SUGGESTIONS

The Indian Sugar Industry will have a rosy future, if its potential is fully developed and it is allowed to bloom. It is one of those rare industries whose products are likely to have continued, sustained and increasing demand in to the future whether they sugar, power, alcohol or other related chemicals. More importantly, since they are based upon a renewable source like sugarcane, the industry is “green” and will be increasingly valued in the future.

The state governments should take pragmatic view in regard to feeding the power produced by the sugar factories to the state grids. This will not only enhance the financial viability of sugar factories but it would also enhance the cane price paying capacity of the factory which would ultimately benefit the farmers.

Another area of concerned which significantly impacts the viability of Indian Sugar Industry is the high cost of cane a contributory factor for this is the low sugarcane fields in India and relatively low overall recovery rates. These inhibiting factors combine to make the per hectare output of sugar in India much below than obtaining in other developing countries like Brazil which is one of our main competitor in sugarcane production. Specially with the dismantling of tariff protection and restrictive trade practices, these is tremendous scope for India to emerge as a significant player in the world sugar trade which so far it has eschewed. But the sine qua non for this is that both agricultural efficiency [per hectare output of sugar and cost of production] as well as conversion efficiency [milling and overheads] needs significant improvement. If we can make a fair degree of progress on both these counts, India will surely become a major exporter which will stabilize the industry and reduce its cyclicality significantly, as well as open up new vistas of growth for the Indian Sugar Industry.

The industry has to be free from its shackles to enable investment and pricing decisions to be taken based upon economic viability. The government needs to restrict its presence to the few areas which cannot do without its intervention. These include the need for a fairly derived SMP for sugarcane to be announced on an annual, all India bases. As in other countries like Brazil, the farmer’s return on cane should ultimately be linked to the market.
price of sugar rather than the cost of production for a low sugar price will lead to reduced cane cultivation and consequent shortage of sugar production market availability as also higher sugar and cane prices. Similarly, a high sugar price will lead to increased cane cultivation, surplus sugar production and a drop in sugar/cane prices, reversing the increase in cane cultivation.

An efficient and well managed future trading mechanism needs to be put in place to facilitate price discovering both for farmers and millers both in the domestic and global markets. It should also have a stable relatively long term exim policy supportive of the industry, which helps the industry to establish its credibility in the global market.

The growth should actively push for development of integrated sugar complexes for maximizing the value of the by products.

**Need to Reduce the Cost of Sugarcane in the total cost of sugar Production:**

It is observed that the sugarcane prices paid in India were always higher than the sugarcane prices paid per ton in Brazil, Australia, Thailand, and South Africa. Therefore, it is necessary for the sugar industry to design the sugarcane prices which should be correlated to the CCS of primary juice of the sugarcane supplied to the individual mill. It would not only reduce the cost of sugarcane per ton but will also help to improve the quality of sugarcane supplied by the individual sugarcane grower. Therefore it is necessary for the sugar industry to concentrate more on sugarcane development programme which will help to have quality sugarcane for crushing. Naturally this will reduce the cost of sugarcane which is a major cost component in the total cost of sugar production.

**Need to Bring down the total cost of Sugar Production:**

In spite of having the benefit of lowest field production cost, the total cost of sugar production in India is not lowest in the world. It was due to higher factory cost. Now, India is facing the stiff competition from Thailand and Australia in world sugar trade due to their lower factory production cost. Therefore, it is an urgent need to take recourse on top priority to reduce the factory production cost of Indian Sugar.

The cost of production in Indian sugar industry was higher because it is labour extensive. Many sugars Industry are shifting to mechanization and automation but the change is very slow. The pace of mechanization and automation will have to be accelerated.
Need to Develop High sugar Content and Higher Yielding Varieties of Sugarcane:
India has now attained the status of largest sugar producing country in the world and contributed around 18% to 20% of world’s cane sugar production. In spite of this, the average cane productivity (i.e. 68.00 M. tonnes per/ha) is much lower than the countries like Kenya 100.2 M. tonnes/ha, Egypt 100.3 tonnes/ha, Columbia 83.5 tonnes/ha, Australia 74.5 tonnes/ha and Hawaii 150 tonnes/ha for a crop of 24 months. Therefore, now the time has come the sugarcane grower and the sugar industry should concentrate more on high yielding varieties so as to get required sugarcane from the same area under sugarcane crop. It means with the same area under sugarcane the industry would be able to get additional sugar production i.e. 1.50 to 2 million tonnes every year.

It is also important that in spite of introduction of early maturing varieties, the sugarcane research centres should develop the different varieties suiting to the different climatic and geographical conditions which would help to increase the recovery percent. Accordingly the Indian sugarcane research centre should also develop such varieties which would help to increase the recovery at least by 1 to 1.5%. Naturally it would yield additional sugar to the tune of 10 to 15 lack tonnes of per year.

Taking into account the rate of home consumption of sugar and the importance of the industry, in the Indian economy the high sugar content and high yielding varieties should be developed on top priority basis. These varieties should also be resistant to insects, pests and diseases and should also be good rat toners. The breeders of our country should also keep in mind the varieties should be resistant to water logging, draught, alkalinity, salinity, and lodging and frost etc. The varieties should also be developed for late planting also.

Need to Achieve Maximum Utilization of Plant Capacity:
Modernization of plant and machinery is overdue. Therefore, higher% share of lost hours to available hours automatically leads to under utilization of plant capacity which leads to higher cost of sugar production. Therefore, the Industry should concentrate more on efficient utilization of plant capacity.

Need to Improve Profit Making Ability of Sugar Industry:
The interest and bank charges absorb the major portion of net sales. Therefore, it can be suggested that the sugar Industry should bring down their dependence on borrowed funds
and increase their own capital. It is necessary for all the Industry to take an urgent step to bring down cost of goods sold as well as the major overheads i.e. (1) Administrative overheads and (2) Interest and bank charges. They affect the profit making ability of the Industry. Therefore, there is urgent need to improve the efficiency level in the sugar Industry at all levels.

Need to Implement Norms of ICUMSA:
In the present era of global marketing it has become inevitable to enhance the competitiveness of our sugar industry through modernization and collaborative work. In this pursuit our scientists can play a significant role by the applications of basic knowledge and bringing in sophistication in areas of production and quality control. The sugar industry is coming with big way in the international market and establishing its image as regular supplier in the world market. Therefore, there is a need to observe the norms of ICUMSA (International Commission for Uniform Method of Sugar Analysis) strictly.

Need to Discontinue the Policy of Dual Pricing System for Sugarcane:
It is observed that the state advised sugarcane prices are always higher than the statutory minimum prices, fixed by the Central Govt. For the natural growth of the sugar industry the sugarcane prices should be fixed on the basis of recovery percent they have achieved i.e. this would help to reduce cost of sugarcane. This will also help to improve the quality of sugarcane supply to the Industry. Ultimately this will increase the sugar production with the help of same quantity of sugarcane crushed during the season. Therefore it is necessary to stop the system of state advised sugarcane prices scheme here after for the natural as well as qualitative growth of the Indian Sugar Industry.

Need to Provide Support Price for Sugar Industry:
The reluctance of the financial institutions and the banks to provide term loans as well as working capital has crippled the Indian sugar Industry. These institutions have started looking at the sugar industry as a very high-risk industry.

Need For Easier and Cheaper Credit:
Sugar industry is the largest single user of credit in the agro sector due to its compulsion to hold large stock of sugar for a larger period of time. Besides the long term loans carry the higher rate of interest which affects the financial position of the industry.
Therefore, Government should ensure easier and cheaper credit facilities to the sugar industry which is primarily required by it for timely disbursement of sugarcane prices of millions of sugarcane farmers.

The scheduled commercial banks having developed high risk perception of the sugar industry have become extremely weary in enhancing the cash credit limits to the Industry to the requisite levels year after year the arrears of sugarcane farmers are increasing which has affected the well being of sugarcane farmers.

Therefore, it is necessary that Govt. should intervene in the matter and provide the relief in the interest rate on par with textile industry.

Soft term loan should also be considered for sugar Industry to those who are going for diversification like cogeneration as well as ethanol production.

**Sugarcane Complex Go for Product Diversification:**

Sugarcane is the most versatile crop which provides tremendous potential to the sugar Industry to diversify into various products based on its by products i.e. Molasses, Bagasse and Press mud. Advances in the knowledge of technologies have opened for potentials of multiple uses of sugarcane and it can now be looked at as raw material for many more products than ‘Sugar’ alone. The following are the illustrative uses of cane.

1. Renewable resources of energy and liquid fuels.
2. Power generation or cogeneration.
3. Paper and paper boards.
4. Protein foods and cattle feed.
5. Organic chemicals.
6. Bio-manures and
7. Sugar.

**Need to Organize R & D in Sugar Industry:**

Application of latest technologies in the fields of energy, product diversification, by product power generation, multiple uses of sugarcane and the concepts of creation of autonomous sugarcane complexes, use of improved design and continuous equipment should now seriously attraction the attention of the industry for its long term survival and as such more objective oriented in house R & D units are the need of the time.
In fact the R & D should be a combination of cane agriculture and sugar technology. Here, agriculture should be treated as being on the same status and as part and parcel of a totality of processing. The R & D wing should be developed on a continuous basis for a brighter success of the industry.

**Complete Decontrol of Sugar Price**

In the opinion of the Committee the present system of partial control leads to higher market price for free sale sugar as the Industry have to compensate themselves for the loss incurred in supplying 40% of the production in levy at below cost. This puts the domestic sugar industry at a disadvantage vis-à-vis imports and discourages exports, aggravates cyclical fluctuations in production as the sugar Industry are unable to compete with Khandsari units during period of low cane production so that smaller percentage of limited cane supplies become available to the Industry. The dual price system in the opinion of the committee also encourages setting up of Industry in high cost areas thereby building up of a high cost sugar industry, it is the principal reason for the poor financial health of the industry and for investment in the industry not forthcoming without special incentives and it also leads to widespread resentment among cane growers as they feel that they have to bear the burden of subsidy for sugar in PDS unlike other commodities where the burden of subsidy is borne by the Government. The Committee has however recommended the phasing of decontrol over a period of two years to allow time to such factories as have been set up in relatively high cost areas due to advantage of high levy price under the system of partial control to take necessary steps to improve their efficiency so that they can face the competition. It has also suggested that control on releases should continue even after complete decontrol of sugar prices in the interest of stability of sugar prices.

**Supply of Sugar through PDS May Be Discontinued When Complete Decontrol Becomes Effective**

Developments in EBP (Ethanol Blending Program)

As there are large scale leakages of levy sugar into open market, large percentage of subsidy is availed of by the non-poor and even where sugar reaches the card holders its financial benefit is very small. The poor consumers in the rural areas are in fact the net losers as they consume mainly Gur / Jaggery whose prices move in tandem with price of free-sale sugar and would therefore be higher than they would be under a system of complete decontrol. The Committee has expressed the view that the subsidy at present
allowed in supply of sugar through PDS can be distributed among the beneficiaries by adding to the subsidy at present allowed on food grains. It has suggested that if the Government nevertheless wishes to continue supply of sugar under PDS, the required quantity may be purchased from industry or trade by tender mg or at fixed prices from the Industry as adopted by banks for valuation of sugar study for working capital loans. It has expressed the view that the additional subsidy would be offset to some extent by higher realization from excise duty on larger quantum of free-sale sugar on which excise duties are higher than on levy sugar and if there is still any deficiency the balance may be met by suitable increase in excise duty on sugar

**Announcement of Statutory Minimum Price for Sugarcane**

This should be continued even under system of complete decontrol on sugar prices as a guarantee of a minimum price to the growers. It has however suggested that the SMP should be based mainly on the cost of production of sugarcane and return to the growers from alternative crops and should be de-linked from the price of sugar in the market. It has also recommended that in-stead of linking SMP to percentage of recovery of sugar, which is also influenced by the state of machinery and the operational efficiency of the mill it may be linked to the sugar content of cane supplied by growers to the Industry and a premium may be allowed on the varieties which have higher sugar content.

So far as actual cane price payable to the growers is concerned the Committee has recommended a fixed share for the growers in the sale realization from the sale of sugar as is the practice in most of the major sugar producing countries in the world. It has suggested that the share of growers may be fixed on the basis of percentage of average cost of purchase of sugarcane to total sales realization from sale of sugar (excluding excise duty and Excess and incidence of purchase and other taxes levied on sugar cane by State Governments) during the last ten years. Cane price will be fixed separately for different zones, formed but on the basis of level of sugar prices and recovery percentage of sugar. Within a zone all Industry will be required to pay the same price. The growers in a zone with higher average recovery than all India average will get proportionately higher cane price as factories in such zone will have relatively higher capacity to pay.
Setting Up Of a Sugarcane Pricing Board

This would comprise an economist of repute as Chairman and senior officers from Departments of Sugar, Civil supplies and Ministry of Agriculture, Economic Adviser in the Ministry of Finance, one representative each from the two apex organizations of the industry viz. National Federation of Co-operative Sugar Factories and Indian Sugar Industry Association and two representatives of cane growers- one from the tropical zone and another from the sub-tropical zone to be nominated by Government of India as members. The Board will determine in September each year advance price for ensuing crushing season on the basis of likely sugar prices and final price for each zone will be determined by the board before the end of November next based on the actual ex-factory sale prices.

Statutory Minimum Payment within 15 Days of Supply of Cane

Industry should be statutorily required to pay minimum of 80% of the advance price determined by the Board within fifteen days of supply of cane by the growers and the remaining amount before the end of the Sugar season. The difference between the advance price and final price shall be paid by the Industry within fifteen days of announcement of final price. It has suggested for a provision being made in all the States for recovery of arrears of sugarcane prices remaining unpaid till the end of Sugar Season as arrears of land revenue besides payments of interest at the rate of 15% on any delay in payment. The Committee has suggested that the Co-operative sugar Industry in Maharashtra, Gujarat and North Karnataka may continue the present practice of distributing the sale proceeds amongst the member growers if they so desire and the co-operative Industry in other States in which the growers have majority of share capital may also be free to adopt that system at their option.
Existing Policy for Licensing of New Sugar Industry May Continue with Modifications

Certain modifications would be made such as are necessary to ensure that new sugar factories are not installed very close to the existing sugar factories which would adversely affect the financial viability of the latter and also discourage the factories from investing in cane development in their area. They have however suggested that there should be no need for license for expansion in capacity although applications for allocation of additional cane area where required will have to be made to the State Government concerned before expansion is undertaken.

Continuance of the Existing System of Cane Area Reservation

Under this system all cane growers in the reserved area of the mill are required to supply cane to the specified mill and the mill is obliged to crush all cane bonded by the growers from the reserved area for supply to the mill. It has come to the conclusion that in the absence of this system, it will be difficult for sugar factories to regulate the supply of cane by the farmers according to the crushing capacity) available on each day, resulting in inadequate sugarcane available on some days and excessive cane coming to the mill on other days leading to long waiting period for the growers, some of whom may have to carry their cane to distant industry for disposal. Involving higher transportation cost as well as drayage of cane. The system is also, in the view of the Committee, necessary to provide incentive to the mill to undertake cane development. The Committee has made a number of recommendations to strengthen the system and make it more equitable. In order to strengthen the incentive for cane development by the Industry it has recommended that reservation of area should be on permanent basis and any area should be transferred from reserved area of a factory to another only if cane availability in its area is surplus to its requirement for its existing capacity including expansion under implementation. In order to provide dis-incentive against neglect of cane development by any factory it has suggested that if the per hectare yield of cane in the reserved area of a factory is lower than the average in other similar areas due to insufficient cane development work, the availability of cane in the reserved area may be based on the average yield in similar areas.
Direct Links with Farmers

The Industry in all States should be free to have direct link with farmers as regards cane supply, payment of cane price, and cane development. It has however recommended the setting up of an organization in the area of each mill to represent the interests of growers.

Sugar Import Policy

The Indian Sugar Industry is generally competitive and given a proper policy environment it should be able to face competition from the foreign producers. It has accordingly recommended that the sugar may continue to be on OGL to protect the consumers against any undue rise in the price and provide stimulus competition to sugar Industry to minimize cost. However, in order to provide a level playing field to the domestic producers it has recommended that import duty may be levied at 40% of average difference between ex-factory price of free-sale and levy sugar during the past five years so long as the system of partial control continues. This would amount to about Rs. 130/- per quintal. It has also suggested countervailing duty of Rs. 85/- per quintal to cover excise duty and cases on sugar levy by Government of India and Rs. 50/- per quintal to cover incidence of taxes on purchase of sugarcane levied by coastal Sat.

Regular Annual Export Quota of One Million Tons of Sugar

This will enable the industry to plan properly by way of setting up of extra capacity, organizing production of export quality and building markets. Additional quota may be released after the end of April when production estimates have formed up in installments not existing one million tons at a time so as not to disturb the market.

Abolition of Incentives

Under this scheme, new sugar Industry were allowed exemption from levy for 5-8 years and the factories undertaking expansion were also allowed exemption from levy on the additional production for 5 years, in the case of letter of intent to be issued in future and have suggested that efforts should instead be made to make the industry financially viable to attract investments. It has come to the conclusion that while the schemes have played
useful role in the past in attracting investment for setting up of new sugar Industry and expansion of capacity of existing Industry, it adversely affects the existing units, particularly those in the vicinity of new units and encourages setting up of new units instead of expansion of existing units which is more economical and setting up of new units in areas where the cost of production of sugar is comparatively higher. It has also tended to encourage the setting up of large number of smaller capacity plants and prevent the industry from fully utilizing the economies of scale. The committee has however recommended that on grounds of equity incentive should be allowed to all those units which are at present enjoying such benefit for the balance period of their entitlement and also to new units where letters of intents are issued before the issue of Government Orders for discontinuance of the scheme. The Committee has suggested that after decontrol of sugar prices these units may be compensated by appropriate grant from the SDF for the period provided in the present scheme in case of new units and expansion projects or for the balance period under the relevant scheme in case of units which have already availed of incentives for some time me. It has also suggested that there is any difficulty in compensating this loss from the SDF, the expenditure may be met by levy of a specific cases for the purpose for a limited period during which the grants are payable.

**Location of New Khandsari Units**

No new license for khandsari units should be allowed within the reserved area of a Sugar Industry and within 25 km from the site of a Sugar Industry so that sugarcane produced within this area is available to the mill for crushing and loss in sugar production involved on account of its crushing by khandsari units which have low sugar recovery is avoided. It has however recommended that khandsari units located outside the area of the Sugar Industry may be allowed to install vacuum pan and modernize and expand without any restrictions. However units with crushing capacity in excess of 500 tons per day may be required to supply sugar under levy subject to incentives available to new units and may also be required to pay excise duty at 50% of that imposed on sugar. It has also made a number of recommendations for technical up gradation of khandsari and gur Indus
Abolition of Licensing Of Sugar Wholesalers

Existing restrictions on stock-holding limits and period of turn over should also be abolished as these serve no useful purpose and are counterproductive.

Support for R&D Efforts

A number of recommendations for strengthening the research and development efforts for sugarcane cultivation as well as sugar industry and stronger association of the industry and the growers to ensure that R & D efforts effectively help the industry and the growers by reducing cost of production of sugar, better utilization of by-products of the industry and dealing with the problem of sickness, particularly in the co-operative sector. It has also made recommendations for reducing the magnitude of cyclical fluctuations in production of sugar and recommended maintenance of buffer-stock on a regular basis. It has also made recommendations for more effective utilization of the funds available in the SDF for promoting R & D efforts in sugarcane cultivation and sugar industry.