



CRISIS IN THE INDIAN SUGAR INDUSTRY:

INDIAN SUGAR MILLS ASSOCIATION

Indian sugar industry: contribution to the economy

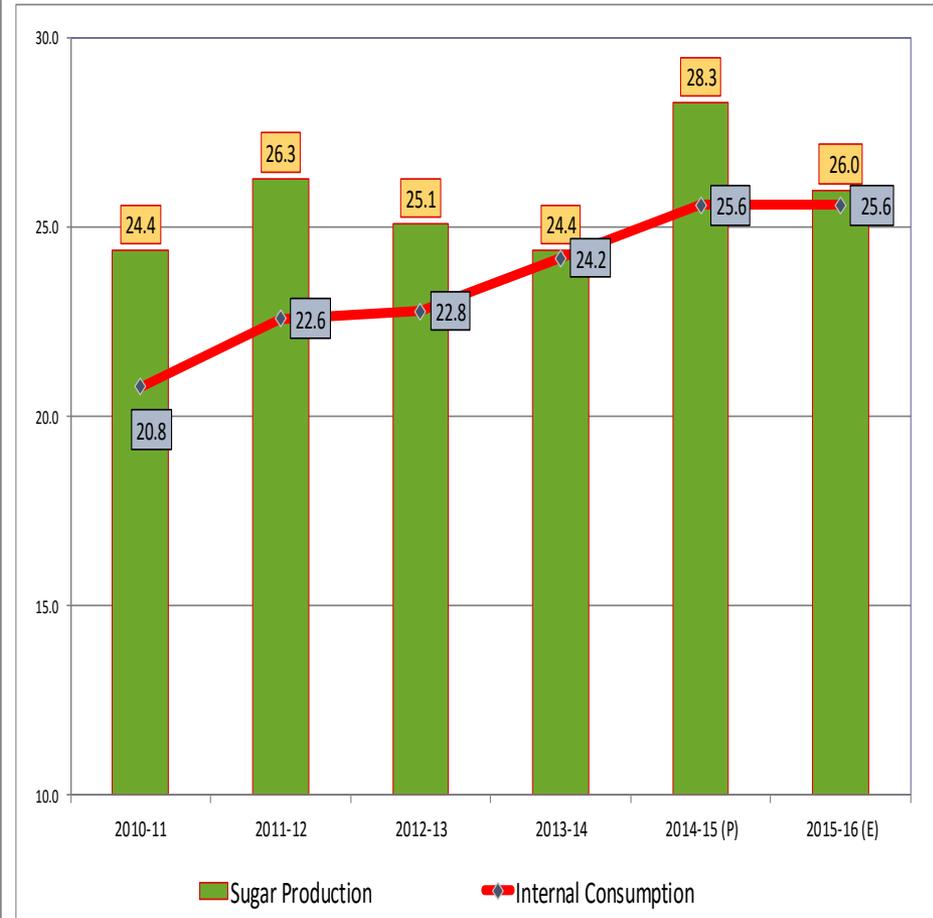
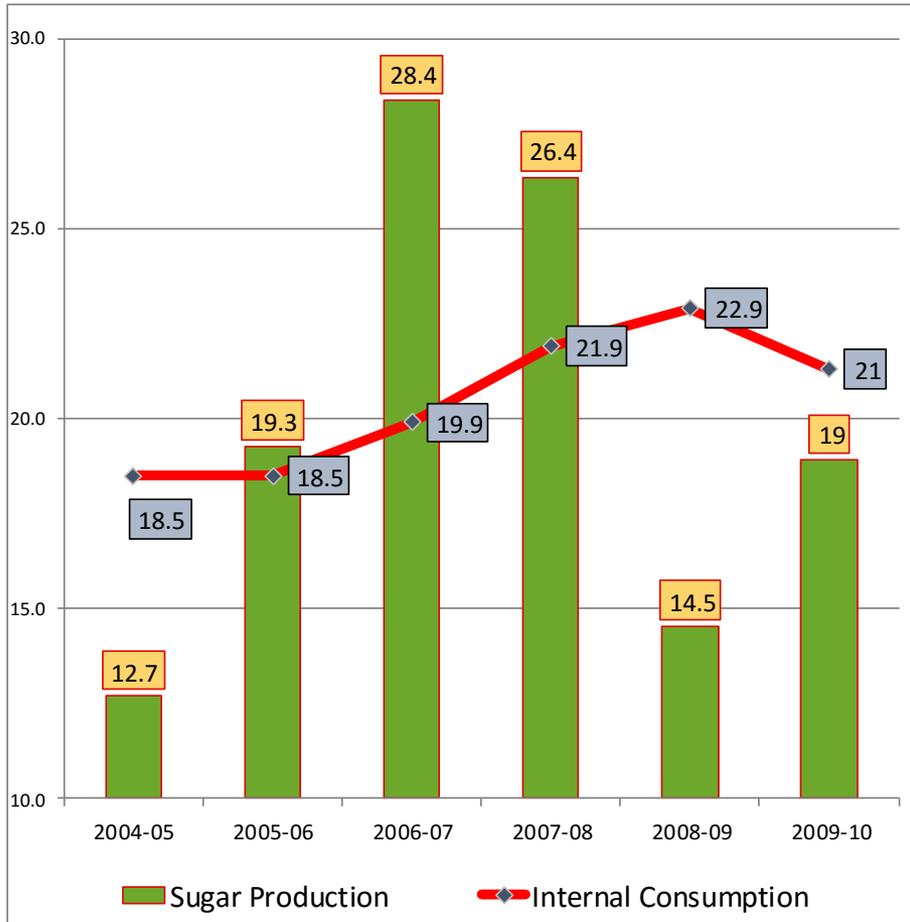
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- ❖ 5 crore farmers and their families directly dependent
 - ❖ Rs.65,000 crore of cane price annually
- ❖ Direct & indirect employment to 2 mln. people.
- ❖ Enough sugar production for domestic requirement
 - ❖ Foreign exchange earnings of USD 5000 mn in last 5 years
- ❖ Green power, surplus of 5000 MW exported to grid
- ❖ 12 mn tons molasses giving 300 cr. litres of alcohol
 - ❖ Incl. 120 cr. litres ethanol to replace 5% petrol consumption
- ❖ Direct positive impact on rural economy
- ❖ **Annual direct & indirect contribution of Rs.75,000 cr. to the Exchequer**

Sugar Production & Consumption

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Million tons

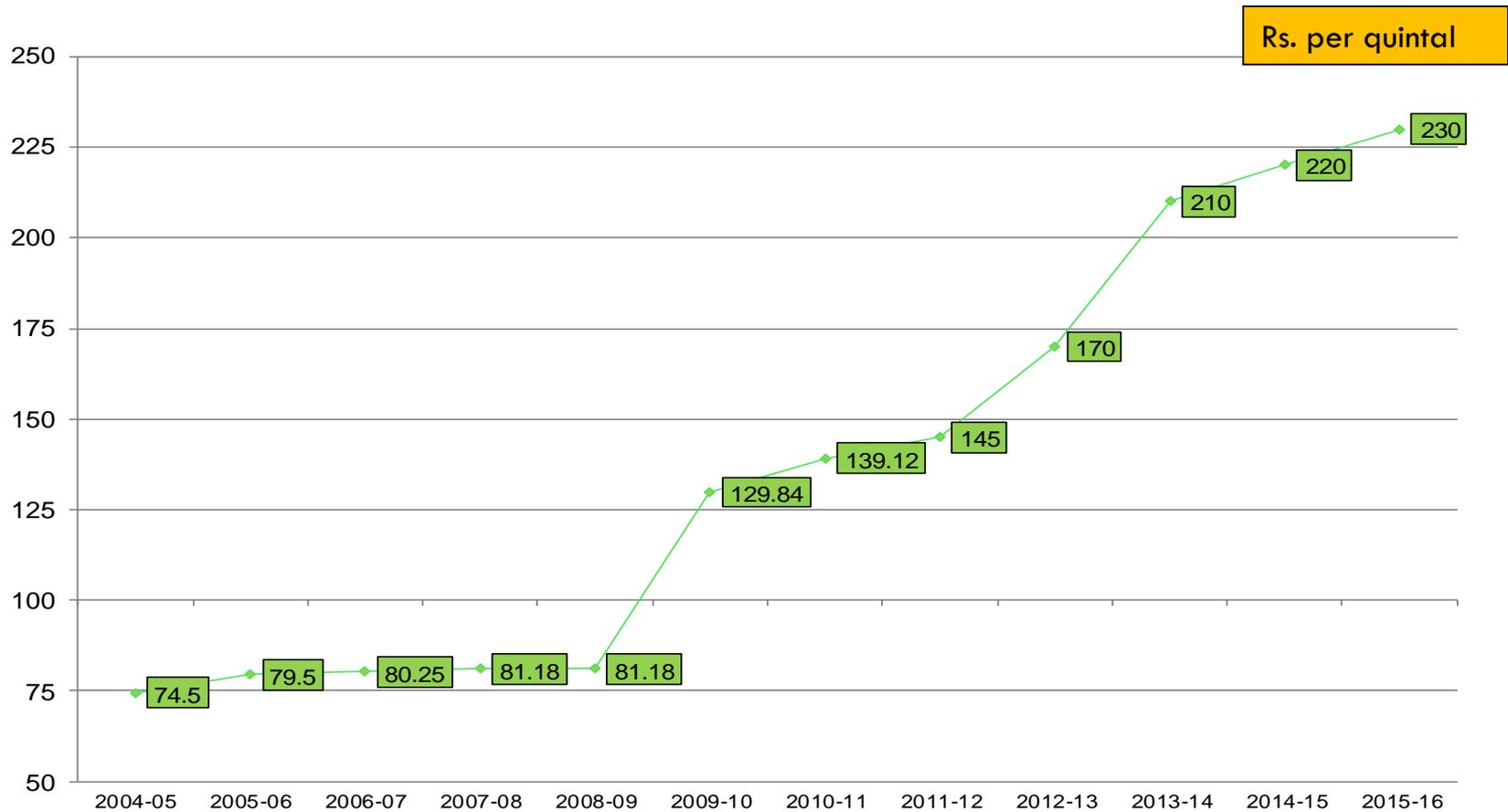


Infamous cane and sugar production cycle was a self-correcting mechanism to surplus sugar and shortages.

High prices of sugarcane has resulted in surplus sugarcane, which in turn, has caused continuous surplus sugar production for 6 years in a row.

Cane Price fixed by Government of India as SMP/FRP

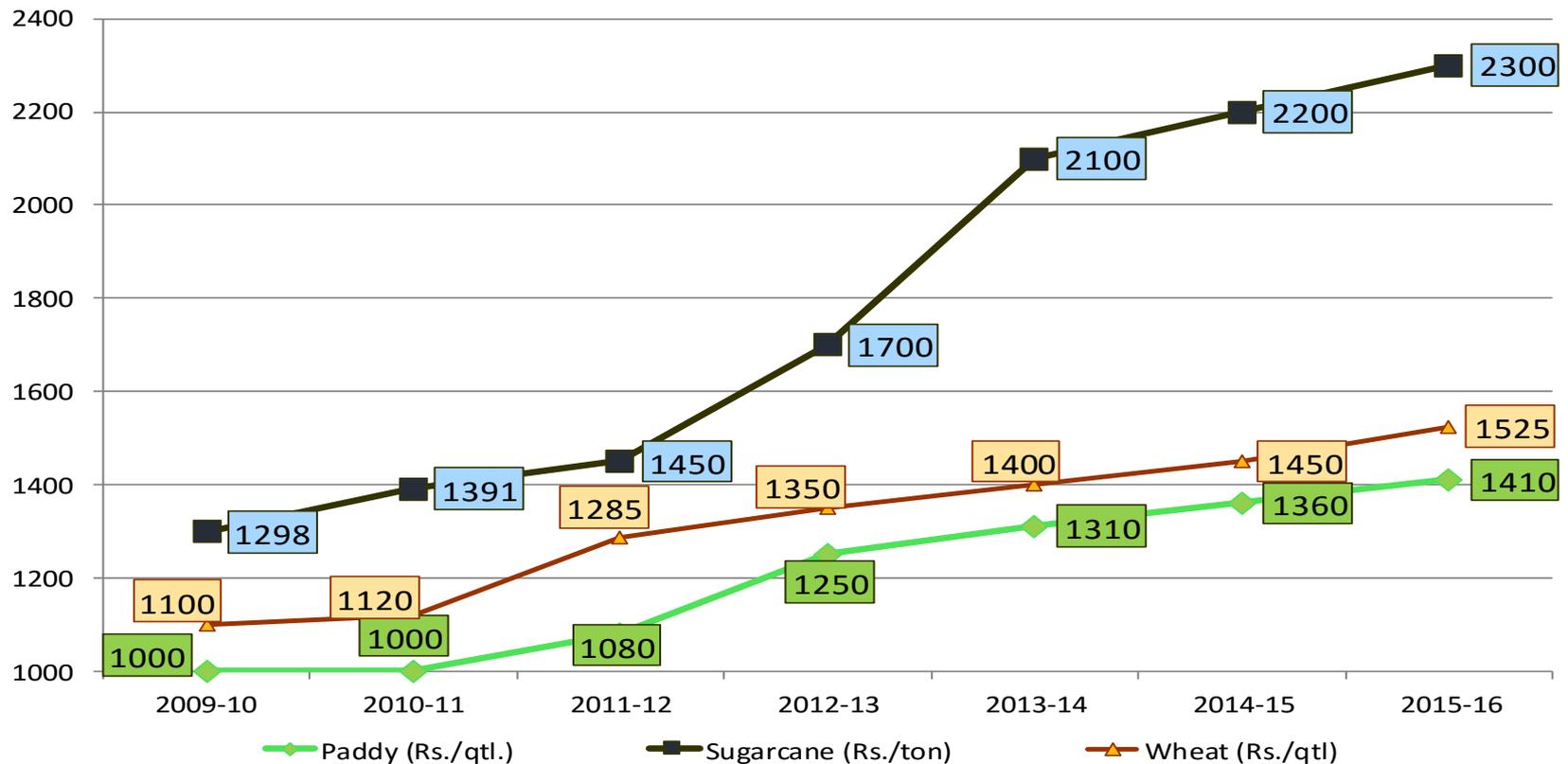
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- Step increase in the cane price fixed by Gol from 2009-10 SS has made cane price unaffordable.
- Additionally, some State Governments fix an even higher cane price (SAP) further burdening and making the industry unviable.

FRP of Sugarcane Vs MSP of Paddy and Wheat

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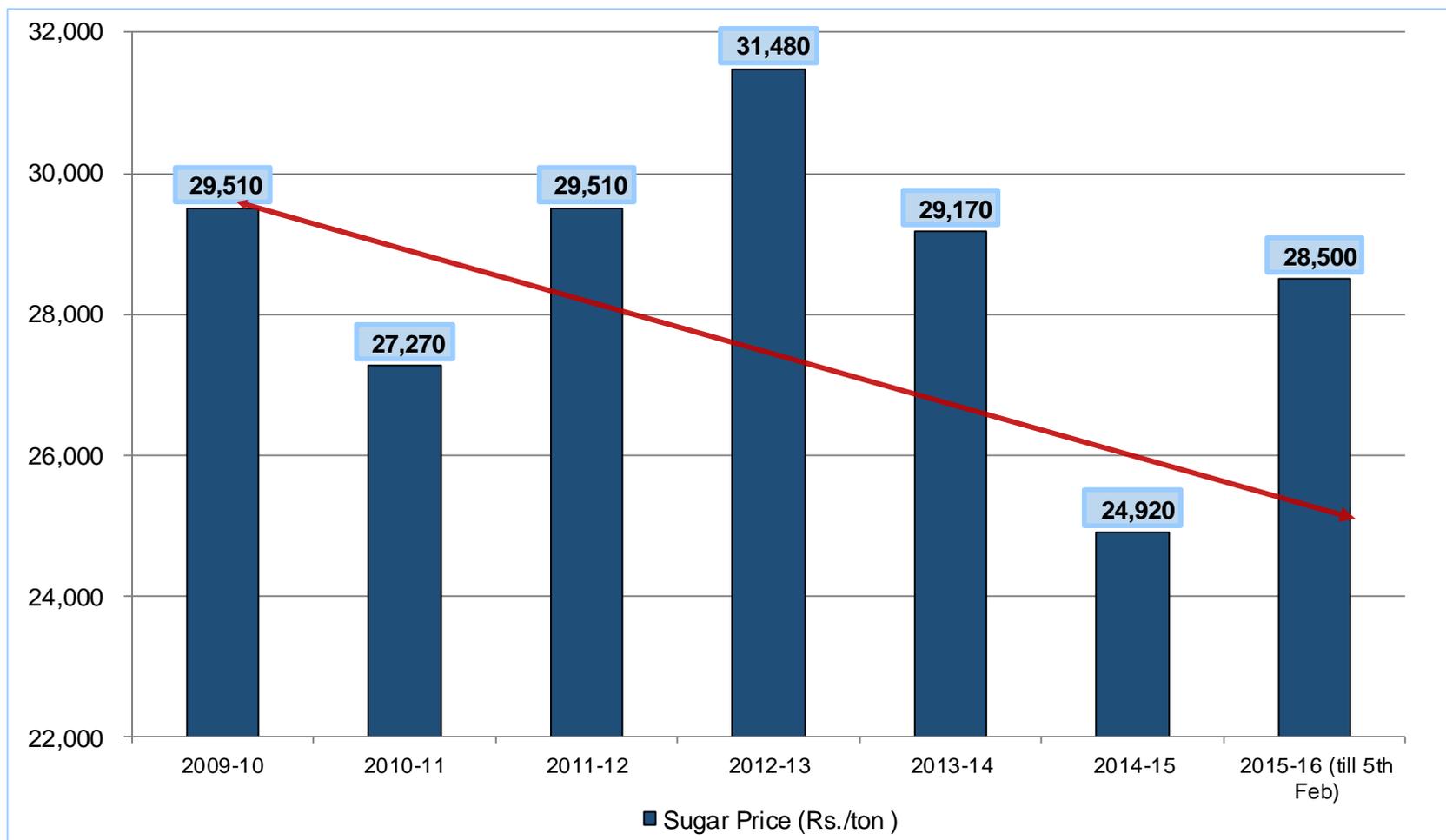


The steep increase in FRP for sugarcane from 2009-10 onwards was not matched by similar increase in competing crops.

It has led to 50 to 60% higher returns from sugarcane over other crops resulting in farmers shifting hugely to sugarcane. With Governments guaranteeing price payments, farmers have not left sugarcane despite delays.

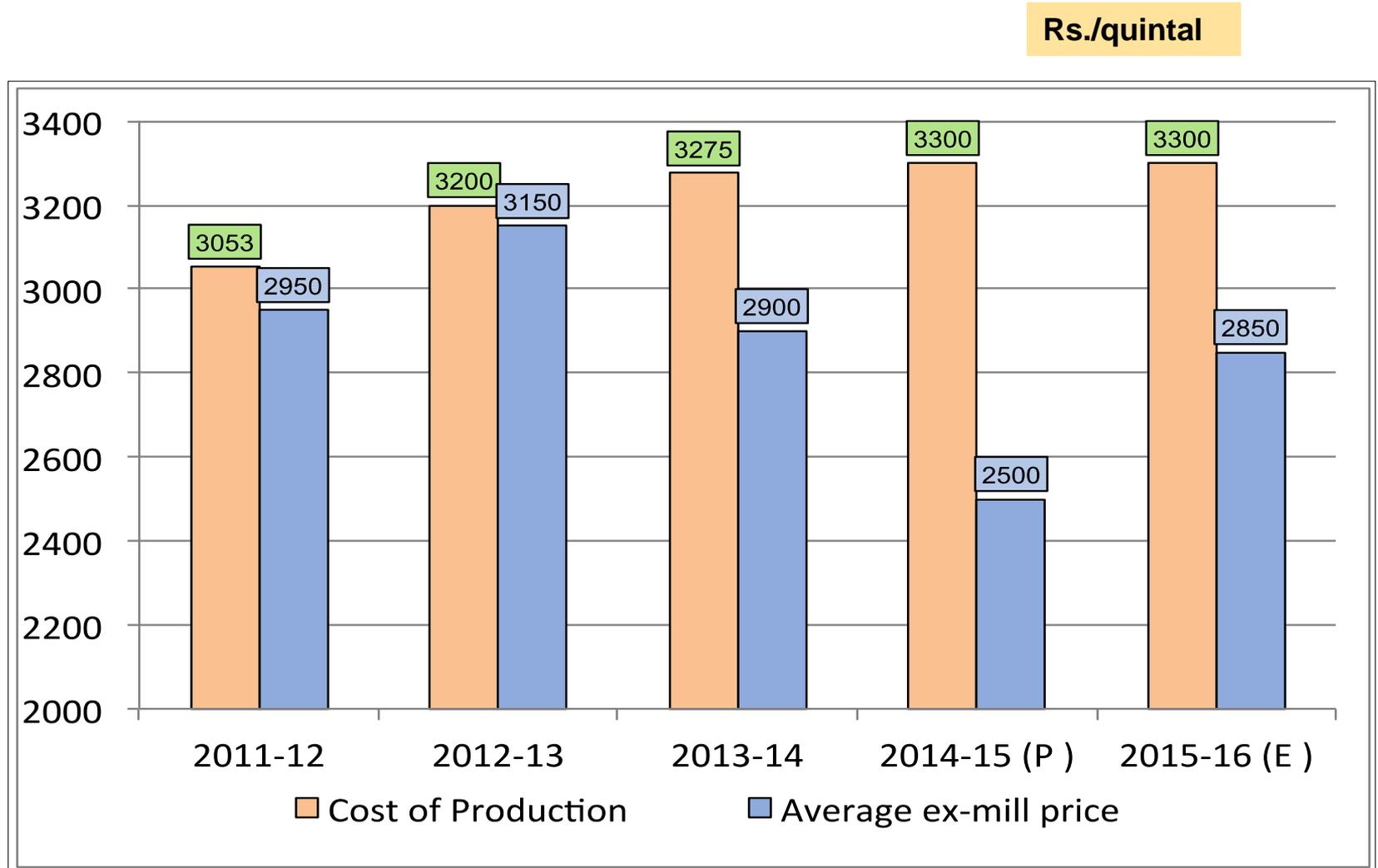
Average domestic sugar prices have been falling

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Cost of production vs. Average ex-mill prices

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Financial crisis in sugar industry

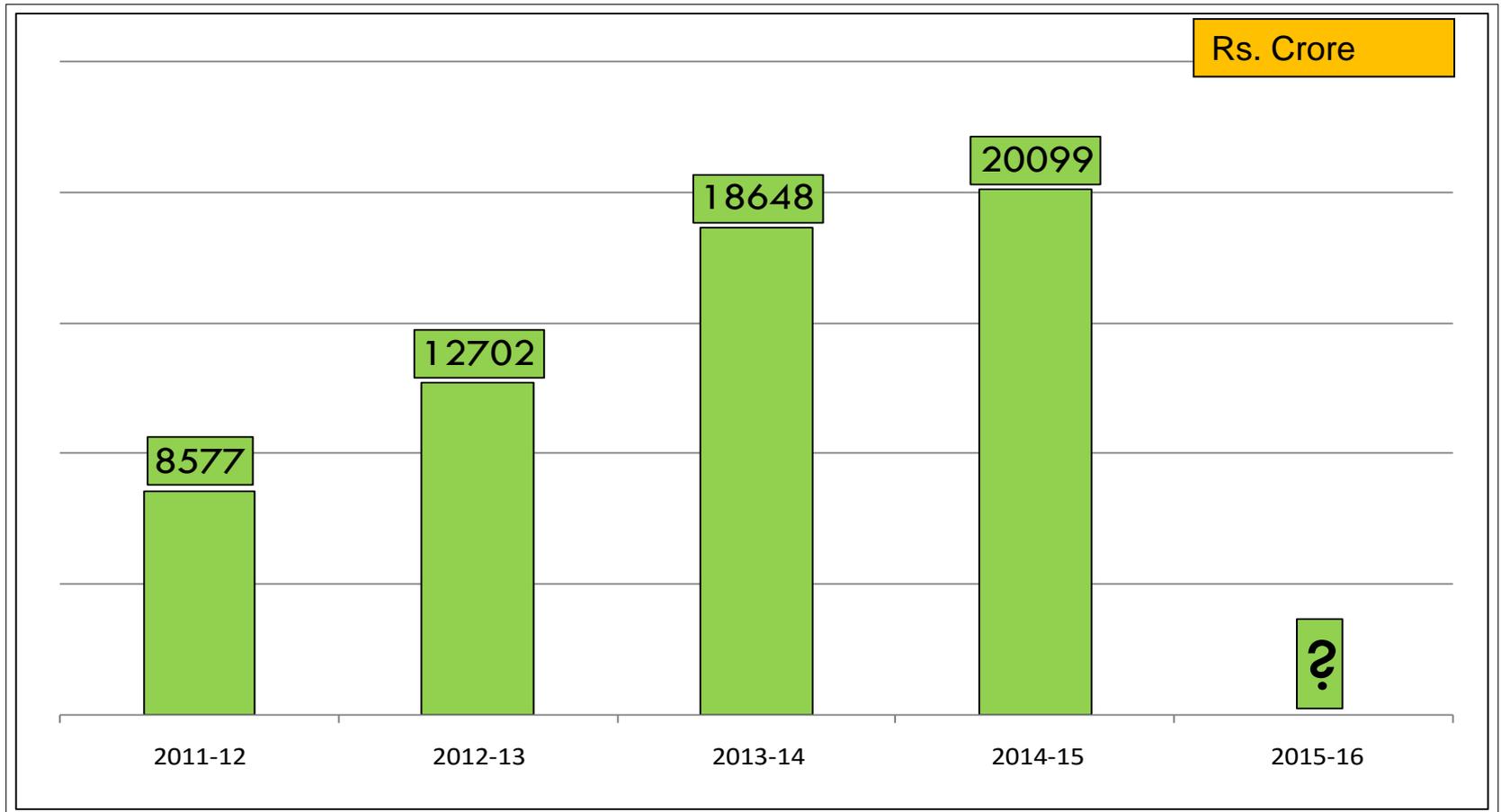
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- Surplus sugar continuously for the 6th year depressed sugar prices
- Massive losses to sugar industry in last 3 years
 - Unable to pay cane price of farmers
 - Unable to service debt, resulting in sickness/BIFR and NPAs
- In about 5 years, the debt burden increased 4 times
 - Debt of private mills Rs.11,500 cr. in 07-08 to Rs.44,000 cr. in 12-13
 - Incl. cooperative mills, debt burden much higher at Rs.55,000 crore,
- Concessional Soft & SEFASU loans to pay cane price helped
- But it also increased debt by over Rs.10,000 crore in 2 years
- Repayment due from 2016, but industry unable to repay now

Cane price arrears as on 31st March

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Under current circumstances, it has become difficult to pay cane price of farmers and also service the debt



ISMA's requests

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1. Financial restructuring of outstanding debt

2. (a) GST on sugar, sugarcane and renewable energy
(b) Cess on sugar to be continued

3. Creation of Fund to pay part of cane price directly to farmers

1. Financial Restructuring under 5:25 flexible structuring scheme

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- Cement, steel, natural gas, coal, crude oil, fertilisers, refinery products & electricity included as “core industries”
 - On grounds that these act as catalyst for overall socio economic development of nation
- Sugar industry is the largest rural based industry
 - 5 crore farmers, incl. their families, as also employment in rural areas
 - Produces and supplies green power/electricity, fuel grade ethanol to replace petrol, organic manure
 - Catalyst for the socio-economic development of Indian villages

Include sugar under 5:25 for restructuring

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- Sugar industry should justifiably be included as a core industry for 5:25 flexible structuring scheme
- However, due to the peculiarities of sugar, being an agri based foodstuff
 - Working capital should also be part of restructuring
 - Right to Recompense (ROR) may be waived
- A detailed paper on this could be presented by the sugar industry

2. GST on sugar

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- Sugar industry fully supportive of GST in India
 - All our products like sugar, electricity, ethanol, alcohol etc. be included
- Currently, fixed excise duty @Rs.71/- quintal
 - At current ex-mill sugar prices, it works out to around 2.5%
 - Sugar is an essential commodity along with wheat, paddy, salt etc.
- Any rate higher than 2.5% will become inflationary, lead to increase in sugar prices and reduce returns of mills & farmers

GST on by-products

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- Electricity, alcohol and petroleum is being kept out of GST
 - Sugar industry exports 5000 MW electricity
 - We also supply 120 crore litres of ethanol for blending with petrol
- If these are out of GST then:
 - GST paid on inputs like bagasse and molasses will burden sugar mills
 - States will levy taxes and control movement of fuel ethanol

Cess on sugar

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- SDF has been very useful in growth & development of sugar industry
 - SDF should be continued
- Cess on sugar increased recently with approval of Parliament to fund SDF for assistance to farmers and millers

Request on GST

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- Sugar should be included in same category as wheat, rice, salt etc. and preferably in exempted category, if any
 - Sugarcane should also be part of GST and in exempted category
- Create special category of “renewable energy or bio-fuels” and keep that under GST
 - If not, then exempt molasses and bagasse also from GST
- Cess on sugar should be continued and not merged

3. Creation of Price Stabilisation Fund

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- CACP has recommended as follows for 2015-16 SS
 - Rs.230 per quintal of cane price as FRP
 - Sugar mills pay as per revenue sharing formula (RSF)
 - If price as per RSF is lower to FRP, the gap be filled by Government, for which Govt. should create a Price Stabilisation Fund (PSF)
- PSF is the only long term solution
 - At least till the distortion in prices between sugarcane and other crops is corrected.

Thank you