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 excepted 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.

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 holdersituation 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 declinein 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 realizationsto 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.