Sugar and Sugar Decontrol

5.71 India is the largest producer and consumer of sugar in the world, with Maharashtra contributing over one-third of country's sugar output. Sugar production for the 2000-01 sugar season (October-September) is estimated at 184.21 lakh tonnes. Sugar production in the current 2001-02 sugar season, as per preliminary estimates, is expected to be of the order of 175 lakh tonnes.

5.72 India's sugar production in the preceding three sugar seasons has been relatively high.With the anticipated production of the current sugar season, India has entered the fourth successive season of high production.

5.73 In order to provide price support to the farmers, the Central Government announces the Statutory Minimum Price (SMP) of sugarcane each season. The SMP for sugar season 2001-02 has been fixed at Rs.62.05 per quintal, linked to a basic recovery of 8.5 percent.

5.74 The high production of sugar has led to the building of a high inventory. The closing stock as on September 30, 2001 is estimated to be about 103 lakh tonnes. Therefore efforts are on to encourage exports. The following steps have been taken to encourage exports:

(i) The quantitative restrictions on export of sugar have been lifted.

(ii) The requirement of registration of quantity to be exported with Agricultural Processed Food Export Development Agency (APEDA) has been dispensed with.

(iii) Sugar factories exporting sugar have been allowed exemption from levy on quantity exported until further orders.

5.75 Import policy for sugar is guided by the main criterion of influencing moderation in domestic prices. Sugar import is on OGL since March 1994 and no import duty was charged until April 1998, when Government imposed a 5 percent customs duty and countervailing duty of Rs 850 per tonne. This was done to provide some protection to domestic producers. The import duty on sugar has been revised from time to time. Presently, the import duty on sugar is 60 percent along with countervailing duty of Rs 850 per tonne.

5.76 This year, Government decided to undertake legislation to amend the Sugar Development Fund Act, 1982 to enable it to give loans to sugar factories at concessional rate of interest for setting up bagasse based co-generation of power projects and for production of anhydrous alcohol/ethanol from molasses. These measures are intended to improve the viability of sugar factories. The Act would be further amended to enable the Government to defray expenditure on internal transport and freight charges to the sugar factories on export shipments of sugar.

5.77 Government has announced its intention in principle for introducing futures trading in sugar. Approval has been given to three proposed exchanges to conduct futures/forward trading in sugar and these are likely to start functioning by the end of 2002.

5.78 Under the present policy of partial price control, being followed continuously since 1979, a specified percentage of total production of each sugar factory is procured as levy sugar at notified prices for distribution through the PDS. The Government has now decided to totally decontrol the sugar industry during 2002-03, subject to futures trading becoming fully operational. Currently,the sugar mills are obliged to deliver 15 per cent of their produce as levy to the Government for the public distribution system. Even though sugar factories are allowed to sell the rest of the production in the open market, yet the Government fixes a quota for free sale release of sugar for each factory on a quarterly basis. After futures trading in sugar becomes fully operationalised towards the end of 2002, there will be no need for the Government to prescribe quotas for free release and trade in sugar as also for the levy as PDS supplies would be sustained through negotiated purchase from the factories.

5.79 The Government's announcement of SMP for cane would hereafter be the key operational price for each zone and the state Governments would have to be careful in not overburdening the sugar industry by continuously enlarging the gap between SMP and the state advised prices.