Commodity profiles: Sugar and edible oils

i. Sugar

5.22 Not only is the sugar industry one of the largest industries in the Indian economy, but also India is the largest producer of sugar next to Brazil. Maharashtra contributes over a third of the country's sugar output followed by Uttar Pradesh with 25 per cent share. With consistently high production , the industry had large stocks of sugar for the 3 sugar seasons (October – September) ending in September 2003. Production of sugar during 2002-03 season was 201 lakh tonnes as against 183 lakh tonnes in 2001-02. The production in the current sugar season i.e. 2003-04 is estimated at 140 lakh tonnes. The reduction in sugar production is on account of drought in some of the major sugar producing states and infestation by white woolly aphids in some areas. The closing stock at the end of 2003-04 season is estimated to be around 80 lakh tonnes.

5.23 In order to avert a fall in prices resulting from excess supply, the Central Government controls the sale of sugar by sugar mills in the open market. The Sugar Directorate assigns the quantity of free sale sugar that may be sold by each sugar mill in each month of the year. A 'release mechanism' is followed for free sale and levy sugar uniformly. Under the policy of partial price control, a specified per centage (currently 10 per cent) of total production of each sugar factory is procured as levy sugar at notified prices for distribution through the PDS. Government decided to retain both the levy provision as well as the release mechanism till October 2005. A host of other steps were also taken during 2003-04 to mitigate the difficulties of sugarcane growers (Box 5.2).

ii. Edible oils

5.24 Demand for edible oils in the country has been increasing, widening the gap between domestic requirement and production, which is filled through imports. With the price support policy favouring foodgrains, there is very little incentive for the farmers to move away from the production of foodgrains to oilseeds. The support price policy for foodgrains has been a major deterrent to crop diversification.

5.25 In the absence of any likelihood of an immediate major technological breakthrough in the production of oilseeds in the short run, an incentive regime for producers of oilseeds and edible oils has to be put in place through the instruments of a supporting price policy and an effective tariff framework. Due caution, however, will have to be exercised to reconcile the interests of the producers with that of the consumers. A freeze of the Minimum Support Prices (MSP) of rice and wheat may be an economically sounder option for maintaining inter-crop price parity instead of increasing the MSPs of oilseeds. Increasing the MSP of oilseeds, besides imposing a fiscal burden, will also exert an upward pressure on the market price of this essential commodity. There are limits to the extent that tariffs can be used as an instrument of crop diversification. Import duty on edible oils is already high. A further increase in duty will lead to further hardening of domestic prices.

5.26 Edible oil prices rose by 6.6 per cent in 2003-04, after a hefty rise of 27 per cent in 2002-03. Domestic prices of edible oils have been on the rise for the last two years in succession mainly because of a hardening of international prices and drought in 2002 affecting adversely domestic products of oilseeds. To counter the bullish trend, the excise duty of 8 per cent on refined edible oils imposed in the Union Budget for 2003-04 was replaced in April 2003 by a specific duty of Re.1 per kg on refined edible oils and Rs.1.25 per kg on vanaspati. Import tariff on refined palm oil was reduced from 92.2 per cent to 70 per cent with exemption from 4 per cent SAD. These measures had a salutary effect on the prices of edible oils and the rising trend was arrested. Nevertheless, wholesale and retail prices in 2003-04 continued to rule above the 2002-03 levels. Revised tariff values — the assessable values on which the customs duty is payable — were announced twice during October 2003, and for the third time, in November 2003, in line with hardening international prices.

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Box 5.2 : Steps taken by the Government during 2003-04 to help sugar industry

- To encourage exports, neutralization of ocean freight disadvantage at the rate of Rs. 350 per tonne on account of export shipments of sugar were permitted with effect from February 14, 2003.
- With effect from 3rd October, 2003, handling and marketing charges have been allowed @ Rs. 500 per M.T.
- The Essential Commodities Act, 1955 was amended to restore the Government's authority to regulate free sale releases, ensure that the sugar mills do not sell sugar in excess of the quota released by the Government, and Courts do not intervene in the regulated "release mechanism".
- Following the Finance Minister's Budget 2003-04 announcement, an inter-ministerial group constituted with Ministry of Food and Ministry of Finance representatives jointly addressed the problems of the sugar industry, and submitted its report to the Government in July 2003.
- In August, 2003, the Central Government approved a one-time assistance of Rs.678 crore to the States of Uttar Pradesh, Uttaranchal, Punjab, Haryana, and Bihar to clear sugar cane arrears of private sugar factories to farmers. The assistance was in respect of the difference between the State Advised Price (SAP) and Statutory Minimum Price (SMP) of 2002-03 sugar season, and was in the form of a soft loan to the relevant State Governments at a concessional rate of interest of 4 per cent per year, with a maturity of six years and an initial moratorium of three years.
- The State Governments where the practice of SAP was not in vogue represented to the Central Government for similar assistance. The Cabinet on October 3, 2003 acceded to the request and also approved further assistance to the SAP States. The SAP and Non-SAP States were allowed additional market borrowings of about Rs. 1,885 crore. Taking into account the Central Assistance of Rs.678 crores already allowed to SAP States, the total Central Assistance to the SAP and Non-SAP States to clear cane arrears of 2002-03 sugar season works out to about Rs. 2,563 crore.
- For financing the development activities of the sugar sector, a cess of Rs.14 per quintal is levied. The proceeds from the cess are credited to the Sugar Development Fund to fund development activities of the sugar sector. The Cabinet has given an in-principle approval for an increase in the rate of the cess on output of sugar to Rs.20 per quintal. The additional duty of customs (countervailing duty) on import of sugar, which is equivalent to the basic excise duty plus additional excise duty and cess, would also be increased from Rs. 85 per quintal to Rs. 91 per quintal.