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**STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION**
**(2004-2005)**

**FOURTEENTH LOK SABHA**

**MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION**
**(DEPARTMENT OF FOOD AND PUBLIC DISTRIBUTION)**

**{Action Taken by the Government on the recommendations/observations contained in the Twenty-Seventh Report of the Committee (Thirteenth Lok Sabha) on "Sick Sugar Industry and Sugar Development Fund".}**

# THIRD REPORT

**LOK SABHA SECRETARIAT**
**NEW DELHI**

**November, 2004 /Agrahayan, 1926 (Saka)**

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**{Action Taken by the Government on the recommendations /observations contained in the Twenty-Seventh Report of the Committee (Thirteenth Lok Sabha) on "Sick Sugar Industry and Sugar Development Fund"}**


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| **Presented to Lok Sabha on** | **10 December, 2004** |
| **Laid in Rajya Sabha on** | **10 December, 2004** |

**LOK SABHA SECRETARIAT**
**NEW DELHI**

November, 2004 /Agrahayana, 1926 (Saka)

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**MEMBERS**

**LOK SABHA**

2. Shri A.P. Abdullakutty
3. Shri Suresh Angadi
4. Shri Ranen Barman
5. Shri Alakesh Dass
6. Shri Tukaram Gadakh
7. Shri Govinda
8. Shri Abdul Mannan Hossain
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12. Shri Zora Singh Mann
13. Shri K.P. Naidu
14. Shri Hari Kewal Prasad
15. Smt. Daggubati Purandareswari
16. Shri Ajit Kumar Singh
17. Shri Chandrabhan Singh
18. Shri Ramakant Yadav
19. Shri Harish Nagpal
20. Shri Atma Singh Gill
21. Vacant

**RAJYA SABHA**

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23. Shri Palden Tsering Gyamtso
24. Shri Narayan Singh Kesri
25 Shri Lalitbhai Mehta
26. Smt. Bimba Raikar
27. Shri Nabam Rebia
28. Shri Thanga Tamil Selvan
29 Shri Vikram Verma
30 Shri Vijay Singh Yadav
31. Vacant

**SECRETARIAT**

1. Dr. (Smt.) Paramjit Kaur Sandhu - Joint Secretary
2 Shri R.S. Kambo - Deputy Secretary
3 Shri Jagdish Prasad - Assistant Director
4. Shri R.K.Bhatnagar - Committee Officer

# INTRODUCTION

I, the Chairman of the Standing Committee on Food, Consumer Affairs and Public Distribution (2004-2005) having been authorised by the Committee to submit the Report on their behalf, present this Third Report on Action Taken by the Government on the recommendations/observations contained in the Twenty Seventh Report of the Committee (Thirteenth Lok Sabha ) on "Sick Sugar Industry and Sugar Development Fund" of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution).

2. The Twenty Seventh Report was presented to Lok Sabha and laid in Rajya Sabha on 23rd December, 2003. The Government have furnished their replies indicating Action Taken on the recommendations contained in the Report on 7th October, 2003. The Draft Report was considered and adopted by the Committee at their sitting held on 22nd November, 2004.

3. An analysis of the action taken by the Government on Recommendations contained in the Report is given in Appendix II.

**New Delhi**
**22 November, 2004**
**1 Agrahayana, 1926 (Saka)**

**DEVENDRA PRASAD YADAV**
**Chairman**
**Standing Committee on Food, Consumer Affairs and Public Distribution**

# CHAPTER – I

## REPORT

This Report of the Standing Committee on Food, Consumer Affairs and Public Distribution deals with the Action Taken by the Government on the Recommendations /Observations contained in the Twenty-seventh Report (Thirteenth Lok Sabha) on "Sick Sugar Industry and Sugar Development Fund" pertaining to the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution).

1.2 The Report was presented to Lok Sabha and laid on the Table of Rajya Sabha on 23rd December, 2003. It contains 13 recommendations/ observations.

1.3 Action Taken Notes in respect of all the 13 observations/recommendations contained in the Report have been received and categorized as follows:

(i) Recommendations/observations which have been accepted by the Government:
Recommendations Nos.3, 4,5,7 and 13

**(Chapter –II, Total 5)**

(ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies:
Recommendations Nos. 8 and 10

**(Chapter – III, Total 2)**

(iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:
Recommendations Nos. 1, 2, 6, 11 and 12

**(Chapter – IV, Total 5)**

(iv) Recommendations/observations in respect of which replies of the Government are still awaited.
Recommendation No. 9

**(Chapter – V Total 1)**

1.4 The Committee desire that the final replies in respect of the Observations/Recommendations for which only interim replies have been received from the Government should be furnished to the Committee expeditiously.

**1.5 The Committee strongly emphasize that utmost importance should be given to the implementation of Observations/Recommendations accepted by the Government. In cases where it is not possible for the Government to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee in time with reasons for non-implementation.**

1.6 The Committee will now deal with action taken by the Government on some of the recommendations.

**A. Loan for Cane Development Programme**

**Recommendation No. 1**

1.7 The Committee had observed that though there is provision of loan for cane development out of Sugar Development Fund (SDF), yet the loans taken out of SDF was not passed on to sugarcane farmers resulting in inadequate availability of sugarcane in the area of sugar mills. The Committee had recommend that the cane development programme should be accorded priority and necessary measures should be taken to ensure that the loans availed of by the sugar mills are actually passed on to Cane growers.

1.8 The Department of Food and Public Distribution in their Action Taken reply have inter-alia stated that the Government has written to all the sugar producing State Governments highlighting the need to accord priority to cane development programmes and to utilize SDF loan through the sugarcane farmers in respect of components of such programmes implementing through the farmers. The Government had earlier also written to the State Governments requesting them to urge the sugar mills situated in their States to avail of the SDF loans for cane development.

1.9 In their further action taken replies, the Department has stated that in response to our letter No. 1-10/2004-SDF dated 23.6.2004, Government of Nagaland has informed that as there is no sugar mill in Nagaland, therefore, recommendations may not apply to that State. The Government of Punjab has circulated our letter, referred to above, to all the sugar mills of the State as also to the Secretary, Department of Agriculture.

**1.10 The Committee note with concern the casual approach adopted by the Government in treating the recommendation of this Committee. The Committee had specifically recommended for according priority for Cane Development Programme. However, the Government have merely forwarded the recommendation of the Committee to State Governments without any follow-up action. The Government had been so casual that it has forwarded the recommendation of the Committee to Government of Nagaland, where neither sugarcane is grown nor there is any Sugar Mill. This callousness approach of the Government shows how serious the Government is, in treating the recommendation of the Committee. The Committee reiterate their earlier recommendation and desire that pro-active and result oriented action needs to be taken by the Government, so that the Cane Development Programme could be undertaken on a large scale and both the production and productivity of cane improved. In this context, the Committee would like to recommend that it should be ensured that the loans to the farmers for cane development under SDF be easily made available to them. At the same time, the Committee would also like to recommend that there is need to review short term loans made available under the Scheme for the farmers. The Committee would like to be apprised of the Action Taken by the Government in this regard with in a period of 3 months.**

**B. Uneconomic Capacity of Sugar Mills**

**Recommendation No. 2**

1.11 The Committee had noted that there were 165 sugar mills operating with less than 2000 TCD capacity and another 223 sugar mills having capacity between 2000-2500. TCD, whereas capacity of 3500 TCD and more is considered to be viable. Taking into consideration the uneconomic scale of sugar mills capacity, the Committee had recommended that a comprehensive programme for expansion/upgradation of technology of the sugar mills of uneconomic size be drawn up.

1.12 In their action taken reply the Government has stated that Government has written to the sugar producing States as also the apex bodies of the sugar industry to initiate action on the Committee's recommendation and prepare comprehensive programmes for expansion of capacity/upgrading of technology in cases where the existing capacities of the sugar factories are affecting their performance and they are unable to maintain economic viability.

1.13 In their further action taken reply Indian Sugar Mills Association has informed that they have forwarded the above recommendations to the member sugar factories for taking action as recommend by the Committee.

**1.14 Taking into consideration the uneconomic scale of sugar mill capacity, the Committee had recommended that a comprehensive programme for expansion/upgradation of sugar mills be taken up at the earliest. The Committee are concerned to note that the Government have merely forwarded the recommendation of the Committee to sugar producing States and also apex bodies of sugar industry to initiate action. The Committee are deeply concerned to note that no follow-up action has been taken up by the Government. The Committee do not approve of this and recommend that Central Government should involve themselves actively in drawing up comprehensive plan for expansion/upgradation for the Sugar Mills. There is a need to take pro-active action on the part of Government in this regard. In this regard the Committee would like to emphasize that there is an imperative need to constitute a Coordination**

**Group consisting of Financial Institutions / State Governments, Cooperative Organisations and Research Institutions, for the purpose. The Committee while reiterating their earlier recommendation desire that a blue print for expansion/upgradation of technology of sugar mills be drawn and action be taken thereon, without any loss of time.**

**C. Co-Generation Project**

**Recommendation No. 3**

1.15 The Committee were concerned to note that only 367 MW of power was generated through Bagasse Based Cogeneration projects against a potential of 3500 MW. Due to lackluster approval of State Electricity Boards, the power so generated was not being properly utilized and becoming surplus. The main stumbling block coming in the way of Bagasse Based Co-generation Project was stated to be inadequate preferential pricing policy. The SEBs were not coming forward to buy power on commercial rates. The Committee while emphasizing the need to have renewable sources of energy, recommended that the State Govt. and Electricity Board should be persuaded to purchase surplus power on reasonable rates.

1.16 In their Action Taken reply, the Government has stated that Sugar Producing State Governments and the Ministry of Non-Conventional Energy Sources have been requested to take action on the recommendations of the Committee.

1.17 In their further action taken reply, the Department has stated that "Ministry of Non-Conventional Energy Sources have informed that they are promoting generation of surplus power through optimum co-generation in the sugar mills for the last 10 years. As a result of efforts made by the Government. 53 projects aggregating to 412 MW capacity have already been commissioned whereas 37 projects aggregating to 343 MW capacity are under implementations. These projects have been set up mainly by the Private Sector Sugar Mills, which are feeding surplus power to grid. A target of capacity addition of 450 MW have been set up in the 10$^{th}$ Five Year Plan through co-generation power projects in sugar mills.

1.18 The MNES has also informed that Biomass Energy & Co-generation Programmes of Ministry of Non-Conventional Energy Sources provides for financial assistance in the form of interest subsidy for co-generation power projects in Cooperative, Public/Joint/Private Sector Sugar Mills.

**1.19 The Committee are concerned to note that as against the potential of 3500 MW power which can be generated through Bagasse Based Power Projects, only 412 MW of power has been harnessed so far and another 343 MW capacity is under various stages of implementation. The Committee are aware that Bagasse Based Power Projects are primarily to be set up by private sugar mills. However, in view of lack of long term policy framework on the part of State Government for buying power, the private sector is reluctant to come in a big way. The Committee are of the view that the policy pursued by Ministry of Non-Conventional Source of Energy has failed to enthuse the private entrepreneurs. In the opinion of the Committee, the sale of power generated through Bagasse can yield handsome dividend and improve profitability of Sugar Industry. Reiterating their earlier recommendation, the Committee desire that State Government/SEBs be impressed upon the need to buy power on a reasonable rates. The Committee also desire that matter should also be taken up with the Central/State Electricity Regulators for deciding tariff etc.**

**D. Sick Cooperative Sugar Mills**

**Recommendation No. 6**

1.20 The Committee had observed that the performance of existing cooperative sugar mills in repaying loans was far from satisfactory. Despite providing need based relief to such sugar units, they continued a default on institutional dues. Surprisingly, the State Government which had given guarantees to sugar mills were also not honouring their commitments. Taking a serious note of it, the Committee desired that the matter need to be urgently addressed and appropriate funding support be provided to concerned sugar mills by State Government so as to clear their institutional over dues. At the same time, the Committee urged that the matter may be taken up with the concerned State Governments so that financial institutions entertain the request of sick/new sugar mills for assistance. The Committee also desired that sickness in cooperative sectors be also overcome by inculcating professionalism and managerial efficiencies.

1.21 In their Action Taken reply the Government has stated that the recommendations/observations of the Committee have been forwarded to State Governments/National Federation of Cooperative Sugar Factories for necessary action.

**1.22 The Committee took note of outstanding institutional dues and lack of professionalism and managerial inefficiencies in Cooperative Sugar Mills. The Committee find that Government have merely forwarded the recommendation of the Committee for taking up the matter with the State Government to the State Government and National Federation of Cooperative Sugar Mills for such action which it deemed fit. The Committee do not approve of this. It was expected of Government to take up result oriented follow up action so that the Cooperative Sugar Mills could be revived. The Committee while reiterating their earlier recommendation desire that beside entertaining the request of Cooperative Sugar Mills for financial assistance by the Financial Institutions, the State Government be also impressed upon the need to make all efforts to strengthen cooperative in Sugar Industry.**

## E. One Time Assistance for Sugar Mills

### Recommendation No. 11

1.23 The Committee noted that Central Government had approved 678.06 crore as one time assistance to the States of Uttar Pradesh, Uttranchal, Haryana, Punjab and Bihar to clear the cane arrears. However, no amount was disbursed. The Committee took serious note of it and desire that the assistance be disbursed expeditiously.

1.24 In their Action Taken reply the Government has stated that Ministry of Agriculture made, in their budget for 2003-04, provision for one-time assistance to the States of UP, Uttaranchal, Haryana, Punjab and Bihar to clear the cane price arrears of private mills. The assistance to State Governments was in the form of loan carrying interest at 4% per annum and repayable in 6 years. The

State Government was in turn to provide loans to private mills. One of the conditions for availing this assistance was that the State Government would not in future declare State Advice Price (SAP) for sugarcane. Ministry of Agriculture has informed that only States of Uttaranchal and Bihar availed of this assistance and were provided Rs.45.54 crores and Rs.19 crores respectively. The budget provision was for the year 2003-04. No provision has been made in the BE 2004-05. Hence, the scheme has lapsed.

**1.25 The Committee in their First Report on Demands for Grants (2004-05) relating to Department of Food have recommended that the scheme of One Time Assistance should be revived afresh as adequate opportunity was not given to State Governments for availing the assistance. The Committee reiterate their earlier recommendation and desire that the scheme of One Time Assistance be revived in the light of the judgment of Supreme Court in regard to fixation of State Advised Price for sugarcane.**

**F. Taxes on Sugar Industry**

**Recommendation No. 12**

1.26 Taking into consideration the overall sickness in sugar industry the Committee had recommended that taxes imposed by Central and State Governments be waived/deferred for some period.

1.27 The Department of Food and Public Distribution in their Action Taken reply have stated that the matter of withdrawal of excise duty was earlier considered by the Government and was not agreed to on the grounds of huge revenue implications and similar demand being raised by other industries. In so far as revival of individual sick unit is concerned, the concessions/reliefs to be given by various stakeholders including Central and State Governments are to be decided upon on a case by case basis and within a overall package finalized by the operating agency and approved by the appropriate authority (like BIFR).

**1.28 The Committee are not convinced that withdrawal of Excise Duty may lead to huge revenue outgo. Taking into consideration that the sugar industry is reeling under heavy financial burden it would be in fitness of things that some sort of concessions, either in the form of Excise Duty or**

**any other duty structure, be made available to industry so that the Sector can be revived. As there is large scale sickness in sugar industry, the taxes imposed by Central and State Governments need to be waived or deferred for the time being so that the industry can provide much needed sugar to the consumers at affordable price.**

# CHAPTER II

## RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT.

### Recommendation No. 3

The Committee are concerned to note that presently 367 MW power is being generated through bagasse based co-generation projects though there is vast potential for co-generation of power with bagasse up to 3500 MW. However, due to lacklustre approach of the State Electricity Boards the generated power is not being properly utilized and has thus become seemingly surplus. The main hurdle coming in way of bagasse based co-generation projects are stated to be the inadequate policy support for preferential pricing. The State electricity Boards/Corporations are also not coming forward to buy power on commercial rates. Further, the cooperative sugar mills have inadequate availability of financial resources to take up the project. The Committee, therefore, recommend that the State Governments and their Electricity Boards/Corporations be persuaded to purchase the surplus power on reasonable rates. To overcome the financial problems being faced by the Mills, the Committee desire that in addition to providing loan out of SDF, matter regarding setting of more co-generation projects should also be taken up with Ministry of Non-conventional Energy Sources on priority.

### Reply of the Government

Sugar Producing State Governments and the Ministry of Non-Conventional Energy Sources have been requested to take action on the recommendations of the Committee.

### Further Reply of the Government

Ministry of Non-Conventional Energy Sources have informed that they are promoting generation of surplus power through optimum co-generation in the sugar mills for the last 10 years. As a result of efforts made by the Government 53 projects aggregating to 412 MW capacity have already been commissioned whereas 37 projects aggregating to 343 MW capacity are under implementations.

These projects have been set up mainly by the Private Sector Sugar Mills, which are feeding surplus power to grid. A target of capacity addition of 450 MW have been set up in the 10th Five Year Plan through co-generation power projects in sugar mills.

The MNES has also informed that Biomass Energy & Co-generation Programmes of Ministry of Non-Conventional Energy Sources provides for financial assistance in the form of interest subsidy for co-generation power projects in Cooperative, Public/Joint/Private Sector Sugar Mills.

{Ministry of Consumer Affairs, Food and Public Distribution OM NO. 7-10/2003-CC/3133 dated 7.10.2004}

**Comments of the Committee**

**(Please see Para No. 1.19 of the Chapter I of the Report)**

**Recommendation No. 4**

The Committee note that the economic utilisation of by-products of Sugar is of utmost importance and can improve the viability of Sugar Mills to a large extent. Thus there is a need to develop the Sugar Industry as Sugar Complexes with complete value addition facilities for by products so that it should not remain only Sugar Manufacturing centres. The Industry should therefore be developed as a renewable energy producer and supplier of chemicals apart from being a mere sugar producer. The Committee, therefore, recommend that a suitable long term and firm policy should be evolved wherein the ethanol, apart from being extracted from the molasses, is directly produced from secondary sugar juice over and above the domestic consumption. For this, the matter should also be taken up with the Ministry of Petroleum and Natural gas and Oil Companies so that the production and the consumption of ethanol is encouraged in the country. This will also go a long way in not only in reducing the sugar production marginally but also making the sugar mills economically viable.

**Reply of the Government**

With a view to assisting the sugar industry in adding value to its by-products, loans are available from the Sugar Development Fund for bagasse based co-generation power projects and for production of ethanol. The exact product-mix is a matter to be decided upon by the individual entrepreneur based on commercial considerations.

The Ministry of Petroleum & Natural Gas has a long term policy for encouraging production and consumption of ethanol. In the first phase of this policy, blending of ethanol with petrol to the extent of 5 per cent has been taken up in nine States. In the second phase, blending is to be extended to all the remaining States.

As recommended by the Standing Committee, the matter has been taken up with the Ministry of Petroleum & Natural Gas for encouraging production and consumption of ethanol.

{Ministry of Consumer Affairs, Food and Public Distribution
OM NO. 7-10/2003-CC/3133 dated 7.10.2004}

**Recommendation No. 5**

The Committee note that the production of Sugar during the Sugar season 2002-2003 was about 200.99 lakh tonne, while the estimated internal consumption was to the tune of 185.00 lakh tonne. As on Ist October, 2003, the opening stock of sugar was 102.65 lakh tonne. If the same trend continues, during the sugar season 2003-2004, the country will have about 110 lakh tonne of surplus stock of sugar. The Government have removed quantitative restriction on export of sugar and about 14,70,926 MT of Sugar has been exported during 2002-03. The Committee feel that the quantity of sugar exported is not enough to mitigate the problems of sugar industry and hence a lot requires to be done by the Government in this regard. The Committee, therefore, recommend that keeping in view the need of buffer stock, the quantity of sugar over and above domestic consumption needs to be exported. For this, Government should provide necessary incentive by increasing internal transport subsidy, ocean freight assistance and handling charges till the situation of glut normalizes on the country.

**Reply of the Government**

The Government have removed quantitative ceilings on export of sugar which is being undertaken under the Export Import policy. Export of sugar is undertaken by sugar mills/exporters as per their commercial prudence.

Government provides incentives to boost export of sugar, taking into consideration, inter alia, carryover stocks of sugar, production and consumption trends, international prices, etc. In view of the high carryover stock and high level of productions in the last 4 years, Government announced a number of incentives to boost export of sugar. However, with the production in 2003-04 season being estimated at 140 lakh tonnes, the carryover stock is expected to be lower at the end of the season and the 'glut' situation of sugar in the country is likely to normalize.

**Further Reply of the Government**

In the sugar year 2004-05, the estimated production would be 125 lakh MTs while the estimated consumption will be around 185 lakh MTs. Keeping in view the domestic consumption need, the Government has, therefore, withdrawn the incentive of reimbursement of expenditure on internal transport and freight charges, including ocean freight & handling and marketing charges in respect of export shipments of sugar made by the sugar factories against release orders issued on or after 21.6.2004.

{Ministry of Consumer Affairs, Food and Public Distribution
OM NO. 7-10/2003-CC/3133 dated 7.10.2004}

**Recommendation No. 7**

The committee are much concerned with the plight of cooperative Sugar Mills for whose revival no substantial effort has yet been done by the Government. The board of Industrial and Financial Reconstruction (BIFR) was constituted initially for private sector Sugar Companies and later public sector Sugar Mills were also brought under its ambit in 1991. However, cooperative Sugar Mills were not placed under BIFR even at that time. This clearly shows that the Government were not very much concerned with revival of Cooperative Sugar Mills having negative net worth. Though, a committee under the Chairmanship of Secretary (Food) was constituted in the year 2000 and subsequently a Committee under the Chairmanship of Joint Secretary (Sugar) has also been constituted in April, 2003, however no substantial achievement has been noticed as not a single fully tied up proposal has yet been received by the Ministry in this regard. Though the prime responsibility of revival of Sugar Mills lies with their Management, the Government are also equally responsible due to their existing regulation from cultivation of sugarcane to sale of sugar in the market. The Committee, therefore, recommend that the Ministry should make sincere and positive efforts for revival of all potentially viable sick sugar mills in close co-ordination with Sugar Mills, Financial Institutions, research institutes and other concerned Departments of Central and State Governments. For this a nodal agency having representatives from these organisations may also be formed. The Government should also ensure that no discrepancy should remain in working of the proposed National Company Law Tribunal as existed in Board of Industrial and Financial Reconstruction (BIFR). Efforts should be made to constitute and make functional the National Company Law Tribunal without further loss of time.

**Reply of the Government**

With a view to reviving and rehabilitating potentially viable sick sugar mills in the Cooperative Sector, Government have introduced a provision in the SDF Rules, 1983 under which a loan upto 60% of the eligible project cost, in cases involving modernization; and a loan upto 90% of the cost of the scheme in cases involving cane development will be made available from the Sugar Development Fund at a concessional rate of interest 6% per annum.

Government has also requested the State Governments to forward its proposals of rehabilitation schemes of sugar factories in the Cooperative Sector that have a negative net-worth. As there has been no response from the State Governments, this Ministry has, to begin with, identified certain sugar factories in the Cooperative Sector that have a negative net-worth and have written to such sugar factories to furnish further details to enable the Committee of Rehabilitation to consider the matter of their potential viability.

The recommendation of the Committee in regard to the proposed National Company Law Tribunal has been forwarded to the Ministry of Finance for taking action.

{Ministry of Consumer Affairs, Food and Public Distribution
OM NO. 7-10/2003-CC/3133 dated 7.10.2004}

**Recommendation No.13**

The Committee note that though there are Sugar Research Institutes like Sugarcane Breeding Institute (SBI), Coimbatore, Indian Institute of Sugarcane Research (IISR), Lucknow and National Sugar Institute (NSI), Kanpur under the Government except SBI, Coimbatore, no discernible impact seems to have affected the quality, recovery, productivity of sugar and sugarcane by other Institutes. National Institute of Sugarcane and Sugar Technology was established in 1993-94 out of SDF. However, this was wound up on the recommendation of the Central Monitoring Group. In the opinion of the Committee, this is clear indicative of some faulty policy of the Government regarding Sugar and Sugarcane. Further Vasantdada Sugar Institute (VSI) Pune is also doing good job in private sector, however the Institute lacks the resources to continue their effort in crop production, sugar recovery, elimination of diseases, irrigation, energy production etc. during the visit to VSI Pune, the Committee had come to know that while advanced countries are making expenditure on R& D work in sugar as 1.5% to 2% of their GNP, in India it is as low as 0.05% of GNP. The Committee have also noted that disbursement out of SDF for R&D has also been low for the past several years. The Committee, therefore, recommend that the Central Government should provide all facility/assistance to the Research Institutes under them so that they may be able to help Sugar Industry and the Cane growers in time. Sufficient fund should also be allocated to Vasantdada Sugar Institute, Pune to realize their mission. Efforts should also be made to have a coordinated network of research institutes of Central government, the State government, agriculture universities and the sugar mills in right spirit for the benefit of cane growers and the industry.

**Reply to the Government**

The Central Government has been providing Grants-in-aid from the Sugar Development Fund to the Research Institutes connected with the sugar industry like the VSI, Pune, Sugarcane Breeding Institute, Coimbatore etc. for carrying out research aimed at the promotion and development of the sugar industry and such financial assistance continues to be extended for research schemes that are recommended by the Standing Research Advisory Committee of the development of the sugar industry established under Section 6 of the Industries (Development and Regulation) Act, 1951.

The recommendation related to having a coordinated network of Research Institutes etc. has been forwarded to the Department of Agriculture Research and Education as also the Apex bodies of the Sugar Industry for action.

**Further Reply of the Government**

In response to our letter 1-10/2004-SDF dated 23.6.2004. Indian Sugar Mills Association have requested their all Regional Association to take up the matte with their respective State Governments and institutions to develop coordinated network of research institutions and sugar mills.

The Indian Council of Agricultural Research have informed that they have already in place strong linkage among in ICAR Institutions and SAUs for R&D activities of Agricultural and Allied Sciences.

{Ministry of Consumer Affairs, Food and Public Distribution OM NO. 7-10/2003-CC/3133 dated 7.10.2004}

## CHAPTER III

## RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

### Recommendation No. 8

The Committee note that though the Government are providing internal transport subsidy, Ocean Freight Assistance and handling charges, only about 14 lakh of tonne of Sugar has been exported and the Sugar industry has not come out of its present crisis. Presently the Sugar meant for distribution through PDS to BPL population is not being lifted. The Committee feel that there may be substantial lifting of sugar if the scope of distribution is again extended to APL people too and that too at a low price ranging between Rs. 12/- per kg. and Rs.13/-per kg. This step may increase the consumption of sugar within county. The Committee, therefore, recommend that the Government should increase levy percentage and distribute the sugar through Public Distribution System to APL people too at a rational price so that the sugar industry should come out of the present crisis. For this, if need be, the recommendations of the Mahajan Committee may be reviewed. Besides, in order to reduce the stocks of sugar, more retail outlets should be opened at factory premises as well in Taluks/Districts, Metropolitan cities and sugar should also be transported directly to deficit States particularly North Eastern States.

### Reply of the Government

In respect of sugar industry, Government has followed a policy of partial decontrol, under which levy obligations of sugar factories have been brought down from 40% in 1999-2000 to 10% in 2001-02 season. This has been done to improve the financial health of sugar mills through better realization from higher quota of open market sale of sugar. It is also argued that if levy sugar quota is high, free sale prices tend to be high to compensate for the lower realization from levy sugar. Thus, increasing the levy obligation would neither benefit the sugar factories nor the consumer.

In so far as distribution of sugar to APL families through PDS is concerned, it may be mentioned that the main reason for poor offtake of levy sugar was that the prevailing market prices were more or less at par with the issue price of sugar in the PDS. In this situation, increasing the number of beneficiaries (by including the APL families) would not help increase offtake. Therefore, it is not considered necessary to include the APL families for distribution of sugar from PDS. Similarly, opening of more outlets at factory premises, taluka/districts and metropolitan cities is also not likely to increase sale of sugar.

In this context, it may also be mentioned that with production of sugar in 2003-04 season estimated at 140 lakh tonnes, it is expected that stocks would reduce automatically in the normal course.

In regard to deficit States like the North-East States, it may be mentioned that non-levy sugar is free to move anywhere in the country. Levy sugar to these States is transported directly from surplus sugar producing States of the country.

{Ministry of Consumer Affairs, Food and Public Distribution
OM No. 7-10/2003-CC/3133 dated 7.10.2004}

**Recommendation No.10**

The Committee note that the sugar industry is presently in a precarious position with huge cane price arrears of 1875.91 crore and the new crushing season has commenced. In sugar industry bank releases funds on the basis of hypothecation of sugar produced as per the normative prices announced by Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) at the beginning of each season. Due to huge carry over stocks and substantial reduction in the prices of sugar, the margins of cooperative and other banks, which financed sugar mills, has been eroded. The Committee, therefore, recommend that assistance / loan may be released to State Government / sugar mills to liquidate cane price arrears. For this the Central Government may take up the matter with financial Institutions so that sugar mills may get soft credit on long term basis to pay cane price arrears. The Committee are also given to understand that the Directorate of Sugar has already received complete claim of payment of 75% advance from 200 mills, which are being processed for expeditious disbursement. The Committee desire that the amount of buffer subsidy should be disbursed by 31st January at the latest.

**Reply of the Government**

Government have taken steps to disburse expeditiously 75% advance against claims which have been received with full details. As on 31.3.2004, 331 claims with complete information were received, out of which advance was disbursed to 308 sugar factories.

**Further Reply of the Government**

Government has taken steps to disburse expeditiously 75% advance against claims which have been received with full details. As on 04.10.2004, 355 claims with complete information were received, out of which advance was disbursed to 350 sugar factories amounting to Rs 218.33 Crores. The final buffer subsidy claim for the period 18-12-2002 to 17-12-2003 has been settled so far in respect of 149 sugar factories, amounting to Rs 34.42 Crores.

{Ministry of Consumer Affairs, Food and Public Distribution
OM No. 7-10/2003-CC/3133 dated 7.10.2004}

## CHAPTER IV

## RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

### Recommendation No.1

The Committee noted that viability of a sugar mill depends on the sugarcane development programme in the command area of that sugar mill. For this strong relationship between the farmers and the Sugar mills is a pre-condition. However, the Committee feel that though there is provision of loan for cane development out of Sugar Development Fund (SDF), no substantial effort seems to have been taken by the sugar mills in this regard. It has also come to the notice of the Committee, that the loans taken out of SDF are not passed on to sugarcane farmers resulting in inadequate availability of sugarcane in the area of sugar mills. As a result thereof, the mills are pushed towards sickness. The Committee further note that the short term loan scheme of the Government to enable the farmers to purchase seeds, fertilizers and pesticides continued only for a very short period of five months from 22.11.97 to 31.3.1998. This has also affected the cane availability in the area where mills are situated. The Committee, therefore, recommend that the cane development programme should be accorded priority and necessary measures should be taken to ensure that the loans availed of by the sugar mills are actually passed on to Cane grower before ensuing season. Further, short term loan scheme for inputs like seeds, fertilizer and pesticides be revived at the earliest for the benefit of the farmers.

### Reply of the Government

The Government has written to all the sugar producing State Governments highlighting the need to accord priority to cane development programmes and to utilize SDF loans through the sugarcane farmers in respect of components of such programmes implementing through the farmers. The Government had earlier also written to the State Governments requesting them to urge the sugar mills situated in their States to avail of the SDF loans for cane development.

In so far as short-term loans for purchase of inputs like seeds, fertilizers and pesticides is concerned it may be mentioned that the SDF Rules 1983 that deal with matter connected with loans from the SDF contains a provision for such loans in Rule 17 A of the Rules.

**Further Reply of the Government**

In response to our letter No. 1-10/2004-SDF dated 23.6.2004, Government of Nagaland has informed that as there is no sugar mill in Nagaland, therefore recommendations may not apply to that State. The Government of Punjab has circulated our letter, referred to above, to all the sugar mills of the State as also to the Secretary, Department of Agriculture.

{Ministry of Consumer Affairs, Food and Public Distribution OM NO. 7-10/2003-CC/3133, dated 7.10.2004}

**Comments of the Committee**

**(Please see Para No. 1.10 of the Chapter I of the Report)**

**Recommendation No.2**

The Committee have been informed that as on 30.9.2003, there are 165 sugar mills which have capacity less than 2000 TCD. 223 sugar mills have capacity between 2000-2500 TCD. At present the sugar mills having the capacity of 3500 TCD and more are considered viable. The Committee are of the opinion that in order to maintain economic viability, all the sugar mills of uneconomic size will require expansion in capacity and upgradation in technology failing which they will become sick. The Committee, therefore, recommend that the Central Government should take up the matter with the State Governments and the concerned sugar mils to prepare a comprehensive programme for expansion/upgradation of technology of the sugar mills of uneconomic size.

**Reply of the Government**

As recommended by the Committee, Government has written to the sugar producing States as also the apex bodies of the sugar industry to initiate action on the Committee’s recommendation and prepare comprehensive programmes for expansion of capacity/upgrading of technology in cases where the existing capacities of the sugar factories are affecting their performance and they are unable to maintain economic viability.

**Further Reply of the Government**

In response, to our letter 1-10/2004-SDF dated 23.06.2004, Indian Sugar Mills Association has informed that they have forwarded the above recommendations to the member sugar factories for taking action as recommend by the Committee.

{Ministry of Consumer Affairs, Food and Public Distribution OM NO. 7-10/2003-CC/3133, dated 7.10.2004}

**Comments of the Committee**

**(Please see Para No. 1.14 of the Chapter I of the Report)**

**Recommendation No.6**

It has come to the notice of the Committee that the performance of the existing co-operative sugar mills in repaying loan is extremely unsatisfactory. Despite providing need based relief, these Sugar units continue to default on institutional dues. The State Governments which have given guarantees to the sugar mills are also not honoring their commitment. The committee feel that matter needs to be urgently addressed as appropriate funding support needs to be provided to the concerned sugar mills by the State Governments to clear institutional overdues. The Committee, therefore, desire that matter may be taken up with the concerned State Governments so that Financial institutions may entertain the request for assistance to new/sick sugar mills. For this the matter may also be taken up with the management of sugar mills to improve their functioning. Besides, since a large number of sugar mills are saddled with the problem of sickness which has occurred due to lack of professionalism and managerial efficiencies, these maladies need to be addressed urgently, so as to introduce an element of functional efficiency in these units.

**Reply of the Government**

The recommendations/observations of the Committee have been forwarded to State Governments/National Federation of Cooperative Sugar Factories for necessary action.

{Ministry of Consumer Affairs, Food and Public Distribution OM NO. 7-10/2003-CC/3133, dated 7.10.2004}

**Comments of the Committee**

**(Please see Para No. 1.22 of the Chapter I of the Report)**

**Recommendation No.11**

At present Central Government fixes statutory Minimum Price (SMP) of Sugar cane and some State Governments also notify State Advised Price (SAP). As a result of this a large amount of cane price arrears remain with sugar mills. To overcome the situation, Central Government had to approve Rs. 678.06 crore as one-time assistance to the states of U.P., Uttaranchal, Haryana, Punjab and Bihar to clear the cane price arrears. However no amount has been disbursed as yet. The Committee, therefore, desire that this assistance should be disbursed expeditiously. Further, such a policy should be evolved wherein cane growers get due price of sugarcane, Mills get fair realization from sugar and consumers also get sugar at reasonable price instead of highly benefiting the traders.

**Reply of the Government**

Ministry of Agriculture made, in their budget for 2003-04, provision for one-time assistance to the States of UP, Uttaranchal, Haryana, Punjab and Bihar to clear the cane price arrears of private mills. The assistance to State Governments was in the form of loan carrying interest at 4% per annum and repayable in 6 years. The State Government was in turn to provide loans to private mills. One of the conditions for availing this assistance was that the State Government would not in future declare State Advice Price (SAP) for sugarcane. Ministry of Agriculture has informed that only States of Uttaranchal and Bihar availed of this assistance and were provided Rs.45.54 crores and Rs.19 crores respectively. The budget provision was for the year 2003-04. No provision has been made in the BE 2004-05. Hence, the scheme has lapsed.

{Ministry of Consumer Affairs, Food and Public Distribution
OM NO. 7-10/2003-CC/3133, dated 7.10.2004}

**Comments of the Committee**

**(Please see Para No. 1.25 of the Chapter I of the Report)**

## Recommendation No.12

The Committee note that presently basic excise duty is imposed by Central Government and purchase tax, cess and Cooperative Society Commission are imposed by the State Governments. To relieve the sugar industry of present crisis, Government of Maharastra has waived the purchase tax. The Committee feel that such an initiative will be appreciable on the part of other State Governments too. The Central Government may also help the sugar industry be reducing / waiving excise duty. The Committee, therefore, recommend that for revival of sick sugar industry, taxes imposed by Central and State Governments should also be waived/deferred for some period.

## Reply of the Government

The matter of withdrawal of excise duty was earlier considered by the Government and was not agreed to on the grounds of huge revenue implications and similar demand being raised by other industries. In so far as revival of individual sick unit is concerned, the concessions/reliefs to be given by various stakeholders including Central and State Governments are to be decided upon on a case by case basis and within an overall package finalized by the operating agency and approved by the appropriate authority (like BIFR).

{Ministry of Consumer Affairs, Food and Public Distribution
OM NO. 7-10/2003-CC/3133, dated 7.10.2004}

## Comments of the Committee

**(Please see Para No. 1.28 of the Chapter I of the Report)**

## CHAPTER V

## RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT ARE STILL AWAITED.

### Recommendation No. 9

The Committee note that general reduction of distance between two sugar mills of 15 kms is also pushing the sugar mills towards sickness. Such a restriction is also causing hurdles in the expansion of sugar industry to a higher capacity. The Committee feel that this general criteria of 15 kms distance is affecting the viability of sugar mills. The Committee, therefore, strongly recommend that distance between sugar mills should be variable depending upon their tonne sugar cane crushing capacity per day in order to improve their financial health.

### Reply of the Government

The criterion of minimum distance of 15 Kms between two mills has been in vogue w.e.f 31st August 1998 and nearly 60 mills have since expanded their capacity. Although distance between two sugar mills may have some bearing on viability, sugar mills become sick on account of various factors such as inadequate availability of cane, uneconomic size of the factory, outdated machinery/technology, etc. In order to improve the financial health of the sugar factory, Government provides loans from SDF for cane development, modernization and expansion. SDF also provides loans for co-generation, and production of ethanol in order that byproducts are better utilized. However, the issue of distance between sugar mills is being examined in consultation with the Committee on Revitalization of Sugar Industry set up by the Government.

{Ministry of Consumer Affairs, Food and Public Distribution
OM No. 7-10/2003-CC/3133 dated 7.10.2004}

**New Delhi**
**22 November, 2004**
**1 Agrahayana, 1926 (Saka)**

**DEVENDRA PRASAD YADAV**
**Chairman**
**Standing Committee on Food, Consumer Affairs and Public Distribution**

**APPENDIX I**

**MINUTES OF THE SIXTH SITTING OF THE STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION HELD ON MONDAY, THE 22ND NOVEMBER, 2004.**

The Committee sat from 15.00 hrs. to 15.30 hrs. in Committee Room No. 62, Parliament House, New Delhi.

**Present**

**Shri Devendra Prasad Yadav - Chairman**

**MEMBERS**
**LOK SABHA**

2. Shri A.P. Abdullakutty
3. Shri Ranen Barman
4. Shri Alakesh Dass
5 Shri Avinash Rai Khanna
6. Shri Parsuram Majhi
7. Shri Zora Singh Mann
8. Shri Hari Kewal Prasad
9. Shri Ajit Kumar Singh
10. Shri Chandrabhan Singh
11. Shri Atma Singh Gill

**RAJYA SABHA**

12. Shri Narayan Singh Kesri
13. Smt. Bimba Raikar
14. Shri Nabam Rebia
15. Shri Thanga Tamil Selvan
16. Shri Vijay Singh Yadav

**SECRETARIAT**

1. Dr. (Smt.) Paramjit Kaur Sandhu - Joint Secretary
2. Shri R.S. Kambo - Deputy Secretary
3. Shri Jagdish Prasad - Assistant Director

At the outset Hon'ble Chairman welcomed the Members to the sitting of the Committee. The Committee then took up the Draft Third Report on Action Taken by the Government on the Recommendations/Observations contained in the Twenty-Seventh Report (Thirteenth Lok Sabha) on "Sick Sugar Industry and Sugar Development Fund" for consideration and adopted the same with the following amendments/modifications:-

| Page No. | Para No. | Line | Amendments/Modifications |
|---|---|---|---|
| 4 | 1.10 | 3 (from bottom) | **After** the words " improved" **add** the following:-<br><br>"In this context, the Committee would like to recommend that it should be ensured that the loans to the farmers for cane development under SDF be easily made available to them. At the same time, the Committee would also like to recommend that there is need to review short term loans made available under the Scheme for the farmers". |
| 6 | 1.14 | 4 (from bottom | **After** the words "in this regard" **add** the following:-<br>"In this regard the Committee would like to emphasize that there is an imperative need to constitute a Coordination Group consisting of Financial Institutions/State Governments, Cooperative Organisations and Research Institutions, for the purpose." |
| 11 | 1.25 | 5 | **Delete** "The Committee reiterate their earlier recommendation and desire that the scheme of One Time Assistance be revived afresh" and **add** the following:-<br><br>"The Committee reiterate their earlier recommendation and desire that the scheme of One Time Assistance be revived in the light of the judgment of Supreme Court in regard to fixation of State Advised Price for sugarcane". |

The Committee then authorized the Chairman to finalize the Report and present the same to Parliament on their behalf.

**The Committee, then adjourned**

# APPENDIX II

(Vide Introduction of the Report)

**Analysis of the Action Taken by the Government on the recommendations contained in the twenty-seventh Report of the Standing Committee on Food, Civil Supplies and Public Distribution (Thirteenth Lok Sabha)**

| | | |
|---|---|---|
| (i) | Total Number of Recommendations | 13 |
| (ii) | Recommendations/observations which have been accepted by the Government:<br>Recommendation Nos.3, 4,5,7 and 13 | |
| | Total | 5 |
| | Percentage | 38 |
| (iii) | Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies:<br>Recommendation Nos. 8 and 10 | |
| | Total | 2 |
| | Percentage | 16 |
| (iv) | Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:<br>Recommendation Nos. 1, 2, 6, 11 and 12 | |
| | Total | 5 |
| | Percentage | 38 |
| (iv) | Recommendations/observations in respect of which replies of the Government are still awaited.<br>Recommendation No. 9 | |
| | Total | 1 |
| | Percentage | 8 |