BRIEF ON PROBLEMS IN SUGAR AND SUGARCANE SECTOR

- Liberalization and reforms in India in the late 90s has totally by passed the sugar and sugarcane sector. This sector continues to be highly and badly controlled by the Government.

- 5 crore farmers and their family grow sugarcane and earn Rs.55,000 crore by way of cane price annually.

- Sugar industry’s turnover is about Rs.80,000 crore annually, with about 3000 MW of power generation and 60 crore litres of ethanol for blending with petrol.

- The controls inter-alia, include the following:
  
  - 10% of production is required to be given to Government at a highly discounted price as levy sugar for public distribution system (PDS).
  
  - Monthly regulated release mechanism under which each mill is fixed a quota on how much sugar to sell every month.

  - Export and import of sugar can be made only with approval of Government – timing and quantum.

- 10% production procured as levy sugar, at around 60% of open market price and even the cost of production, leads to losses to sugar industry and inadequate payment to farmers. Annual burden on sugar industry worked out to Rs.2500 crore in 2010-11 alone. Cane farmers are also indirectly subsidizing the sugar for PDS.

- Through monthly regulated release mechanism, Government artificially keeps sugar prices under control, mostly below cost of production, leading to losses to sugar industry and delay / inadequate payment to farmers. During 2010-11, ex-mill sugar prices prevailed at Rs.200-300 per quintal below cost of production.

- In surplus years like the current one, delayed decision in export of surplus sugar adversely affects cash flows of sugar mills especially during crushing season, which inturn affects their capacity to pay farmers a remunerative price on time.
and cane price arrears build up which get cleared slowly as mills are allowed to either export surplus sugar and sell in domestic market.

- Sugar industry is the only industry in India which bears the financial burden of a social welfare programme of distribution of sugar to BPL families through PDS. It is also the only industry in India which is given a quota every month for sale of sugar and therefore has no control over its sugar inventory or cash flows/ funds availability.

- All these controls are adversely affecting the sugar industry's capacity to save / generate surplus affecting payment of a remunerative / adequate price to farmers on time. Year on year, cane price arrears get built up due to such controls which frequently leads to cyclicality in sugar production in India.

- Delay on the part of the Government to accept the formula linking price of ethanol to petrol price, recommended in April 2011 by the Dr. Saumitra Chaudhuri Expert Committee on pricing of ethanol, is affecting the 5% mandatory ethanol blending with petrol programme. A final price for ethanol would give stable returns for ethanol, a by-product of molasses, thereby giving better returns to farmers due to better price for molasses. The ethanol procured by oil companies gives then a saving of Rs.20 per litre, which works out to Rs.1200 crore in 2011-12 and can go up to Rs.2000 crore in a year. Part of these savings could be passed on to consumers too by reducing the price of ethanol blending petrol by a discount of Re.1 / litre.

- Sugar industry and sugarcane farmers demand for reforms in the sugar and sugarcane sector, to give more freedom to the sector to generate surplus and pay remunerative price to the farmers on time, increase investment in the sector for improvement in cane yield and thereby reduce cyclicality in cane / sugar production as well as ensure stable return to farmers and stable price to sugar consumers.
Jamal Al Ghurair, the Managing Director of Al Khaleej Sugar Company, is one of UAE’s most successful entrepreneurs, with a broad base of commercial experience gained from holding key posts in the public and private sectors. Mr Al Ghurair has a strong track record as a businessman, combined with synergies created through many business interests and investments. His ventures consist of several highly successful industrial units, including Al Khaleej Sugar. The sugar refinery, now in its 15th year of operation, is the largest sugar refinery in the world after starting with a capacity of 2,400 tons per day. Mr. Al Ghurair is the Vice-Chairman of Emirates Investment & Development PSC, a company co-promoted with few other prominent Dubai businessmen, along with the Government of Dubai, to invest in industrial projects.

Jonathan Kingsman is the Chief Executive Officer of Kingsman Group. After graduating from Cambridge with a Master’s degree in Economics, Jonathan began his sugar business career with Cargill, working in London and Minneapolis. He started his own sugar brokerage company in 1990 and developed a world-class reputation as a sugar market analyst and report writer. The company began covering ethanol and biofuels markets in 2000 and is now among the leaders in terms of sugar and biofuels brokerage, report writing, consulting and conferences with offices in Switzerland and representatives in Australia, Brazil, Canada, India, Thailand and United Kingdom. Jonathan is editor of the Sugar Trading Manual and is a regular speaker at international conferences.

Javier Blas is the Financial Times’ Commodities Editor. He leads a team of reporters based in New York, Houston, London and Beijing covering commodities markets, investment trends in commodities and the geopolitics of natural resources. Previously, from 1999, he reported on international economy for both the Financial Times and the Spanish business daily, Expansion. Javier was born in Spain and received a BA / MA in journalism from the University of Navarra, Spain, where he specialized in business journalism. He also studied political communication at Sheffield University, United Kingdom. Javier is fluent in English and Spanish and speaks French and frequently appears on national and international television and radio.

Paul Conway is the Vice Chairman of Cargill. He was appointed to that role in June 2011 and has been a member of Cargill’s Leadership Team since October 2006. He was elected to Cargill’s Board of Directors in September 2008. Paul joined Cargill from Law School in 1979 and held a number of merchandising roles in the United Kingdom, USA and Switzerland before becoming a Division Head of UK corn processing in 1989. Throughout the 1990s he worked in the European processing businesses, becoming Executive Vice President of Cargill’s European Food Processing Businesses in 1997. In 2006 he moved to Asia as President/Regional Director and in 2009 he relocated from Asia to the United Kingdom.

P. Chengkap Reddy, Secretary General of the Consortium of Indian Farmers Associations (CIFA) is also Co-Chairman of the Indian Farmers & Industry Alliance in partnership with Confederation of Indian Industry. A member of Planning Commission, Ministry of Agriculture and other committees and participant in World Bank Conferences and World Economic Forum Conferences, he actively promotes contract farming, commodity trading, and introduction of technologies in mechanization of agriculture and bio technologies. Since 1998, he has brought together local Farmers Associations and networked them at State and National level. He initiated strengthening of small farmers through Commodity (Producers) Interest Groups (CIGs). Mr. Reddy edits a monthly Magazine ‘Agri Policy Advocacy’ and published a large number of articles.