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Scenario of Indian Sugar Industry – Issues and challenges

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Abstract

Sugarcane is one of the important Agro Based Industrial Crop in India. This crop offers major scopefor the Agriculturist to sustain their income and improve their standard of living. To increase the production and productivity in sugarcane, usage of optimum water and critical inputs like inorganic fertilizers, plant protection chemicals through drip and fertilization and by adopting all other technological interventions are advocated.

Keywords: Sugar, Agriculture, price policy of Sugarcane.

Introduction

The cooperation and coordination is the basis of human society. First builds the society while other manages it. The way of cooperation is the only way to the prosperity' was well understood by Mahatma Gandhi. The co-operative sugar factories and dairies are the examples of well-flourished co-operatives in Indian states. These co-operatives have changed the lives of millions of peoples from villages. The roads, education, irrigation and even the culture in the rural area have been supported by these co-operatives. The first co-operative sugar factory was established by late Padmashree Vithalrao Vikhe Patil inspired and supported by late Vaikunth Mehta and Prof. Dhananjayrao Gadgil. The beauty of the rural co-operative movement is these big establishments of hundreds of crores of rupees are owned by semiliterate and poor farmers. They elect Board of Directors and run the organisation. But now a day the co-operative industries are suffering from many problems and these problems are related to management. The ignorance of the farmers, lack of transparency in the management and slow rate of information processing leads to losses, corruption and misappropriation of funds. Sugar industry is an important agro-based industry that impacts rural livelihood of about 50 million sugarcane farmers and around 5 lakh workers directly employed in sugar mills. Employment is also generated in various ancillary activities relating to transport, trade servicing of machinery and supply of agriculture inputs. India is the second largest producer of sugar in the world after Brazil and is also the largest consumer. Today Indian sugar industry's annual output is worth approximately 80000 crores1. Surplus production over domestic consumption in the last three sugar seasons and low exports due to subdued international sugar prices have led to building up of sugar stocks with the mills and low realization from sale of sugar. This has adversely affected the financial health of the mills and resulted in accumulation of cane price arrears.

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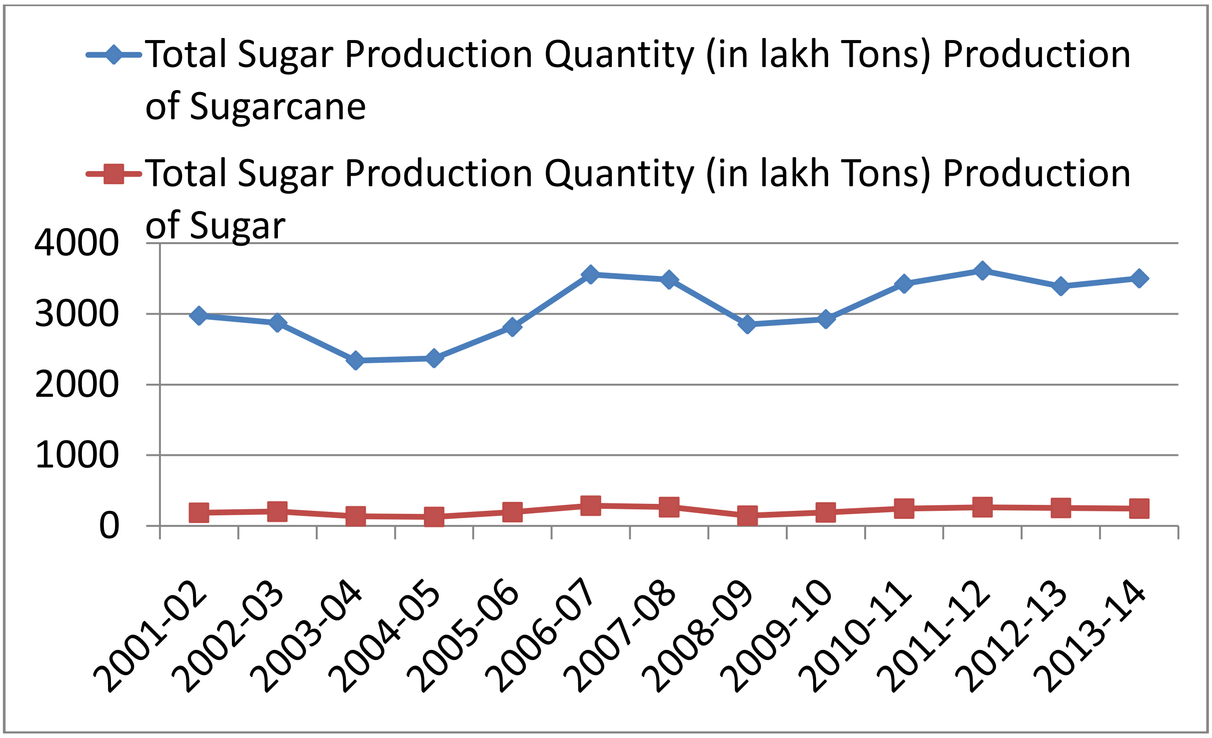
Production of Sugar

Sugar production in India has been cyclic in nature. Every 2-3 years of high sugar production are followed by 2-3 years of low sugar production. From the sugar season 2010-11 onwards the country could consistently achieve sugar production more than the domestic requirements and could also generate surpluses for export3.Maharashtra and Uttar Pradesh contribute over 60 percent of total sugar production while rest comes from States like Tamil Nadu, Karnataka, Gujarat and AndhraPradesh4. In the 3rd Advance Estimates of the Department of Agriculture and Cooperation (DAC), released in May 2014, the sugarcane production is estimated at 3,483.8 lakh tons in the current sugar season. The production of sugar during 2013-14season was estimated at 243 lakh tons as against the estimated domestic consumption of 240 lakh tons5. The Production of sugar from 2001-02 to 2013-14 is as under:



Source: National Federation of Cooperative Sugar Factories Limited, Cooperative Sugar, November,2014, p.26

India's Trade in Sugar

India has been a net exporter of sugar. However, it has been occasional net importer of sugar depending upon demand and supply situation in the country. As per the data provided by the Directorate General of Commercial Intelligence and Statistics(DGCIS), India's export of sugar was highest in 2007-08 and import was on its peak in2009-10. Import and Export of Sugar from 2005-06 to 2013-14 is as under:

Import and Export of Sugar *Quantity(in lakh Tons)***		
Sugar Season(Oct-Sept)	**Export of Sugar**	**Import of Sugar**
2005-06	15.039	0.07**
2006-07	24.90	0.005**
2007-08	58.23	0.004**
2008-09	2.165	24.47***
2009-10	2.371	41.80***
2010-11	28.14	3.65**
2011-12	36.735	1.886**
2102-13(P)	12.02	17.120**
2013-14(P) uptoJuly2014	24.457	6.100**
As per Data furnished by DGCIS Kolkata. * As reported by Department of Revenue. (P) provisional		
Source: Note of Directorate of Sugar 2014 p.13		

Sugarcane Pricing Policy

With the amendment of the Sugarcane (Control) Order 1966 on 22 October 2009the concept of Statutory Minimum Price (SMP) of sugarcane was replaced with the 'Fair and Remunerative Price (FRP) of sugarcane for 2009-10 and subsequent sugar seasons. The cane price announced by the Central Government is decided on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP) after consulting the State Governments and associations of sugar industry.

Under the FRP system, the farmers are not required to wait for the end of the season or for any announcement of the profits by the sugar mills or the

Government. The new system also assures the margins on account of profit and risk to farmers irrespective of the fact whether the sugar mills generate profit or not and is not dependent on the performance of any individual sugar mill. In order to ensure that higher sugar recoveries are adequately rewarded and considering variations amongst sugar mills the FRP is linked to a basic recovery rate of sugar with a premium payable to farmers for higher recoveries of sugar from sugarcane.

Citing difference in the cost of production productivity levels and also as a result of pressure from farmers' groups some States like Uttar Pradesh, Punjab, Haryana, Tamil Nadu and Uttrakhand declare State specific sugarcane prices called State Advised Prices (SAP) usually higher than the FRP. Statutory Minimum Price/Fair and Remunerative Price for the last ten years given as under:

Statutory Minimum Price/Fair and Remunerative Price *(Rs./Quintal)*			
Sugar season	**SMP/FRP**	**Minimum Recovery%**	**Premium for every 0.1%increase**
2002-03	69.50	8.50	0.82
2003-04	73.00	8.50	0.85
2004-05	74.50	8.50	0.88
2005-06	79.50	9.00	0.88
2006-07	80.25	9.00	0.90
2007-08	81.18	9.00	0.90
2008-09	81.18	9.00	0.90
2009-10*	107.76(SMP)	9.50	1.13
	129.84	(FRP)9.50	1.37
2010-11	139.12	(FRP)9.50	1.46
2011-12	145.00(FRP)	9.50	1.53
2012-13	170.00(FRP)	9.50	1.79
2013-14	210.00(FRP)	9.50	2.21
2014-15	220(FRP)	9.50	2.32
* The Government of India on October 22 2009 amended the Sugarcane (Control) order 1966 vide SO2665 (E)/Ess.com/ Sugarcane introducing Fair & Remuneration Price (FRP) for sugarcane vice SMP for the year 2009-10.			
Source: www. Indiansugar.com			

Plight of Sugarcane Farmers

Sugarcane growers are facing unprecedented uncertainty because of mounting cane arrears due to sugar mills. The payment to sugarcane farmers by sugar mills though statutorily supported by various statues and enforced by the State Government get affected by the dynamics of domestic market price as well as international situation related to export possibilities. The position of cane price payments and arrears for the past few sugar seasons on a similar cut-off date is as under :-

Season-Wise Cane Price Arrears Position(in crores)					
Season	**Position as on**	**Total Price Payable**	**Total Price Paid**	**Arrears**	**% of arrears on price payable**
2013-14	15/09/2014	57868.32	50381.41	7486.91	12.94
2012-13	15/09/2013	59707.59	56248.50	3459.09	5.79
2011-12	15/09/2012	51571.31	50503.33	1067.98	2.07
2010-11	15/09/2011	44685.87	43985.21	700.67	1.57
2009-10	15/09/2010	38512.84	38164.65	348.19	0.90
2008-09	15/09/2009	19691.57	19587.57	104.01	0.53
Source: Note of Directorate of Sugar, 2014, p.2-3					

Challenges for Sugar Industry

Sugar is an agro based industry so the prices always fluctuate with monsoon. The low yield of sugarcane, short crushing season, and unsatisfactory location of industry in Uttar Pradesh and Bihar and inadequate supply of cane create problems for sugar mills having low milling efficiency. Low Recovery of sugar from sugarcane also poses a problem for sugar

industry. Further Indian sugar mills do not have sugar plantations of their own and hence do not have control over quantity and quality of sugarcane supplied by various cane growers. Another problem of sugar industry is that the by-products of sugar mills are not fully utilized like molasses and bagasse. Levy sugar obligations causes huge financial burden on mills under which mills are bound to sell sugar for distribution under public distribution system at price determined by the Government which is way below the cost of production.
Arbitrary fixation of cane prices by the State Governments above the Fair Remunerative Price (FRP) fixed by the Centre has been adversely affecting the sugar mills. Due to all these reasons 189 mills were out of operation in 2013-14sugar season while 166 mills were not operating in 2012-13.

Government Initiatives for the Revival

The Sugarcane (Control) Order 1966 stipulates payment of cane price within14 days of supply, failing which interest at the rate of 15 per cent per annum on amount due for the delayed period beyond 14 days is payable. The powers for enforcing this provision are vested with the State Governments/Union Territories Administrations. Further the Central Government advises the State Governments/Union Territories from time to time to ensure timely payment of cane dues to the farmers and to take action against the defaulting sugar mills. In order to facilitate clearance of cane price arrears of previous sugar seasons and timely settlement of cane price of current sugar season to sugarcane farmers, the Central Government on 3 January 2014 had notified a Scheme for Extending Financial Assistance to Sugar Undertakings (SEFASU-2014), envisaging interest free loans worth Rs. 6600 crores by bank as additional working capital to sugar mills. Under the Scheme all loans were to be sanctioned by 30 June 2014 and disbursed by 30September 2014. Out of sanctioned loan amount, loan amounting to Rs. 6420.09crores have been disbursed up to 30 September 2014. The beneficiaries sugar mills under the Scheme had time up to 31December 2014 to utilize the loan for cane payment arrears. An additional grant of interest-free loans of Rs. 4,400 crore to factories for settlement of cane dues was announced in June 2014. To encourage sugar factories to export raw sugar, in view of high sugar inventories, a scheme was notified in February 2014 which allows incentives for marketing and promotion services for raw sugar production targeted for export markets for 4 million tonnes during the 2013-14and the 2014-15 sugar seasons from Sugar Development Fund (SDF). This export incentive has been extended till September 2014. An increased provision for blending of a cane by-product viz. ethanol with petrol from 5 per cent to 10 per cent has also been made. These measures have been announced with a view to raise demand for sugar and sugar products and to increase the liquidity of the sugar mills so that they can clear the cane dues.

De-Regulation of Sugar Sector

The Central Government considered the recommendations of Dr. C. Rangarajan Committee on de-regulation of sugar sector and decided to do away with levy obligation on sugar mills for sugar produced after September 2012 and dispense with the regulated release mechanism on open market sale of sugar. The de-regulation of the sugar sector is likely to improve the financial health of the sugar mills, increase the cash flow, reduce their inventory cost and also result in timely and better payment of cane price to sugarcane farmers in the country. The recommendations of the Committee relating to Cane Area Reservation, Minimum Distance Criteria and adoption of the Cane Price Formula have been left to the State Governments for adoption and implementation, as considered appropriate by them. The implementation status of the recommendations of the Committee is given at Annexure-I.

Current Scenario (Sugar Season 2014-15)

The sugar season 2014-15 has started from October 2014 with a carryover stock of 75 lakh tons. The production in new season is estimated to be around250-255 lakh tons. Thus there will be about 330 lakh tons of sugar available as against consumption requirement of 245 lakh tons. The cane price arrears of aboutRs.5900 crores of 2013-14 still remain unpaid. Sugar prices are ruling around Rs.2650per quintal much below the cost of production. Meanwhile The Central Government has increased the FRP by Rs.10 per quintal leading it to Rs.220 per quintal for 2014-15. In Karnataka Hon'ble High Court has upheld the notification of the State Government notifying cane price at Rs.2500 per ton for 2013-14. The mills have only paid FRP fixed by the Centre at Rs.210 per quintal. The Uttar Pradesh Government has decided to maintain previous years State Advised Price of Rs.280 per quintal for2014-15 season but farmers in Uttar Pradesh are demanding cane price at Rs.350 per quintal while in Maharashtra farmers are demanding Rs.2700 per ton in current sugar season. The 2014-15 sugar season has started with a lot of uncertainties, as to whether the mills would be able to begin operation due to their grave financial constraints and due to cane pricing policy implemented by State Governments. Mills in all States including in Uttar Pradesh, Karnataka and Maharashtra are facing issues relating to cane pricing and payment to the cane farmers.

Conclusion

In order to ensure sustainable good health of the Sector, a revenue sharing formula should be evolved between the sugar mills and the cane farmers in the ratio of their relative cost as per the recommendation of the Rangarajan Committee. As per Committee recommendations the ideal value-sharing is 70 per cent for cane growers and 30 per cent for mills including revenue from sugar and its by-products. Few States like Maharashtra and Karnataka have already constituted Sugar Control Board to implement the revenue sharing formula. For successful implementation, cane growers are to be guaranteed FRP payments, irrespective of the sugar market behaviour. In case the revenue in a particular season warrants higher payments to growers, they should be entitled to a second payment.

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