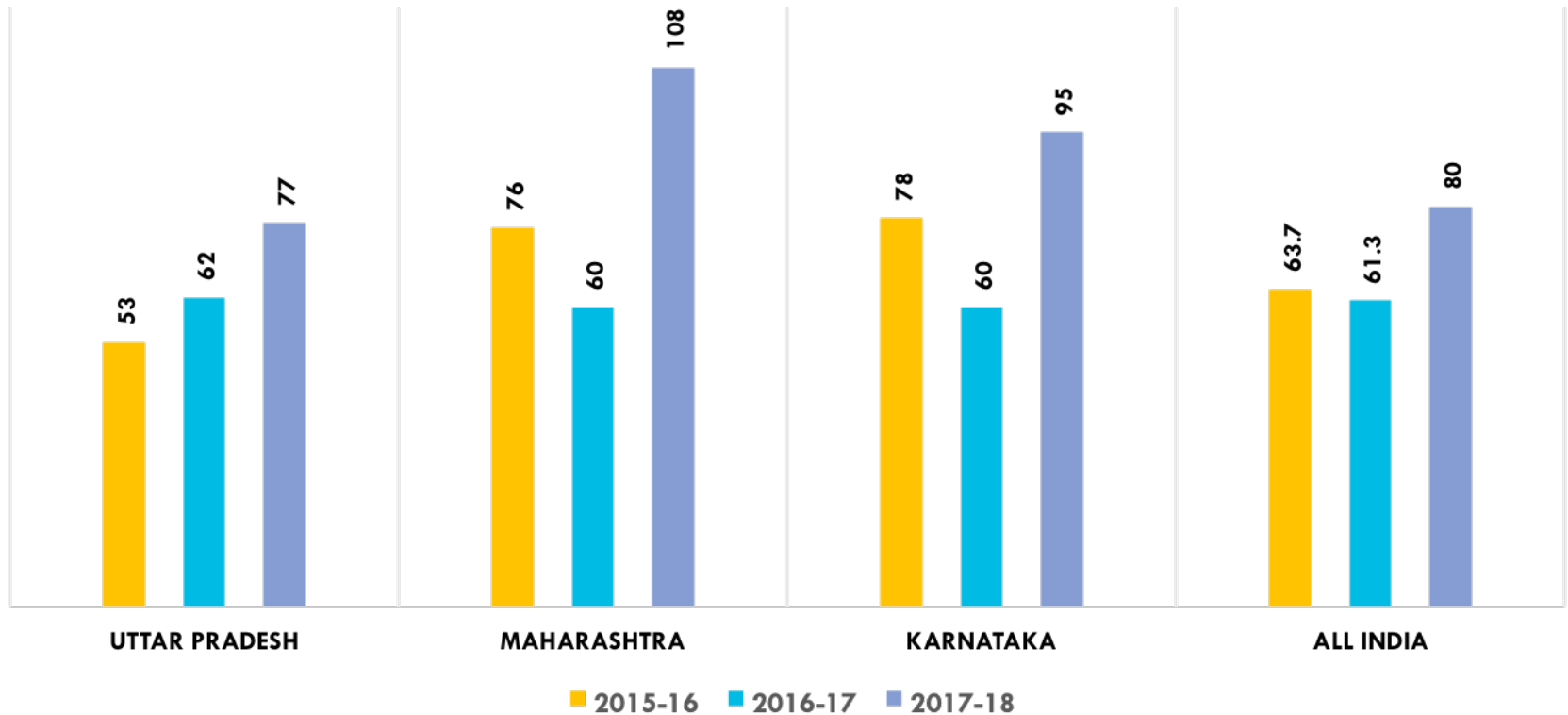
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Farmers' incomes increased due to higher productivity

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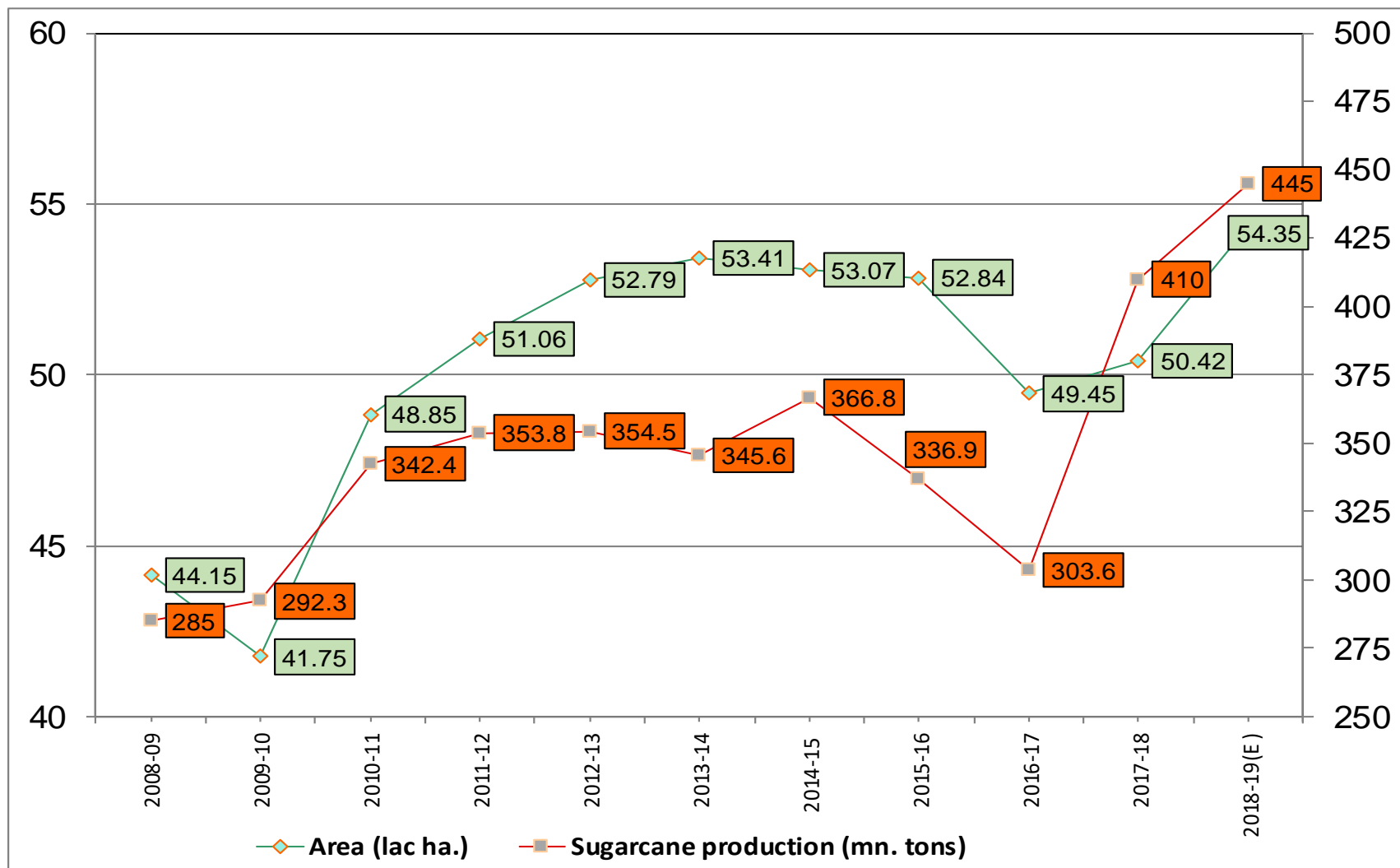
PRODUCTIVITY PER HA.



- Increase in farmers income due to higher productivity has also been accepted by CACP in its 2018-19 report, but not included in FRP calculation

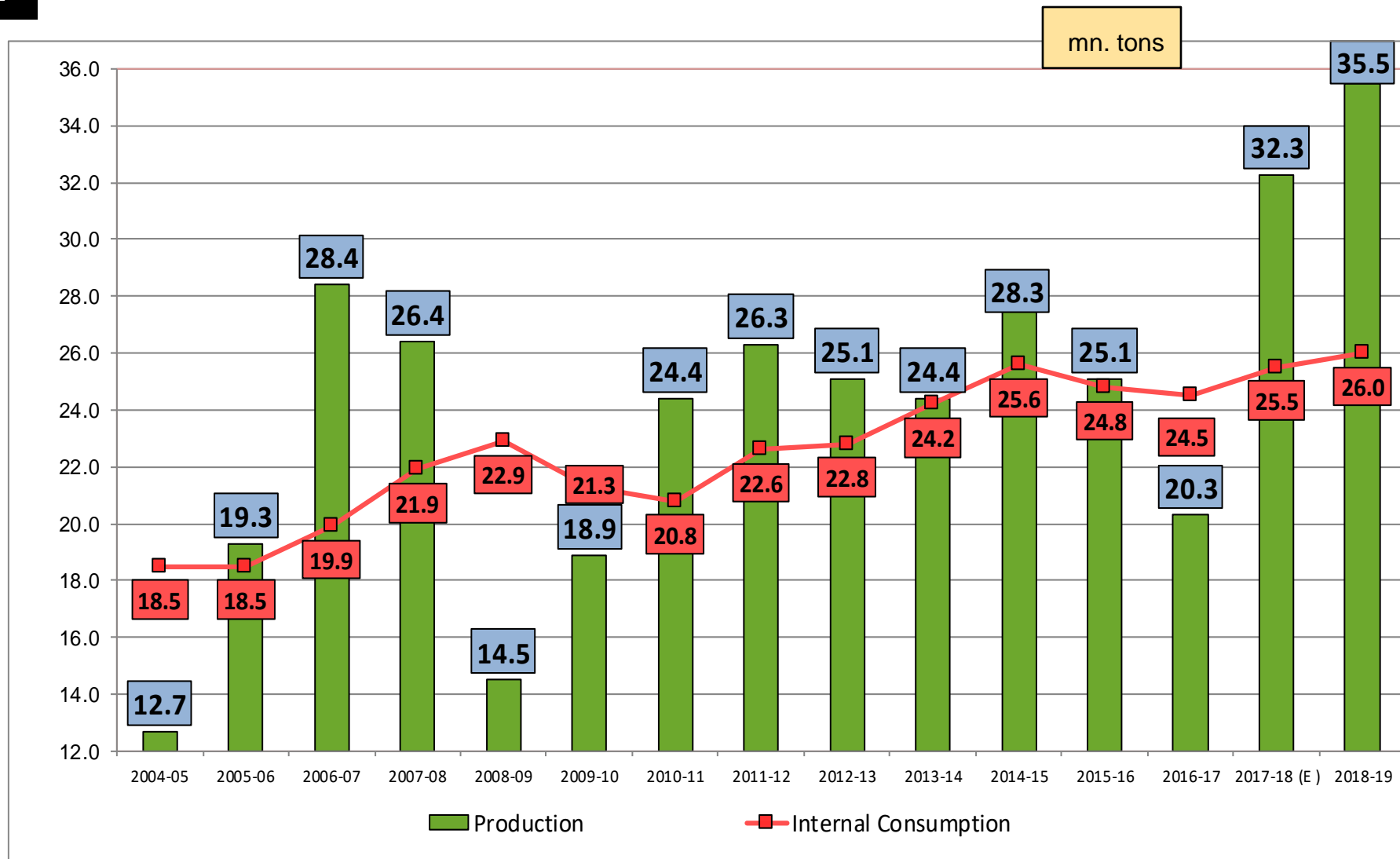
Sugarcane acreage and production increase

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Surplus sugar, reaching record levels

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Past Government supports

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- Created buffer stock in 2006-07 & 2007-08 SS and provided subsidy for storage and insurance charges.
- Reimbursed internal transport, ocean freight charges on sugar exports in 2006-07 and 2007-08 SS.
- Imports allowed under AAS in 2008-09 and 2009-10 when there was deficit.
- Exports allowed in tranches (5 lac tons each) in 2010-11 and 2011-12 SS.
- Incentives on exports given in the form of marketing and promotion services in 2013-14.
- SEFASU and soft loans provided to sugar industry and interest subvention was borne by Government in 2007 & 2014.

Recent policies to import-export sugar

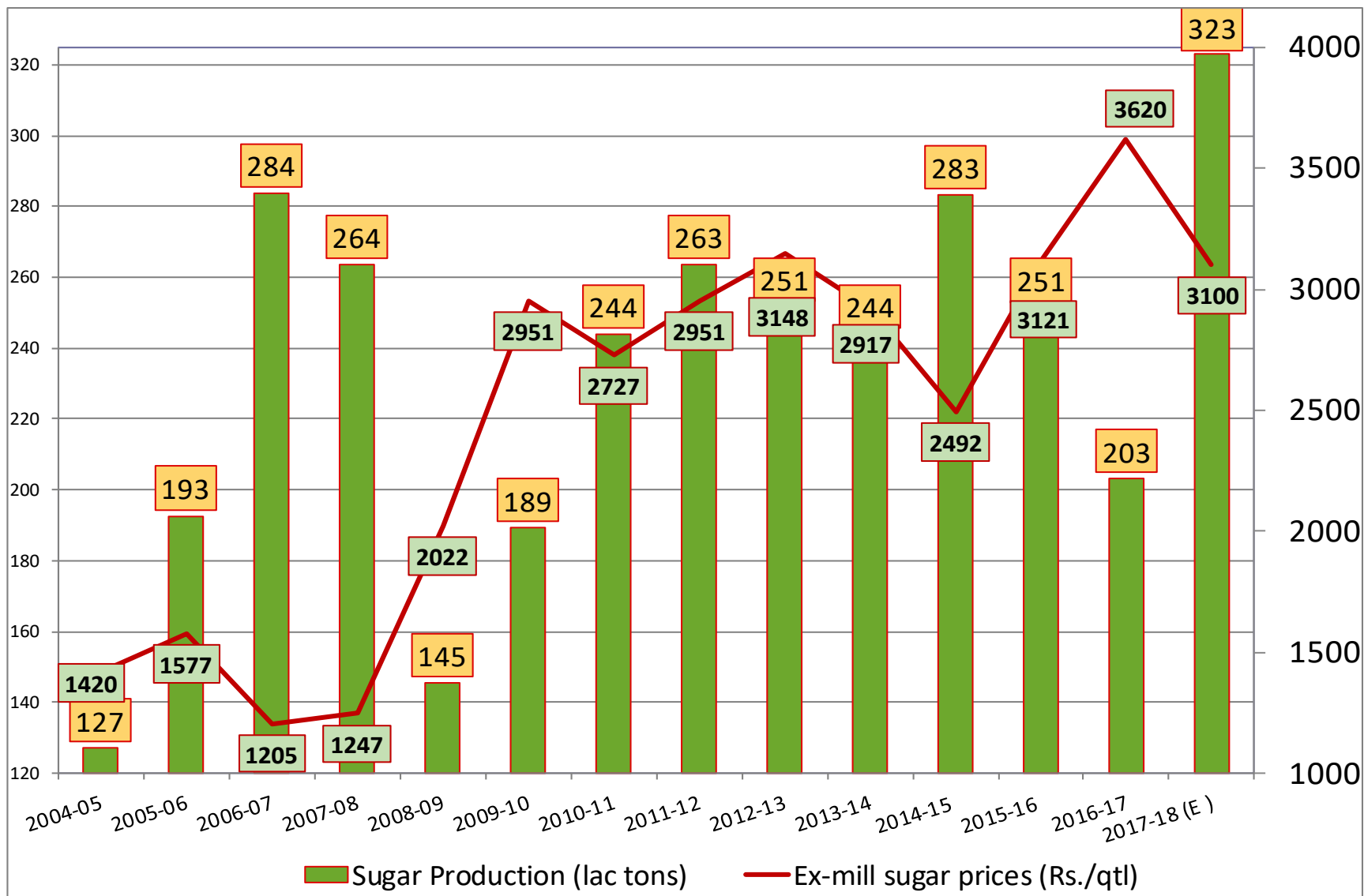
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- To tackle the surplus sugar in 2015-16
 - Export quotas for each sugar mill under 40 lakh tons of MIEQ
 - Production subsidy on cane as part of FRP given, which helped reduce losses, and also indirectly a part of the export loss
- To tackle deficit due to drought in 2016-17
 - Allowed raw sugar imports in specific regions by sugar mills only
- To tackle the surplus sugar in 2017-18
 - Export quotas for each sugar mill under 20 lakh tons of MIEQ
 - Production subsidy on cane as part of FRP being given, which helped reduce losses, and also indirectly a part of the export loss

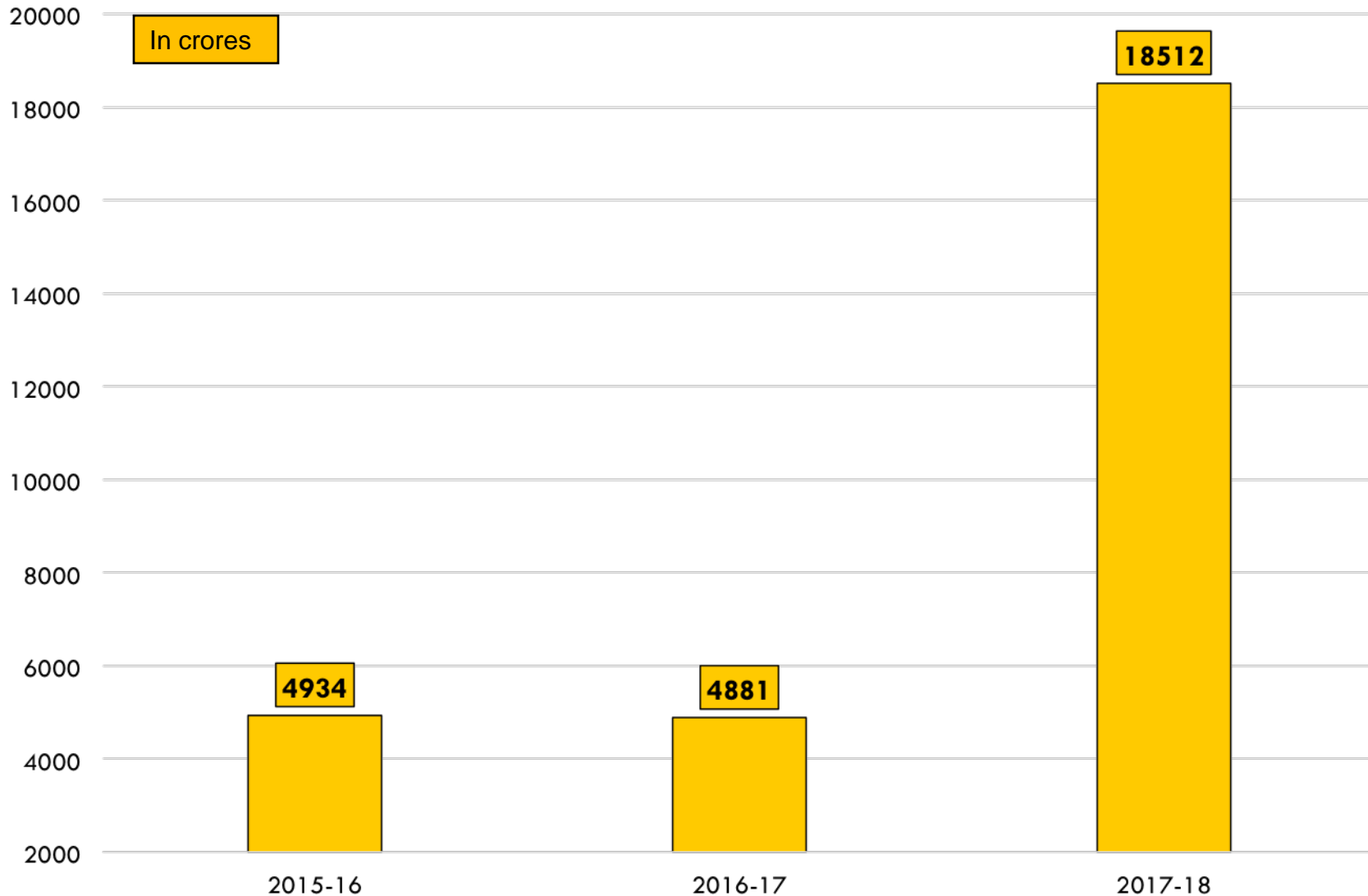
Negative impacts of the controls & policies on the sector ??

Sugar prices have become unremunerative

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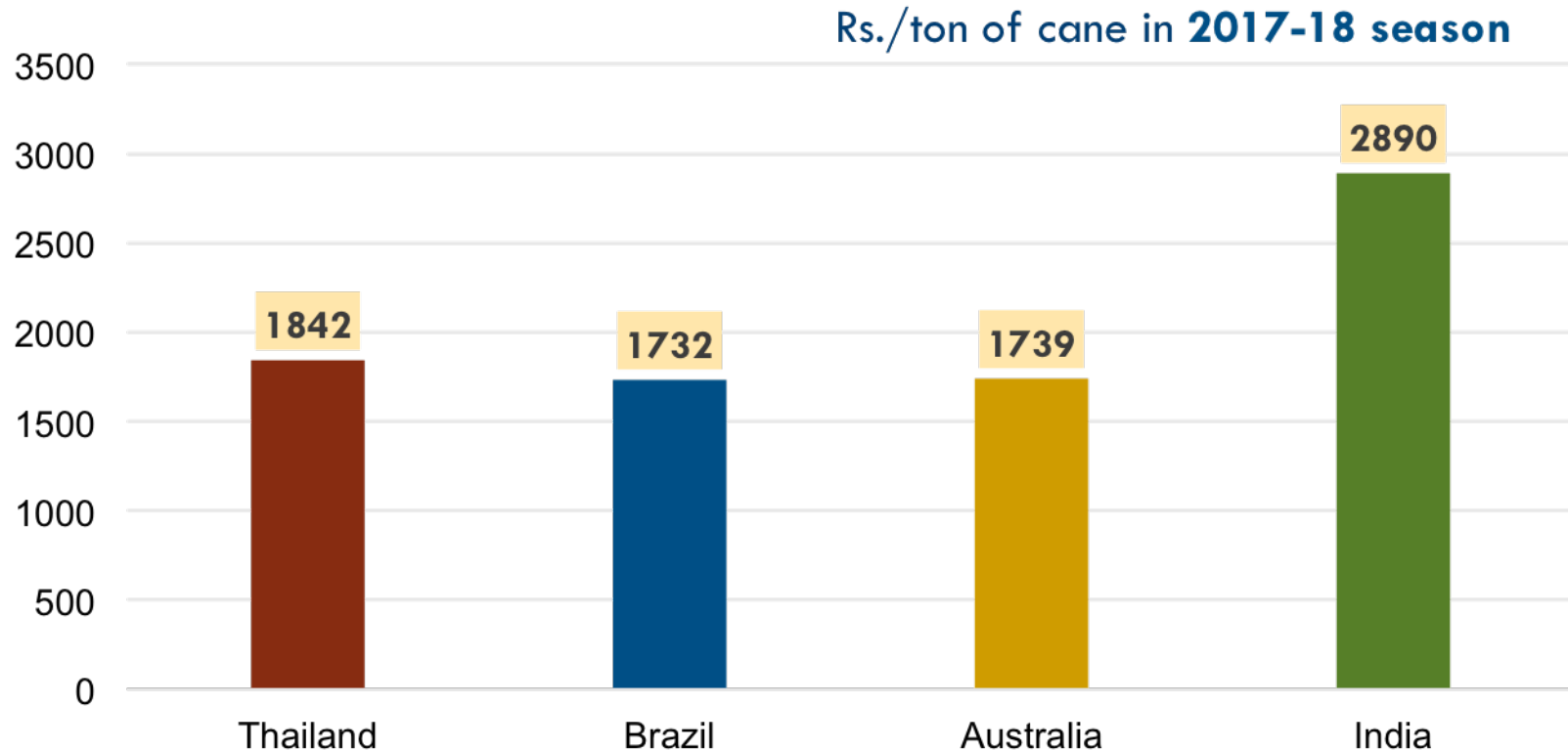


Cane Price Arrears as on 30th June



India pays the highest cane price

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Note: Prices include cost of harvesting & transportation

Source: Australia – Queensland Sugar Ltd.

Thailand – Office of Cane and Sugar Board

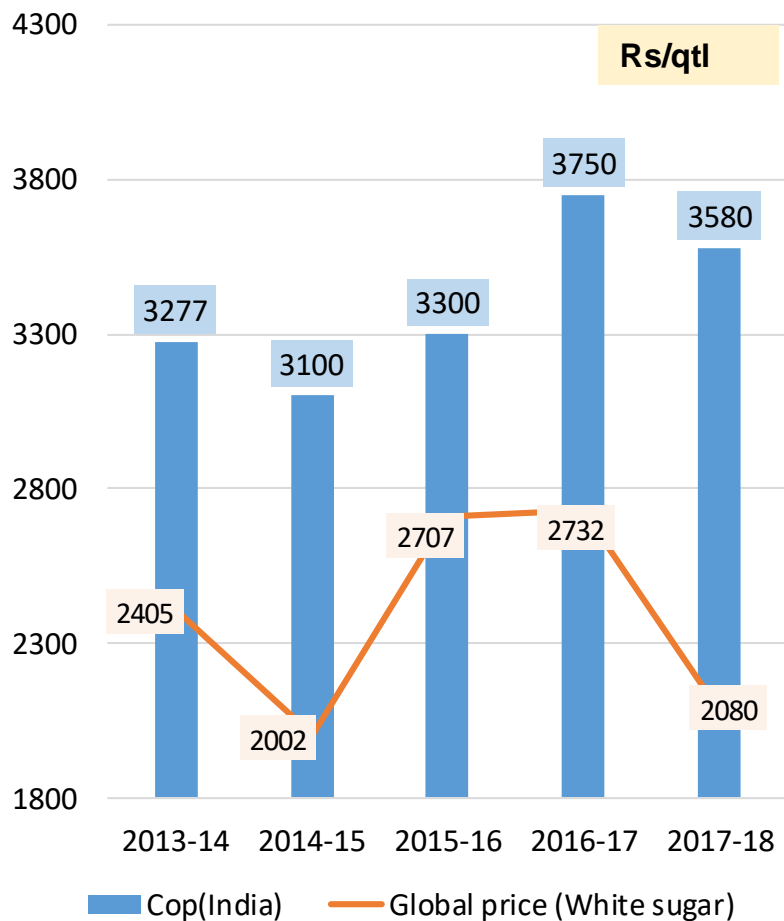
Brazil – CONSECANA

India – Average FRP at all India average recovery of 10.77%

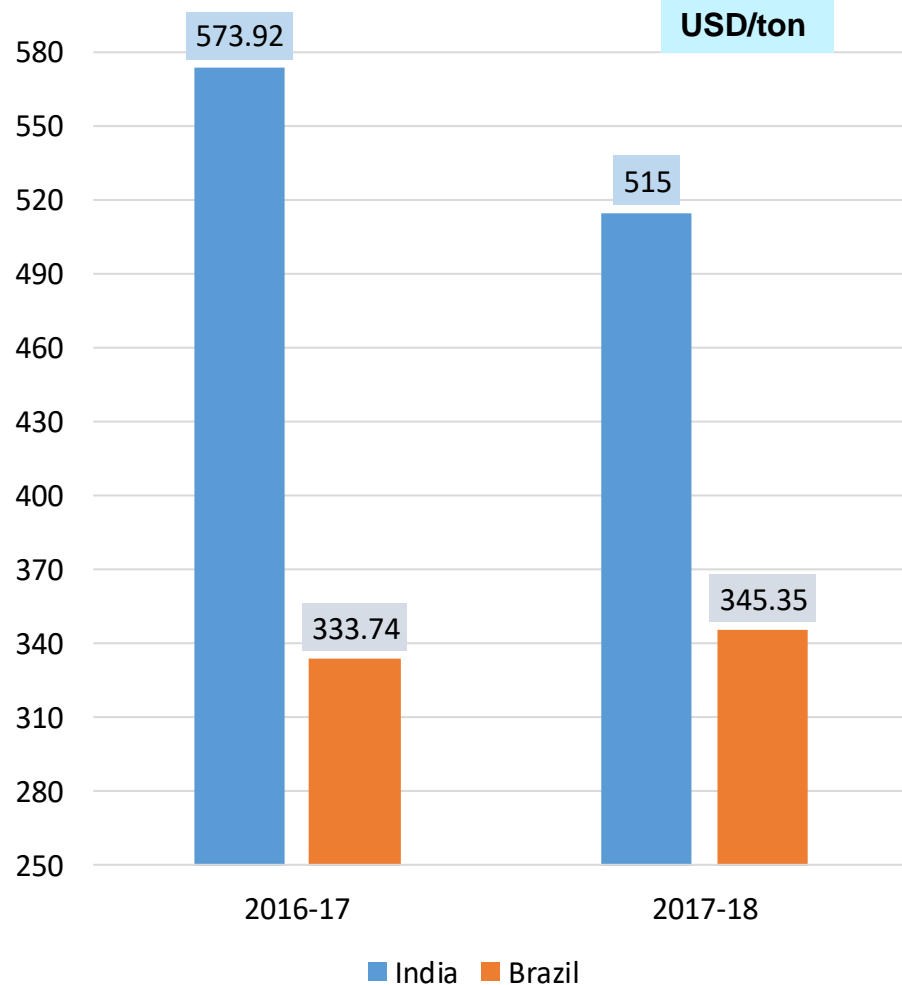
Indian sugar uncompetitive in global market

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CoP in India v/s Global prices
(white)



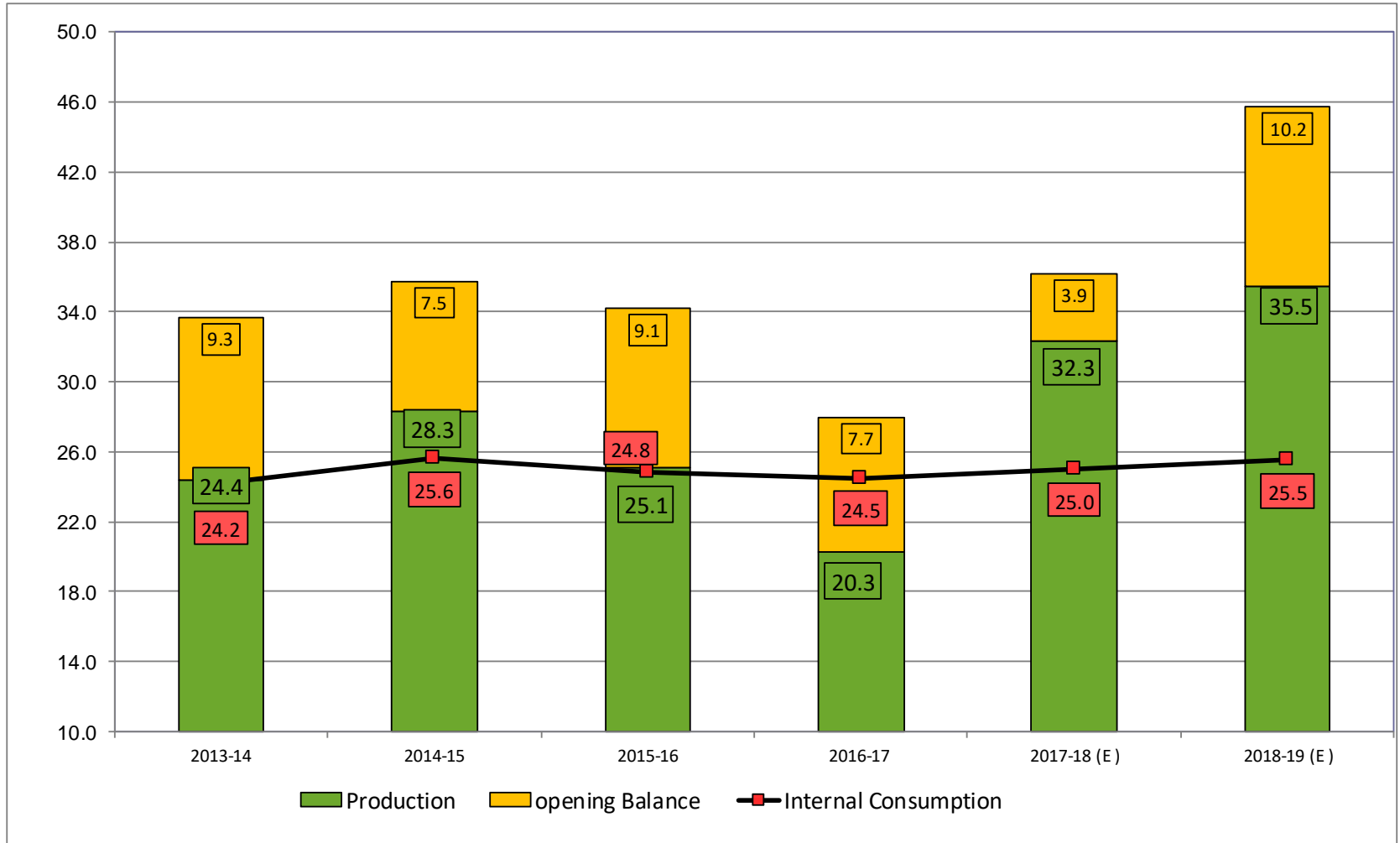
CoP India v/s Brazil



Surplus sugar produced and high sugar inventory

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In mn. tons



2018-19 SS scenario

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- OB sugar inventory: 100-105 lakh tons
- Sugar production: 350-355 lakh tons (E)
- Sugar consumption: 260 lakh tons (E)
- CB sugar inventory: 190 lakh tons

(CB will reduce by the quantum of exports in 2018-19 SS)

- CB of 190 lakh tons = 9 months consumption requirement, as also blocks over Rs.60,000 crore of funds/ working capital

2018-19 SS looks extremely difficult

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- Cane crushing: 325 million tons at FRP of Rs.96,500 crore
 - Will cross 1 lakh crore of cane price payable if SAP considered
- 260 lakh tons of domestic sales at Rs.3000 per quintal will give Rs.78,000 crore of revenue from Oct 18 to Sept 19
 - But by end of April 2019, cane price payable of over Rs.1,00,000 crore, whereas revenue from sugar sales of 150 lakh tons of Rs.45,000 crore
 - Unpaid cane price could be Rs.50,000 crore (+ Rs.10,000 from 17-18)

To solve the current crisis

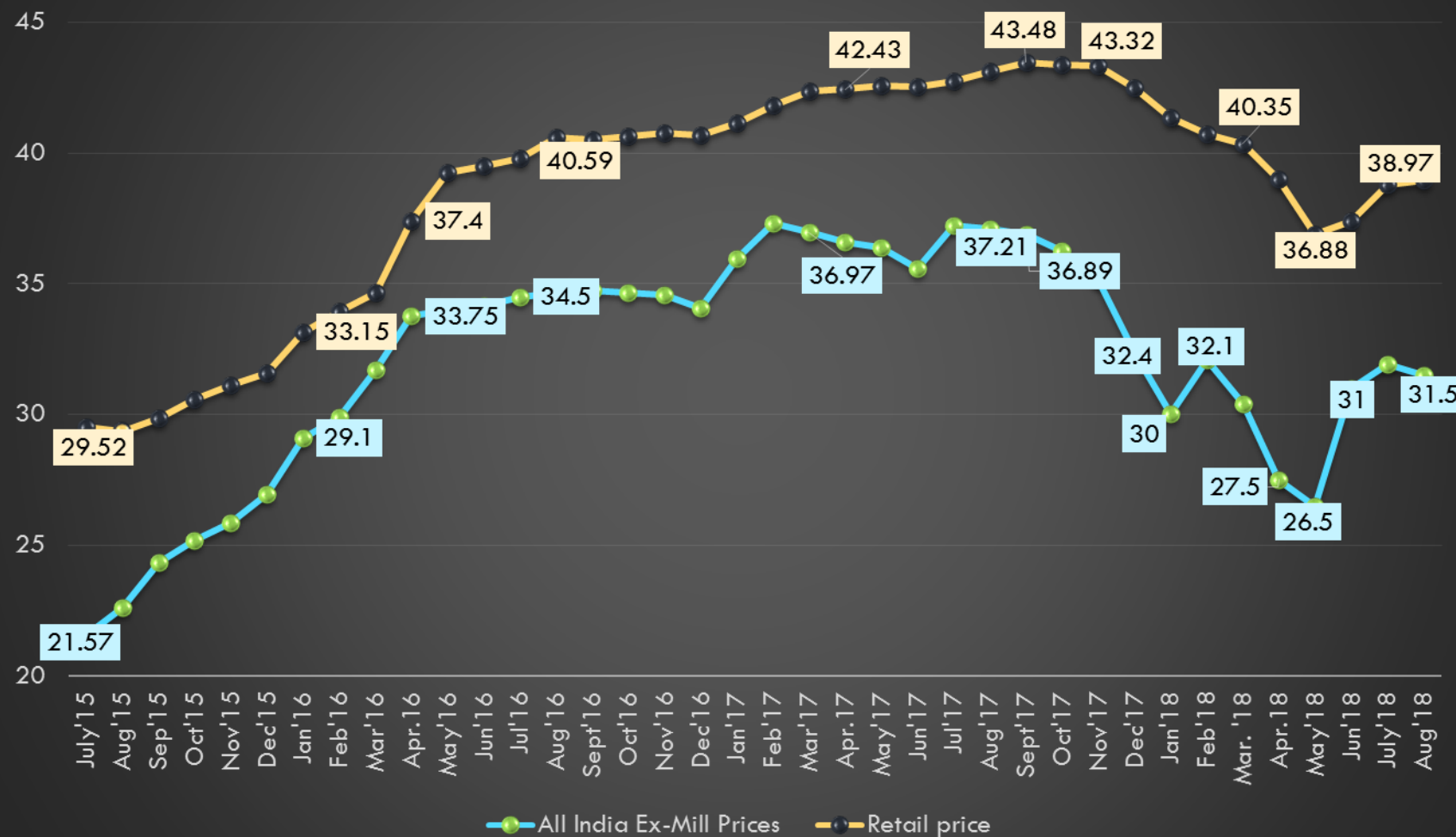
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- Increase minimum ex-mill domestic price to Rs.3600 per quintal
 - On 80% of production sold in domestic market, mills will recover costs
- Supplement revenue by exports of 60-70 lakh tons
 - Make exports compulsory, with power of seizure of unexported quota
- Advantages of above:
 - No subsidy required and thus no cess on sugar required
 - No WTO problem of subsidy
 - Sugar inventory gets reduced
 - Cane price of farmers will be paid on time

Domestic prices will remain reasonable

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Average ex-mill and retail price of sugar



**Ethanol policies: an attempt to balance
sugar production**

Surplus sugar to ethanol

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- Indian ethanol blending target with petrol is 10%
 - From 'final' C-molasses, industry able to meet 5% blending only
- Un-met demand of 5% blending means 160 crore litres
- Some surplus sugarcane or C-heavy molasses can be converted into ethanol, instead of making too much sugar
- **Unmet demand of 160 cr litres =250-260 lakh tons of sugar**
- Distillation capacities have to increase/ expanded
 - 275 crore litres of capacities incl. with stand-alone distilleris
 - Another 25 crore litres being added next year

Government policies encouraging for ethanol

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- New Bio-fuels policy allows diversion of sugarcane juice into ethanol
- Government extending subsidised loans for ethanol plants
- Price of ethanol has been fixed higher for next year
- For the first time a premium price has been fixed for ethanol made from B-heavy molasses
- Government examining possibilities of increasing blend percentage to 15%

Concluding: Policy framework; short & long term

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- **Immediate policies required:**
 - To tackle the massive surplus sugar inventory
 - To tackle the very high cane price arrears already accumulated and which is threatening to cross extremely high levels next year
 - Policy framework should be able to address both these issues

- **Long term policies required:**
 - Rationalised cane pricing policy to link cane price with revenue
 - Robust futures market for sugar to help discover prices and hedge risks
 - Ethanol procurement, pricing and blending policy to draw away surplus sugarcane

Thank you

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