



CHAPTER – 6

CONCLUSIONS & RECOMMENDATIONS

6.1 Conclusions

6.1.1 The de-regulation of the sugar sector, which basically meant complete freedom to the sugar mills to sell sugar as per their wisdom and understanding of the market as well as also meant removal of financial burden on account of levy sugar purchases by the government, was expected to benefit the sugar mills and the sugar cane farmers while consumers were anticipated to get used to buying sugar at market determined prices. The sugar mills were thus, expected to benefit on account of direct revenue gain of around 4000 crore/annum on account of levy removal as well as from better management of their cash flow operations. On account of improved financials, the sugar mills were expected to gradually expand, diversify and become technologically more efficient as well as globally competitive. The sugar cane farmers were expected to piggy-ride on the flourishing sugar industry and gain on account of better cane prices, timely cane prices and technological support from the sugar mills. The consumers were expected to get used to paying sugar prices which might be marginally higher (which will take into the account the economics of sugar manufacturing operations) in the short run but were expected to be benefit over long term account of less volatility and market attaining equilibrium.

Against
6.1.2 In the background of above perspective, the findings of the study, as indicated in pervious chapters, are summarized below:

- **The domestic consumers, both individuals as well as institutional buyers, by and large gained from the de-regulation. The sugar supplies were ample and were available during 2013-14 at prices, which were lower than the prices obtainable during pre de-regulation**



season i.e. 2012-13. Though the month to month fluctuations were fairly large during 2013-14, these were at lower end of price spectrum and thus, probably, did not impact consumers adversely.

In fact, the down slide in the retail as well as wholesale prices has continued till the writing of this report; these were hovering around Rs.33.55/ kg, for retail and Rs.3071.35/qty for wholesale, on all India basis, for the month of February 2015. This indicates that the sugar prices have still not attained stability in the post de-regulation phase.

- The sugar cane farmers suffered both during pre de-regulation as well as post de-regulation phase. In fact the sufferings of the farmers multiplied manifold during 2013-14. The per unit cane price received by farmers were either stagnant or only marginally better. On the top of stagnant per unit realizations, the arrears on account of cane supplies by farmers to the mills were considerably higher whether seen on monthly basis or season end basis, during post de-regulation phase.

The sorry state of affairs for sugar cane farmers has continued during 2014-15 sugar season. The all India cane price arrears stood at Rs.14,547.38crores (39.96% of total cane price payable) as on 15-02-2015 and were about as bad as the figures as on 15-02-2014 which was Rs.15,373.86 crores (46.96% of total cane price payable). This is despite the fact that the per unit cane price to be paid to the farmers during 2014-15 has been either kept constant or has been below 2013-14 levels in major sugar producing states.

- The financials of the sugar mills turned from bad to worse in the first season post de-regulation i.e. 2013-14. Though the stock use ratio improved during 2013-14, the disturbing element was the below production cost sale realizations. The reason lay to an extent on the



absence of discipline among sugar mills to plan their sales which compounded the situation of domestic as well as global surpluses.

In nutshell, while the de-regulation of sugar disposals in the country was expected to unshackle the sugar industry from stranglehold of governmental controls; the financials of sugar mills were expected to improve; the cane payments to the farmers were expected to become swifter as well as healthier and the sugar consumers were expected to get accustomed to, may be, higher but stable sugar price regime, the situation unraveled completely contrary to expectations.

In fact, the financials of the sugar mills and the cane farmers' payment situation has become so worrisome that the Government of India has, around the time of writing of this report, announced a new subsidy package of around Rs.560 crores to facilitate export of 14 lac M.T. of sugar with cash subsidy of Rs.4000/ M.T. during 2014-15 sugar season, in order to reduce surplus sugar stocks and improve market sentiment.

6.1.3 The study indicates that the stake holders situation has been exactly reverse to what was aimed at while undertaking de-regulation of the sugar sector by GOI. The consumers have been getting sugar at lesser prices ever since the Indian sugar sector was deregulated. However, the prices have fallen so much that the sugar mills and the sugar cane farmers have been big time sufferers. Though sugar de-regulation has provided operational freedom to the sugar manufacturers, the impact has been negated due to decline in sales realization. The poor financials of the sugar mills have impacted the cane payment to the farmers and the cane price arrears have been significantly high despite contingency support measures like export subsidy, interest free loans, tax waivers, etc. by the central and state governments.



6.1.4 The limited time horizon of this study did not provide scope for in depth study of the causative factors and their interrelation for the post de-regulation situation. To an extent, the failure of sugar sales realization to match up the production costs and the concomitant issues faced by the farmers and the sugar mills, which was almost the norm during 2013-14, is explainable by the surplus production situation globally and domestically. The commodity sector, both agricultural as well as non-agricultural, is globally in a bearish phase and same is the position for sugar though the global surpluses are expected to decline in case of sugar during 2015-16 as per estimates of ISO. The Indian sugar industry has been consistently producing more than domestic requirements for the last four sugar seasons and the ongoing sugar season i.e. 2014-15 is also expected to be surplus. The inherent structure of Indian sugar sector, resting on cost of cultivation based cane payments, lend little flexibility to make Indian sugar exports globally competitive. This sets the chain reaction of mounting cane price arrears and the extremely poor financial health of the sugar mills.

6.2 Recommendations

6.2.1 Long term interest of every stake holder in the sector hinges upon availability of raw material i.e. sugarcane at prices which are remunerative for farmers and affordable for sugar mills. Also, one cannot loose sight of the fact that the country has a huge consumption base, in fact the largest in the world. Any domestic shortage of sugar, which was happening cyclically and with uninterrupted frequency, every 3-4 years till recent past, leads to huge spurt in the consumer prices of sugar. As such, while the availability of sugar at rock bottom prices benefit Indian consumer in the near future, the long term perspective for the domestic consumers necessitate that the capacity/production gains in the sugar industry are consolidated/ strengthened by appropriate policies rather than allowing the surplus manufacturing capacities to remain idle and die a gradual death. The options in this context are discussed in the succeeding paras.



6.2.2 Declaration of Fair and Remunerative Price (FRP) of sugarcane by Central Government works as a statutory instrument that extends legal sanctity to the right of the cane farmers to get at least a benchmark minimum remuneration for their produce in the country. However due to continuous slump/stagnancy in the sugar prices for the past two sugar seasons, there has been consistent demand from the sugar mills to shift to one part of cane pricing formula of sharing of gross sales realization (i.e. from sugar as well as by-products) recommended by Dr. C. Rangarajan Committee i.e. @ 75% of sugar sale and forgetting about FRP as minimum benchmark payment. At the prevailing market prices of the sugar, this would translate into cane payments which may be below the notified FRP for 2014-15 sugar season and may in fact be lower than the cane payments accrued/ accruable to cane farmers for 2013-14 sugar season. Obviously, this will be a sensitive position, socio-economically as well as politically, and may not be advisable from any angle. The farmers need to be assured of at least FRP in the current circumstances and payments beyond FRP, which could be based on Dr. C. Rangarajan formula, in the better times. This has to remain the non-negotiable position as far as sugarcane farmers, as one of the stake-holders in the sugar sector is concerned. If ensuring the minimum cane payment to the farmers based on FRP ought to remain and unquestionable propagation given the socio-economic situation of Indian farmers, the long term interest of the huge domestic consumer class of sugar as well as for sustainable survival of the sugar industry, then what is the solution?

6.2.3 The industry has tried to wade through the difficult times by consistently seeking and getting Government support, both Central and the State level in the form of export subsidies, interest subventions, tax reliefs, etc. The sugar exports, with Government subsidy support are however neither sustainable nor easily defensible in international trade forums. Supporting sugar exports, monetarily, therefore may not be a viable and advisable option over long term. Similarly, there is limit to Government infusing liquidity in the



sector through concessional / interest free loans and such a strategy cannot be continue in perpetuity. Ultimately, the sector has to find out ways and means to carry out business on its own. The solution probably lies in strengthening the diversification streams of the sugar mills i.e. distilleries and co-generation units and this is discussed briefly in the succeeding paras.

6.2.4 Ethanol Blending Programme (EBP)

6.2.4.1 Following the trends in the developed and developing countries like E.U, U.S.A. and Brazil, the GOI for the past few years has been trying to push the 5% EBP in the country. Technically, it is very widely agreed that the Ethanol (which is basically the alcohol from which moisture has been completed evaporated) can be easily blended with petrol up to 20% without affecting the engine output in automobiles. The gains would be – tremendous savings on foreign exchange out-go, decreased dependency on imports and promotion of renewable source of energy.

6.2.4.2 The sugarcane based alcohol has a pre-eminent position in the country for meeting requirements of alcohol based industries like chemical industry, liquor industry as well as EBP. It is also estimated that the ethanol requirement for even meeting 5% blending targets in the country is 156 crore liters at current levels of petrol consumption, against which the sugar industry at the moment supplies only around 50 crore liters/annum. The fledging EBP which has ample scope of absorbing the surplus sugarcane appears to be extremely viable and sustainable solution for the stabilization/consolidation of the sugar industry as well sugarcane cultivation, over long term.

6.2.4.3 Since, the core issue in the sugar industry relates to the surplus sugar production and inability to compete in the export market, the production basket of the sugar mills can be altered in such a way that the country reduces sugar production, so as to match with the domestic consumption



requirements and utilizes the surplus raw material (sugarcane/sugar juices) to produce more of alcohol and value added industrial products (ENA, Rectified Spirit, Ethanol). This way the sugarcane cultivation, which has stabilized at around 350 million tonnes would not be adversely effected, as, not only it is tortuous for the agriculturalists to shift from one cropping pattern to another, a stable sugarcane production is also necessitated to sustain Ethanol Blending Programme (EBP) in the country, which is barely picking up.

6.2.4.4 The standard sugar production processes yield around 4.5 % molasses of the total cane crushing which in turn yields around 230 litres of alcohol per 1000 litres of molasses. The aim of reducing the sugar production, without hampering sugarcane production can be achieved by modulating sugar production processes in such a way that the sugar recovery is restricted upto B-Heavy molasses and the surplus sugar in the juice is converted to alcohol and its various products. As per various estimates, if the sugar mills in the country restrict the sugar production up to B-heavy molasses stage, the sugar production will get reduced from conventional target of around 250 lakh MT per-annum to around 220 lakh MT per annum and the industry can in to-to produce around 400 crore litres of alcohol in place of the current production levels of around 200 crore litres per annum. This way the sugar industry can produce alcohol, enough to meet the requirements of liquor and chemical industry at existing levels as well as the entire requirements for 5% EBP and even slightly more, so as to progress towards 10% EBP and the sugar prices, in the process should consolidate to reasonable levels.

6.2.4.5 The sugar mills have been complaining of inadequate prices being offered by Oil Marketing Companies (OMCs) as the major impediment in sustainable adoption of EBP. The price discovery gap indicated is in the range of Rs.3-5 per litre of ethanol produced. While the extent of price discovery gap is subject to validation / verification, assuming that the viability gap in the B-Heavy molasses route of sugar and ethanol production is around Rs.5 per litre of the ethanol produced, for the requirement for 5% EBP i.e. 156



crore litres (at the current consumption levels of petrol in the country), the viability gap might not be more than Rs. 700-800 crores per annum, which probably can easily be met by way of policy interventions like excise duty relief.

6.2.5 Preferential tariff forco-generation

6.2.5.1 Economics of the sector can also be improved by considering preferential tariff regime for the electricity production by the cogeneration plants of the sugar mills, which at the moment are being covered under the regular tariffs(central pooled electricity cost) plus renewable energy certificate (REC) by the state electricity boards. Since REC market is still in infancy and has not picked up, only a consistent and remunerative tariff regime at par with the solar and wind energy would improve cash flows of the sugar mills as well as promote installation of co-generation plants, wherever such investments have not occurred.

6.3 Final Remarks

The sugar sector is in flux. De-regulation has led to slump in sugar price, this has affected viability of sugar mills and concomitant payment of cane prices to the sugar cane farmers. The space vacated by the regulatory regime of the pre de-regulation phase has not been occupied by the discipline of market forces which should have happened in a state of prefect economic equilibrium. Out of the 3 stake holders in this sector, only consumers of sugar can be considered to have benefitted while the sufferings of cane farmers as well as sugar mills continue unabated despite significant de-regulation decisions of the Govt. in April, 2013, whereby most of the controls on sugar sale were dispensed off.



Probably, the long term amelioration of the sector might be attainable through the multi-pronged strategy of balancing sugar production concomitant with the domestic requirements and feasible exports, providing thrust to ethanol blending programme by appropriate policy interventions like duty reliefs as well as by enhancing the cogeneration tariffs for the sugar mills. The sugar industry needs to graduate to a multi-product industry so that the emphasis on sugar goes down and the bye-products also become mainstream products in the sugar mill economics. This obviously would require policy push from Central and State Governments as well as re-tuning of product portfolio by the sugar mills.
