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isma
indian sugar mills association

PRESIDENTIAL ADDRESS

BY

SHRI AJIT SHRIRAM

AT 80th ANNUAL GENERAL MEETING OF THE

INDIAN SUGAR MILLS ASSOCIATION

ON 18th DECEMBER, 2014

AT NEW DELHI

Hon'ble Minister of Consumer Affairs,

Food and Public Distribution

Shri Ram Vilas Paswan,

Secretary (Food and Public Distribution)

Shri Sudhir Kumar,

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 and

Ladies and Gentlemen,

1. It is my privilege to welcome all of you on behalf of the Indian Sugar Mills Association to our 80th Annual General Meeting.

2. We are honoured by the presence of the Hon'ble Union Minister for Consumer Affairs, Food and Public Distribution, Mr. Ram Vilas Paswan, today in our AGM. On behalf of the Association, I would express my gratitude to him for taking time out from his very busy schedule to be present amongst us and to guide us. We are aware that Mr. Paswan took over as our Union Minister a few months back and that this is the first

Annual General Meeting of ISMA that he will be inaugurating. Sir, I am thankful once again for the same.

3. Sir, as you are aware the Indian Sugar Industry is the largest agro-based industry located in rural India with an annual turnover of around Rs. 80,000 crore and directly contributes to rural economic development. It supports about 5 million farmers and their family members, generates employment for about 12 % of the total rural population in nine major sugar producing states.

SITUATION AFTER PARTIAL DECONTROL

4. Sir, you are aware that The Indian sugar industry was highly regulated by the Government for the last several decades and was reeling under excessive government controls. The Government removed the controls on sugar sales in April 2013. Accordingly, the sugar mills are not required to supply levy sugar for the Public Distribution System at a discounted price. The regulated release mechanism was also abolished.

5. The transition to a system where the State Governments are procuring their sugar requirement for the PDS at market price has been very smooth. The system has stabilized now and we should congratulate the Central Government as well as

the State Governments for successfully moving into the new system.

6. With the abolition of the regulated release mechanism, mills are now free to sell their sugar any time during the year. However, the sugar prices have only fallen in the last 18 months or so. This is because of surplus sugar availability in the country, which is keeping the prices depressed.

7. Now that the sugar mills are free to sell the sugar as and when they desire, they would require to be better informed about the market situation and, therefore, they need better market intelligence. Therefore, there is a belief that sugar companies with better market strategies and informed decisions would perform better than those that do not develop a market strategy. Futures and forward markets on sugar have therefore become more important for sugar mills, to get a fair idea of the sugar prices, both in the short term and long term. Prices would be discovered from these platforms more and more in the future. However, the volumes traded currently are not adequate to help discover the best sugar prices. Therefore, we believe that there is a need to strengthen the futures and forward market on sugar, and we in the industry need to be better informed and better educated on the same.

SUGARCANE PRICING POLICY

8. The expert committee on sugar under Dr. C. Rangarajan had clearly recommended for rationalization of the sugarcane pricing policy such that the sugarcane prices should be determined at 70% of the revenue realized from sugar and primary by-products or at 75% of the revenue realized only from the sugar.

9. This policy, which is generally called a revenue sharing model or a cane price-sugar price linkage formula, was promptly recommended by the Central Government to the State Governments for adoption. The Karnataka Government was the first Government which accepted the recommendations of the Rangarajan Committee and enacted a law in May 2013 to this effect. Subsequently, the Government of Maharashtra has also adopted the Rangarajan Committee formula in December 2013.

10. Sir, you would be aware that all the major sugar producing nations in the world have a similar kind of revenue sharing model, by which the sugarcane price is determined automatically in relation to the revenue realization from sugar and by-products.

11. Now that two important States like Maharashtra and Karnataka

which together contribute almost 50-55% of the country's sugar production, have adopted a revenue sharing or price linkage formula for automatic determination of sugarcane price, we are seeing a big improvement in the system of determination of cane pricing. Now that the Governments of these two States have decided not to interfere in the cane pricing, but have decided to allow the market forces to determine the same, the sugar industry in these two states should perform much better than in the previous years.

12. However, other State Governments have still not adopted a rationalized cane pricing policy like the above. The Uttar Pradesh Government for the first time appreciated the lower cane price paying capacity of the mills. The State Government accordingly agreed to financially assist the industry and the sugarcane farmers, in case of low revenue realization from sugar and by-products. However, it would be in the interest of the mills and farmers in U.P. that a transparent and a long term sugarcane pricing policy, on the lines of what has been enacted in Maharashtra and Karnataka, is also adopted in U.P. There would still be challenges in other States like Tamil Nadu, Uttarakhand, Punjab,Haryana, Bihar etc. where State Governments do intervene and in most of them have been fixing high State Advised Prices. The Governments therein have not adopted rational cane pricing policies because of which, the sugarcane prices can be higher and sugar produced

from these States may not be able to compete in the market.

13. Sir, in case of other crops, like wheat and paddy, where if the State Governments desire to give a bonus to their farmers over and above the Minimum Support Price (MSP) fixed by the Central Government, they have to pay the bonus from the State Budget. In other words, any price higher to the Central Government's MSP for these crops has to be budgeted from the State Government budget. We do not understand why in the case of sugarcane, such a policy is not being followed. The result has been bad for the sugar industry as well as the sugarcane farmers. Several States have irrationally fixed sugarcane prices at unreasonably high levels, without consideration of the revenue or the market prices for the products. If the burden, like wheat and paddy, is to be borne by the State Governments, we are sure that fixing unreasonable high cane price would become a thing of the past. The NDA Government has recently also decided that if any State fix any price over MSP for wheat and paddy, the Government agencies including FCI would be free not to procure foodgrains from the farmers of these States. The intention Sir, is very clear, and that is to discourage State Governments to fix unreasonably high price for these crops. Why can't such a policy be immediately adopted for sugarcane also?

14. This is important because high sugarcane prices leads to

unviable sugar companies who become sick and have to knock the doors of Banks for CDR restructuring or have to register under BIFR. They are also unable to pay cane price of farmers resulting in high arrears. It has made the Indian sugar industry uncompetitive in the international market. Sir, we are one of the most efficient industry in the world and our processing costs are also one of the lowest. But, the high and unreasonable cane cost has made our sugar uncompetitive in the global market because of which we are forced to knock at the door of the Government for export incentives for marketing of raw sugar.

SUGAR PRICES

15. You are aware that the sugar mills are carrying one of the highest ever opening sugar stocks as on 1st October, 2014 of around 75 lakh tons of sugar. This has happened due to four continuous years of surplus production of sugar. The sugar production in 2014-15 sugar season is also expected to be better than the 2013-14 season and may give a small surplus over the domestic requirement again for the fifth year in continuation.

16. When there was a regulated release mechanism scheme, there was a time lag of 30-45 days between sugar production its reporting to the Government and monthly releases by the

Government to sell the same. Therefore, sugar production of November could be sold in the market only in January. Hence, the Government used to insist on an opening sugar stock equivalent to 3 months consumption requirement to take care of October – November and December months consumption. However, with abolition of regulated release mechanism, sugar produced in November can be sold in November itself or even in December. In other words, the new season's sugar is available in December itself and one does not have to wait for January. Therefore, the Government's requirement of opening stocks as on 1st October 2014 of the season should be reduced to 2 months consumption and the opening stock of sugar should be ideally at 40 lakh tons and if the Government wants extra comfort, it can keep 45-50 lakh tons. In our view, there is currently a surplus of 20-25 lakh tons of sugar held by the sugar mills, which should be considered to be disposed off in the international market.

17. The surplus sugar is putting pressure on the domestic ex-mill sugar prices which have fallen continuously in the last one year. A broad comparison of the cost of production and the ex-mill sugar price realization now would give an idea to you Sir, of the massive losses that the sugar industry is incurring. Mills in the Western and Southern part of India are producing sugar at a cost of Rs. 30-31 per kilo, but are getting an ex-mill sugar price realization of Rs. 25-26 per kilo. In the Northern

part of the country, as compared to the cost of production of around Rs. 35-36 per kilo, mills are getting a realization at the mill gate of just about Rs. 28 per kilo. In fact, the situation is so bad that almost all the mills across the country will not be able to pay the FRP to the farmers on time this year.

18. Sir, the current sugar prices are at their lowest in the last two years. There is need to ensure that the falling sugar prices are controlled immediately, to help the industry to at least recover its costs. Not only will the mills become viable, but they will be in a position to pay to the farmers their cane price on time. You will, appreciate Sir that the cane price arrears this season may be even higher than last year unless and until the revenue realization of mills is improved, so that they can afford to pay the higher cane price this year. Therefore Sir, it is important that the Government takes steps to ensure that the ex-mill prices improve so that we could avoid arrears which would put sugarcane farmers through hardship.

FINANCIAL ASSISTANCE FROM GOVERNMENT

19. Sir, as explained by me, there is a surplus of 20-25 lakh tons of sugar with the industry which is depressing the domestic ex-mill sugar prices substantially below the costs. There is an immediate need to take steps to ensure that the surplus of 20-25 lakh tons of sugar is exported. As highlighted by me,, despite

our efficiencies, our sugar is uncompetitive in the international market because of unreasonably high sugarcane prices, that we have to pay on the basis of cane price fixed by the Central and State Governments. Also, since the Government regulations require the sugar mills to crush each and every stick of sugarcane offered by the farmers to them, mills have absolutely no control on the quantum of sugar produced. In other words, the surplus sugar produced is only because the Government requires all cane to be converted into sugar. Therefore, both on account of us becoming uncompetitive in the international market and the fact that the surplus sugar has been produced because there was surplus sugarcane produced by the farmers, we feel that the Government should help us financially to compete in the international market to be able to export our surplus sugar.

20. You would recall that the Central Government had announced an incentive scheme for production and exports of raw sugar for 40 lakh tons which was applicable for exports in 2 sugar seasons and upto September 2015. The Government was required to review the scheme before start of 2014-15 season i.e. before 1st October 2014. The industry is waiting for the review for announcement and continuance of the scheme.

21. We request for an early announcement because sugar mills will start production of raw sugar only thereafter. Exports

thereof will take a couple of months to start. Since cane crushing period is just about 3-4 months, the announcement of continuation of the scheme should not be delayed further.

BLENDING OF ETHANOL WITH PETROL

22. The Government of India has already mandated a 5% ethanol blending with petrol programme and the oil companies were supposed to achieve the mandatory blending almost a year back. However, we are still struggling with 2-3% of the ethanol blending with petrol.

23. During last year, oil companies took 6-8 months to finalise the tenders. Since large quantities were committed by the sugar mills and ethanol suppliers, against which bank guarantees were also submitted, the committed quantities had to be kept aside for this programme till finalization of the tenders by the OMCs. Therefore, it is generally believed that the sugar mills and ethanol suppliers had not committed full quantities, in the tender this year opened in July 2014 because of apprehensions of delays again in finalization of tenders.

24. Further, the benchmark pricing policy unilaterally accepted by the OMCs, which they then treat as the maximum price, which can be given for the ethanol at their oil depot, is making a lot

of offers unacceptable. We have experienced this problem last year, when out of a total quantity of 122 crore litres offered by us against three tenders of the OMCs, the OMCs placed orders for 68 crore litres only, rejecting the balance 54 crore litres on account of being higher than their benchmark price. Similarly, this year also, against our offers of 62 crores, they have rejected 27 crore litres of ethanol, only on the basis of benchmark price.

25. There are hardships on smooth movement of ethanol too. Excise permits, required to be obtained from the State Governments and detailed norms prescribed procedures therein makes ethanol movement within and between States very difficult. Some states including Delhi are imposing an import duty on the ethanol coming into their respective States. There are some State Governments like Tamil Nadu who do not permit easy conversion of molasses into ethanol. Sir, this issue needs to be resolved by the Central Government so that like petrol or sugar, ethanol is allowed to be freely transported across the country. In fact, we would request the Government to take pro-active steps in the direction as it is a green fuel benefitting the sugarcane farmers directly and also reducing pollution because of fossil fuel. A 5% substitution of petrol by ethanol saves the nation, 800 million US dollars of foreign exchange, which if translated into Indian currency, works out to around Rs. 5000 crore. Therefore, a

10% blending programme can save a foreign exchange to the tune of Rs. 10000 crore every year, and at the same time ensure a domestically produced product to be used. It will only support the Hon'ble Prime Minister's dream of "Make in India" programme.

26. Sir, we highly appreciate the Government's decision on 10th December, 2014 simplifying procedures for finalization of purchase contracts for ethanol and the procedures for supplies thereof. We expect quicker finalization of contracts because of fixed pricing system and faster and smoother movement of ethanol within and across the States in view of OMCs entering into MoU with the State Governments to get annual excise permits for ethanol. We hope that the new policy would give a fillip to the Ethanol Blending Programme, so important for the country.

IMPORT DUTY

27. The sugarcane prices have been increased so much in the recent past that there is no other crop which gives a similar return to the farmers. During the last 5 years we have continuously produced surplus sugarcane and sugar, and are almost certain that the surplus would continue to be produced in the next few years also. A small increase in the domestic sugar price, which we do require to ensure that farmers get

their payments on time, will make raw sugar imports attractive even at the current 25% import duty. The bound rate of import duty is 60% for sugar. Therefore, to ensure that there is no risk of even 1 kilo of sugar to be imported into India, the import duty should be increased to 40%.

PACKING OF SUGAR

28. The Jute Packaging and Materials Act i.e. JPMA was enacted in 1987. Four commodities, namely, fertilizers, cement, foodgrains and sugar were initially covered under the JPMA and the Government used to prescribe compulsory packing of these products in jute bags alone. Cement was removed from JPMA in 1998 and fertilizers was removed in 2001. However, foodgrains and sugar continue to be kept under this Act. Currently, 20% of the sugar produced has to be compulsorily packed in jute bags. The price of jute bags sold to the sugar industry was seen to be higher than what was for the foodgrains sector, even after accounting for different qualities. After three years of investigation and deliberations, the Competition Commission have written to the Government of India on their conclusion that the JPMA is making packaging of sugar anti-competitive. They have therefore advised the Government to review and totally remove sugar from the Act. We have accordingly requested the Government to exempt sugar immediately from JPMA. Sir, we would request you to

take up this issue with the Government especially in view of the recent order of the Competition Commission of India as well as Rangarajan Committee recommendation of October 2012

DISBURSEMENT OF FINANCIAL ASSISTANCE

29. The Government had announced an interest subvention scheme in December 2013 under which sugar mills were given loans from banks and the Government had decided to pay upto 12% interest directly to the banks. In addition to this scheme, the Government had also announced the incentive scheme on raw sugar production and exports thereof in February 2014.

30. Even though the scheme provided for advance deposit of interest on a quarterly basis, it has provided for only Rs. 100 crore on interest subvention till now. The interest accrual has been more than that and due to delayed reimbursement from the Ministry, the banks are threatening the sugar mills to deduct the interest from the accounts of the individual mills. Sir, you will agree that interest reimbursements and the interest burden upto 12% was between the banks and the Central Government and, therefore, this deduction of interest from sugar mills is unfair and is only burdening the already distressed sugar industry.

Jaitley, Hon'ble Minister of Road Transport and Highways Mr. Nitin Gadkari, Hon'ble Agriculture Minister Mr. Radha Mohan Singh, Hon'ble Minister of State for Petroleum Mr. Dharmendra Pradhan, Hon'ble Minister of State for Commerce and Industry Ms. Nirmala Sitharaman and Hon'ble Minister of State for Food and Public Distribution Mr. Raosaheb Dadarao Danve for their help towards sugar industry.

36. I am also thankful to Mr. Sharad Pawar, former Agriculture Minister, Mr. P. Chindambaram, former Finance Minister and Prof. K.V. Thomas, former Minister of State for Consumer Affairs, Food and PD for their encouragement and support to the sugar industry.

37. I am grateful to Mr. Nripendra Misra, Principal Secretary to Hon'ble Prime Minister and Mr. P.K. Misra, Addl. Secretary to Hon'ble Prime Minister for their support and guidance.

38. My special thanks go out to Shri Sudhir Kumar, Food Secretary and Shri Saurabh Chandra, Petroleum Secretary, Mr. Rajiv Kher, Secretary, Commerce & Industry, Shri P.K. Jha, Additional Secretary & Financial Advisor, Ministry of Consumer Affairs, Food and Public Distribution and Mr. Praveer Kumar, Director General, Foreign Trade for all the encouragement and help to solve our problems and demands.

39. I am also thankful to Dr. Ashok Vishandass, Chairman, CACP, Mr. Prashant Trivedi, Joint Secretary (Sugar), Department of Food and Public Distribution and Mr. Sandip Pondrik, Joint Secretary Ministry of Petroleum and Natural Gas for their help and guidance.

40. I extend my thanks to Shri T. Jacob, former Joint Secretary (Sugar), Ministry of Consumer Affairs, Food and Public Distribution and Mr. Rajan Sehgal, former Chief Director (Sugar) for their support.

41. I am thankful to Shri G.S. Sahu, Chief Director (Sugar) and the officials of the Sugar Directorate and Department of Food for their help and assistance.

42. I am thankful to Mr. Kallappa Awade, Chairman, National Federation of Cooperative Sugar Factories Ltd., and Shri M.G. Joshi, Managing Director, National Federation of Cooperative Sugar Factories Ltd. for their help and assistance extended to us from time to time.

43. I wish to record my appreciation of our Past Presidents, including Chairpersons of various Sub-Committees and the Regional Associations for their guidance and support. I would like to make a special mention of my colleagues on the Committee, especially the Vice-President A. Vellayan, Ms.

Rajshree Pathy, former Vice President and past Presidents who have always been available for consultation and advice.

44. I wish to record my appreciation for the hard and dedicated work put in by the officers and staff of Indian Sugar Exim Corporation and ISMA.

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

46. May I request you Sir, to kindly inaugurate our proceedings.

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