

Kingsman

**2nd
Indian Sugar Summit**

Levelling out the Indian crop cycle



FUTURE OF INDIAN SUGAR INDUSTRY IN A DECONTROLLED ENVIRONMENT

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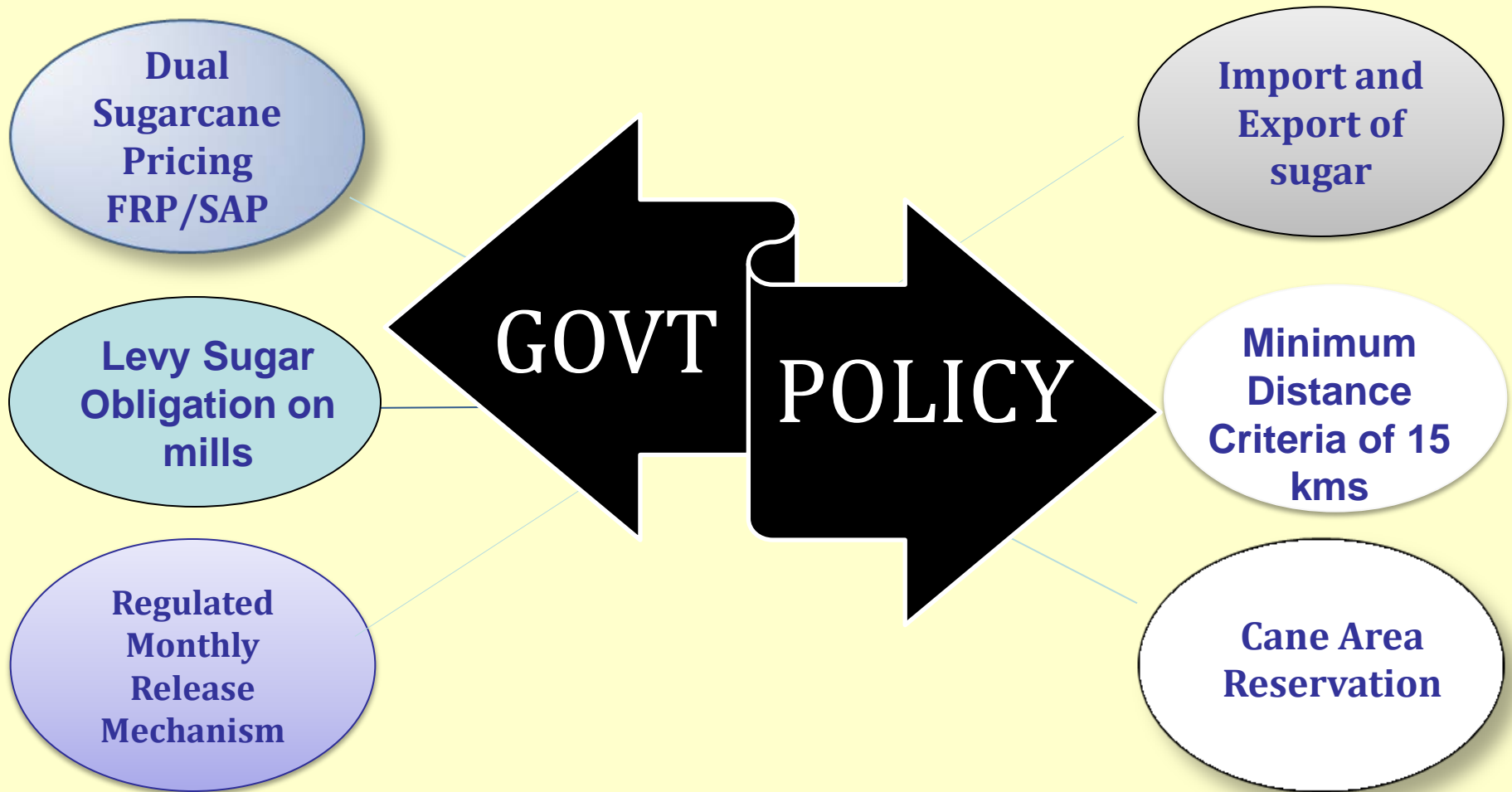
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Indian Sugar Industry

- ❖ World's largest consumer of sugar
- ❖ 2nd largest producer of sugar in the world.
- ❖ The industry is highly regulated
 - ❖ regulations cover the entire chain from procurement of sugarcane to sale of sugar.
- ❖ India consumes sugar produced domestically.
 - ❖ However, depending on the sugar cycle, it becomes large scale net exporter or net importer of sugar
 - ❖ This correspondingly impacts the domestic and world sugar prices and availability.

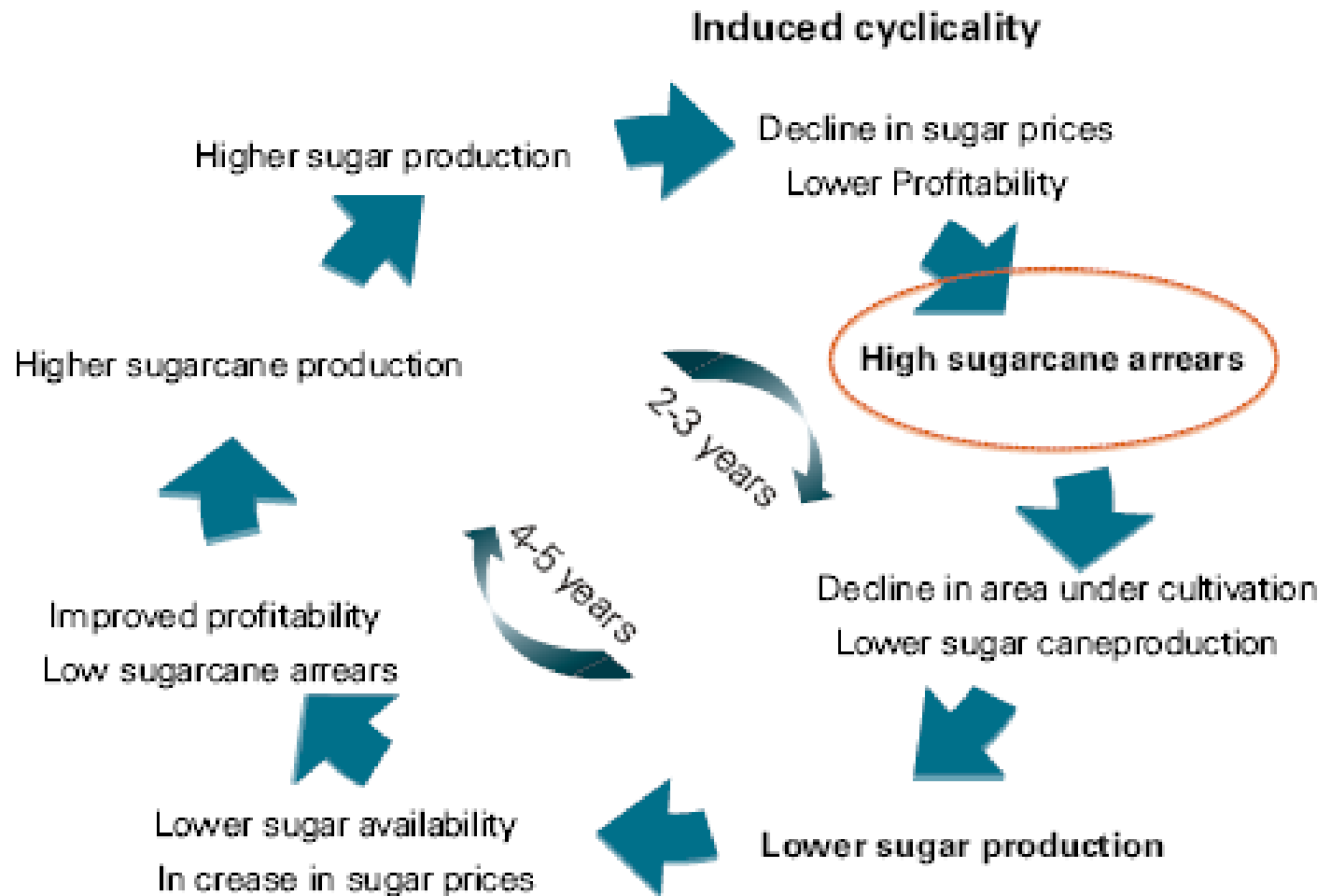
CURRENT POLICY REGULATIONS



❖ Regulations cover the entire chain from production of sugarcane to sugar retail

❖ Stringent controls induce cyclicity in cane and sugar out put

TYPICAL INDIAN SUGAR CYCLE



❖ The induced high cyclicality is identified as the main problem of India's sugar sector.

**STATEMENT SHOWING SUPPLY AND DEMAND OF SUGAR
2006-07 TO 2010-11**

(Figures in lakh tonnes)

		2006-07	2007-08	2008-09	2009-10	2010-11
					(Estimates)	
1	Opening Stock as on 1st Oct.	43	110	105	44	58
2	Production during the Season	283	264	146	188	255
3	Imports	-	-	24*	40*	-
4	Total Availability	326	374	275	272	313
5	Off-take					
	I) Internal Consumption	199	219	229	214	225
	ii) Exports	17	50	2	-	10
	Total offtake	216	269	231	214	235
6	Closing Stock as on 30th Sept.	110	105	44	58	78

* Equivalent White Sugar

Reasons why industry remains fragmented / inefficient

- Other sectors have benefited considerably from decontrol and deregulation through promoting greater market discipline in the primary stakeholders.
- Profitable running of enterprises is a basic requirement if the economy has to thrive. Any enterprise is able to perform better with autonomy, freedom from control in business decisions and non-interference with markets.
- In case of sugar, as stated earlier, the almost total control has limited the industry's ability to innovate, invest and improve its efficiency. Higher investments do not flow in to sectors with high level of control.
- With low profitability and only windfall profits arising from trading based on a skewed market cycle, entrepreneurs might shy away from making investments required for export markets and integrated sugar complexes.
- Total decontrol is the only solution in the long term to put the Indian sugar sector on an even keel.

Disadvantages of control

- Low competition – Inefficient Industry
- Dual cane price mechanism
 - FRP notified by the Central Government and SAP by State Governments higher than FRP
 - Causes distortions in sugarcane market
 - Major cause of cyclicalities in sugarcane and sugar output.
- Procurement of levy sugar directly from the industry, for PDS for targeted poorer section of society
 - at prices below the cost of production
 - causes distortion in sugar and sugarcane economy.
 - Reduces capacity to pay better cane price

Disadvantages of control Contd..

- The cyclical trends in sugarcane and sugar output has adversely impacted the cane farmers and the industry
 - exporting sugar at prices below cost of production in surplus years and importing sugar during lean periods at high prices
 - In the current year, Government facilitated imports to bridge the gap between supply and demands denying the domestic industry a level playing field.
- Low profitability and regulations impact
 - major investment in this sector for
 - technology upgradation,
 - vertical growth and
 - diversification into byproduct based industries.

ADVANTAGES OF DECONTROL

GLOBALLY COMPETITIVE SUGAR INDUSTRY

- Stable sugar and sugarcane prices
- Healthier and more robust sugar industry
- Better & independent planning of sales and cash flow
- Consolidation of fragmented capacity and vertical growth
- Availability of surplus sugar for export
- Better revenue/cash flow to sugar industry
 - Technology upgradation
 - Investment in value addition to by-products
 - Better availability of ethanol for EBP programme
 - Free flow of global capital would be available with decontrol which is imperative to achieve the above objectives

FARMERS PROSPERITY & SUSTAINABLE SUGARCANE CROP

- Sustainable sugarcane crop eliminating cyclical
- Remunerative sugarcane prices, competitive with other cash crops
- Timely payment to sugarcane farmers
- With better inputs by farmers, productivity and yield of sugarcane will improve
- Prosperity of the millions of sugarcane farmers.

FAIR PRICE OF SUGAR FOR CONSUMERS

- Reasonable sugar price
- Availability of quality / branded sugar as per choice of consumers
- Competition among mills will ensure quality sugar
- Self sufficiency of sugar in the country will eliminate volatility in sugar prices
- With no levy sugar obligation, no need to load the losses to open market sales

RURAL PROSPERITY IN GENERAL

- Sugar industry is the 2nd largest agro based industry in rural India
- Fairly remunerative cane price payment to farmers lead to their prosperity
- Investment by the sugar mills for the infrastructure such as roads, sewer, water supply besides schools, hospitals etc. improve their living standard.
- More employment
- This will lead to rural prosperity in general.

CONCLUDING

- Reduction in large scale shift of area from/to sugarcane
- Reduction in volatility of sugarcane and sugar production
- Reduction in volatility in sugarcane and sugar prices
- Better and stable returns to farmers and industry
- Cyclicalities in sugarcane and sugar production will be checked
- **With less volatility in area shifts to/from sugarcane, will help in better food security planning in the country**