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Partial Decontrol of Sugar Industry

Report Categories

Agricultural Situation
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Sugar

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Report Highlights:

On April 4, 2013, the Cabinet Committee on Economic Affairs chaired by Prime Minister Manmohan Singh abolished the sugar levy on mills and deregulated sale of sugar in the open market.

Author Defined:

Cabinet Approves Partial Decontrol of Sugar Industry

On April 4, 2013, the Cabinet Committee on Economic Affairs chaired by Prime Minister Manmohan Singh abolished the sugar levy and deregulated sale of sugar in the open market. The proposal was based an expert committee report. Sugar industry will continue to be subject to production control by state governments, including sugar industry licensing, specifying area for procurement of cane for each sugar mill and cane pricing. Decontrol of sugar marketing will be reviewed in two years after assessing its effect on farmers and market prices.

Sugar Industry Highly Regulated

The sugar industry is among the most regulated sectors in India, wherein the Government of India (GOI) until now followed the twin policy of production and market controls. Sugar mills are subject to production control through licensing restrictions, specified catchment area from which mills can/must procure cane from the growers, and specified distances between sugar mills. In addition, sugar mills are required to pay the “state advised price (SAP)”, typically higher than the “Fair and Remunerative (FAR) Prices” set by the GOI, to sugarcane farmers irrespective of the market price of sugar.

Under the old system, local mills had to sell 10 percent of their production to the government as levy sugar at below-market prices, which the government distributed through the Public Distribution System to the “below-poverty-line” population at a highly subsidized price. The levy sugar prices paid by the government to the mills ranged from INR 18,007-21,159 ($334-391) per ton (depending on the location) against the average of INR 29,000 ($537) per ton in the open market, and sold through the PDS shops at INR 13.50 ($0.25) per kg to target consumers. Market sources report that the industry suffered losses to the tune of INR 27-30 billion due to the “artificially suppressed” prices.

While the mills were allowed to sell the balance of 90 percent at market prices, market sale was administered by the GOI through periodic quotas (specifying quantity to be sold within a period) to maintain price stability in the market. The government followed a quarterly system of free-sale sugar quotas in Indian fiscal year (IFY) 2012/13 (April/March) and had announced a six-month quota for the first half of IFY 2013/14. The GOI monitored the sales of the free-sale sugar quota by the mills and took penal action against defaulters not selling their quota allocations.

Rangarajan Committee Recommends Complete Decontrol

In October 2012, the GOI appointed an expert committee under C. Rangarajan, Chairman, Prime Minister’s Economic Advisory Committee, which recommended complete decontrol of the sugar industry – dispensing with the sugar levy, decontrolling sugar sales, deregulating sugar purchases by mills and substituting FAR pricing for state-set prices.

Some sections of the sugar industry opposed the move as linking sugarcane areas to specific mills has contributed to a sustained relationship between mills and farmers and committed mills to invest in enhancing production and productivity in their catchment areas. The arrangement also facilitates crop loan disbursement, through which banks lend to farmers and the mills deduct the loan amount and repay the banks from the sugarcane sale proceeds. Some state governments also opposed any move to curb their power to set cane prices or conditions for operating sugar mills in their states.

Government Approves Market Decontrol

Based on the Rangarajan committee reports, and feedback from the state governments and local industry, the government has decided to do away with the existing market controls. The policy on production controls continues to be under the domain of the state governments.

The GOI will continue to supply subsidized sugar for the poor through the PDS by procuring sugar from the open market through open tenders. The difference between the open market price (INR 32.0 per kg) and PDS sale price (INR 13.5 per kg) will be borne by the GOI, which will result in the government subsidy on sugar doubling from INR 26 billion ($481 million) to INR 53 billion ($981 million). Market sources report that the government may increase the excise taxes on sugar partially to offset the subsidy increase.

Food Minister K.V. Thomas said that sufficient sugar is available in the market to allay fears of any price rise due to decontrol of free-sale sugar market release. This decision will give companies greater flexibility in managing market sales and cash flows. Indian Sugar Mills Industry said that the move would improve cost of production and improve liquidity with millers which in turn will ensure timely payment to farmers.