10

STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION
(2009-2010)

(FIFTEENTH LOK SABHA)

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

[PRODUCTION, CONSUMPTION AND PRICING OF SUGAR]

TENTH REPORT

LOK SABHA SECRETARIAT

NEW DELHI

August, 2010/ Bhadrapada , 1932 (Saka)

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Presented to Lok Sabha on 31.08.2010

Laid in Rajya Sabha on 31.08.2010

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MEMBERS

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19. Shri Ramakant Yadav
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21. Vacant

Rajya Sabha

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26. Shri Kanjibhai Patel
27. Shri Rajniti Prasad
28. Dr. T.N. Seema
29. Shri Veer Singh
30. Shri Kaptan Singh Solanki
31. Vacant

* Nominated w.e.f. 04.08.2010

Secretariat

1.	Shri P.K. Mishra	-	Joint Secretary
2.	Smt. Veena Sharma	-	Director
3.	Shri Jagdish Prasad	-	Additional Director

INTRODUCTION

I, the Chairman of the Standing Committee on Food, Consumer Affairs and Public Distribution (2009-10) having been authorized by the Committee to submit the Report on their behalf, present this Tenth Report on the subject “Production, Consumption and Pricing of Sugar” of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution).

2. The subject was selected by the Committee for examination during the year 2009-10. The Committee was briefed on the subject by the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) on 04.02.2010. The Committee also took oral evidence of the representatives of the Department of Food and Public Distribution on 28.06.2010.

3. The Committee wish to express their thanks to the Officers of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) for placing before them the detailed written notes on the subject and for furnishing the information to the Committee, desired in connection with the examination of the subject.

4. The Committee wish to express their thanks to Prof. Abhijit Sen, Member, Planning Commission and National Federation of Cooperative Sugar Factories Ltd. for furnishing their views/suggestions on the subject.

5. The Report was considered and adopted by the Committee at their sitting held on 25th August, 2010.

6. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
25 August, 2010
3 Bhadrapada,1932 (Saka)

VILAS MUTTEMWAR
Chairman,
Standing Committee on Food,
Consumer Affairs and Public Distribution.

CHAPTER I

INTRODUCTORY

India is one of the largest producers of sugar and sugarcane in the world and the sugar industry is the largest agro-based industry located in rural India. In India, sugarcane production was about 348.2 MT whereas the world sugarcane production was 1743.09 MT during 2008; thus India contributes about 20% of the world sugarcane production and ranks 2nd after Brazil (648.92 MT). As far as sugarcane area is concerned, India accounts for about 18% of the world area. About 45 million sugarcane farmers, their dependents and a large mass of agricultural labourers are involved in sugarcane cultivation, harvesting and ancillary activities, constituting 7.5 per cent of the rural population. Maharashtra and Uttar Pradesh contribute more than 50 per cent share in the country's sugar output. India is also the largest consumer of sugar in the world.

1.2 Management of the sugar industry and management of sugar for public distribution is done by the Department of Food and Public Distribution. The activities of the Department in relation to sugar broadly cover:-

(i) Regulation of the industry through the Directorate of Sugar;

(ii) Fixation of statutory minimum prices of sugarcane payable by sugar factories;

(iii) Development and regulation of sugar industry (including training in the field of sugar technology);

(iv) Fixation of price of levy sugar and its supply for PDS and regulation of supply of free sale sugar;

(v) Administration of subsidy on sugar;

(vi) Administration of Sugar Development Fund; and

(vii) Training and Research.

1.3 Sugar industry is instrumental in generating sizable employment in the rural sector directly and indirectly through its ancillary units. The sugar industry in India has been a focal point for socio-economic development in the rural areas by mobilizing rural resources, generating employment and higher income, transport and communication facilities. Further, many sugar factories (particularly in tropical region in India) have established colleges, medical centers, hospitals and other infrastructure for the benefit of the rural population. Many sugar factories have also diversified into by-products based industries like distilleries, organic chemical plants, paper and medium density particle fiber (MDF) board factories and installation of cogeneration facilities, etc.

1.4 The Sugar Development Fund is the main instrument through which financial assistance is provided to the sugar industry for effecting modernization and expansion of the existing mills, for bringing about varietal improvement and development in the cane grown in the area of the sugar factories, for projects for bagasse based cogeneration of power and for production of ethanol.

1.5 The Committee have examined the various issues related to sugar and sugar industry. The detailed analysis along with the observations/recommendations of the Committee are given in the succeeding chapters of the Report.

CHAPTER II

PRODUCTION OF SUGAR IN INDIA

2.1 Sugar production in India has been cyclic in nature. Every peak production year is followed by a low production year two or three years later. This is mainly due to corresponding increase or decrease in area under sugarcane. Due to good monsoon and increase in sugarcane area under cultivation, sugar production from sugarcane during the sugar seasons 2006-2007 and 2007-08 increased substantially to 282 lakh tones and 263 lakh tones, respectively and the production was surplus during these two years whereas the production of sugarcane / sugar has declined in sugar season 2008-09 and 2009-10.

2.2 The Department has furnished the following Statement showing State-wise production of sugar for the last five sugar season i.e. 2004-05 to 2008-09:-

			(Figures in lakh tonnes)		
STATE	2004-2005	2005-2006	2006-2007	2007-2008	2008-09 (Est.)*
PUNJAB	3.37	3.88	5.50	5.34	2.43
HARYANA	3.98	3.88	6.77	5.99	2.29
RAJASTHAN	0.11	0.05	0.07	0.06	0.04
UTTARAKHAND	3.36	4.14	5.28	4.01	2.23
UTTAR PRADESH	51.52	55.64	83.52	73.20	41.53
MADHYA PRADESH	0.78	0.94	1.48	1.74	0.49
CHATTISGARH	0.13	0.22	0.21	0.38	0.13
GUJARAT	8.32	12.44	13.90	13.66	10.22
MAHARASHTRA	23.03	52.64	90.13	90.75	46.00
BIHAR	2.70	4.19	4.83	3.36	2.22
ASSAM	0.00	0	0.00	0.00	0.00
ORISSA	0.87	0.52	0.65	0.63	0.30
WEST BENGAL	0.05	0.07	0.04	0.05	0.02
NAGALAND	0.00	0.00	0.00	0.00	0.00

ANDHRA PRADESH	12.03	12.76	19.24	13.35	5.92
KARNATAKA	11.32	20.09	25.42	28.39	16.75
TAMILNADU	14.75	21.38	24.21	21.41	15.95
PONDICHERRY	0.19	0.26	0.55	0.51	0.16
KERALA	0.00	0	0.00	0.00	0.00
GOA	0.09	0.11	0.19	0.15	0.09
ALL INDIA	**136.60**	**193.21**	**281.99**	**262.98**	**146.77**

2.3 When asked about basic reasons for decline in production of sugar in the country, the Ministry stated that less production of sugar in the sugar seasons 2008-09 and 2009-10 is mainly because of the following reasons:

(a) Reported shortfall in both acreage and productivity (2008-09) due to lack of adequate inputs owing to cane arrears in previous two seasons (since liquidated);
(b) Decline in productivity on account of delay and deficiency of rains in the south and un-seasonal rains elsewhere in 2008-09 and 2009-10;
(c) Shift in acreage from sugarcane to other foodgrains crops due to relatively higher minimum support price (MSP) of foodgrain crops;
(d) More diversion of sugarcane to gur and khandsari units;
(e) Higher percentage of ratoon area in overall area under sugarcane, lowering yield of sugarcane (2008-09);
(f) Fall in recovery rate due to less sucrose content in sugarcane.

2.4 During evidence, the representatives of Department of Food and Public Distribution stated as under:-

> 'Sir, there are two-three issues which the Committee might like to discuss and I propose to put them before you. Firstly, sugarcane crop is highly water intensive. Sugarcane requires about ten watering in a year. Can we afford that much of irrigation water today? We have to really look at economizing

the availability of limited water resources. So, possibly, we cannot really look at encouraging sugarcane in areas which are water deficit. That is something which will have to be kept in mind. Secondly, we have to look at the overall food security aspect also.'

2.5 When asked about the steps taken to increase production of sugarcane and sugar, the Ministry in a note furnished to the Committee informed as under:-

(a) the Central Government has now fixed the Fair & Remunerative Price (FRP) of sugarcane payable by sugar mills for 2009-10 sugar season at Rs.129.84 per quintal linked to a basic recovery rate of 9.5% subject to a premium of Rs.1.37 per quintal for every 0.1 percentage point increase in recovery above that level. This FRP is substantially high over the Statutory Minimum Price (SMP) of 2008-09 sugar season which was Rs.81.18 per quintal, with an additional premium of Rs.0.90 for every 0.1% point increase in the recovery above 9%.

(b) The Sustainable Development of Sugarcane Development Based Cropping System (SUBACS) is one of the components of Centrally Sponsored Scheme (CSS). The main thrust of SUBACS is on the transfer of improved production technology to the farmers through field demonstrations, training of farmers, supply of farm implements, enhancing production of planting materials, efficient use of water, treatment of planting materials.

(c) The Central Government provides concessional loans at an interest rate of 4% per annum given to sugar factories from Sugar Development Fund (SDF) for modernization of plant and machinery, expansion of crushing capacity, utilization of by-products viz. baggasse for co-generation of power and molasses for production of ethanol, upgradation of technology and sugarcane development including better irrigation facilities, improved seed variety, ratoon management etc.

(d) A short term scheme has been announced for cane development in the current financial year under which loans of Rs. 1.0 to 2.5 crore are available to sugar factories depending upon their crushing capacity, for purchase of seeds, fertilizers and pesticides etc. This loan is expected to be passed on to the farmers.

(e) To optimize processing of raw sugar alongwith cane juice to produce white sugar, a scheme has been introduced in the current financial year for loans from SDF at 4% simple interest to be given to sugar factories to install balancing equipment so as to maximize availability of processed sugar from imported raw sugar in 2009-10 sugar season.

2.6 The Committee enquired whether there is any link between the sugarcane yield as well as sugar recoveries in the country that hampered the desired growth of sugarcane cultivation in the country. The Ministry stated that Under normal conditions of weather and cultivation practices, there is no link between sugarcane yield of a variety and sugar recovery in mills. Sugarcane yield is dependent on the number of millable cane per unit area and the average single cane weight, whereas the sugar recovery depends upon the sucrose content in cane. The sugar yield per hectare, is however, positively correlated with sugarcane yield. The weather aberrations like rise of temperature in November-December, when sucrose accumulation in cane is at its peak, adversely affects the sugar recovery of a variety in mills. Similarly, rainfall just before harvesting may increase the cane yield and reduce sugar content in cane and, in turn, sugar recovery.

2.7 When enquired about difficulties being faced by the farmers in raising the sugarcane crop, the Ministry stated as under:-

(1) Inadequate availability of quality seed of the improved variety is a major problem.

(2) Non-availability of water logged resistant varieties.

(3) Poor sprouting initiation in winter harvested cane.

(4) Scarcity of labour at reasonable rate.

(5) High cost of cultivation.

(6) Non-availability of sugarcane harvester.

(7) Delay and untimely cane price payment when there is excess production of sugarcane.

2.8 When enquired about duration of production of various varieties of sugarcane and steps being taken by the Ministry to encourage farmers to cultivate early maturing cane varieties, the Ministry informed that the duration of production of early and middle maturing verities and of Adsali crop of sugarcane is given below:

1 . **Early maturing varieties** ; 10 months- tropical India : January-February to October - Novemeber.- Sub-tropical India : February - March to December - January.

2. **Midlate maturing varieties** : 12 months.- tropical India : November - December to October - November.-Sub-tropical India : February - March to January -February.

3.**Adsali crop (Tropical India**): 18 months (July - August to November - December.

2.9 For promoting the early maturing high sugar varieties, the factories are providing training to the farmers to grow early maturing varieties in the respective zone of a sugar factory for early starting of the factory and obtaining high sugar recovery. Some State Govt. (U.P., Uttarakhand, Punjab, Haryana etc) are giving more sugarcane price (SAP) to early maturing high sugar varieties for promotion of the farmers interest to adopt high sugar early maturing varieties. The cane growers are also being provided incentives for growing seed nursery of early maturing high sugar varieties. Apart from this, Ministry of Agriculture is promoting the use of high yielding sugarcane seed on farmers field through providing incentives/ assistance for production and use of quality seed of high yielding varieties by rearing of foundation and primary seed nurseries with the promotional assistance of Rs. 4000/- and Rs. 2000/- per ha, respectively. Apart from this, the, Ministry of Agriculture has approved the production of tissue culture plantlets of high yielding varieties produced in tissue culture lab at VSI, Pune and UPCSR, Shahjahanpur.

2.10 In reply to a question, the Department informed the Committee that higher area under sugarcane is expected to yield a bigger harvest of sugarcane and consequently higher production of sugar in the next year as compared to current year. Area under sugarcane cultivation during the ensuing crushing season i.e. 2010-11 is likely to increase by about 10-15% as compared to last year. The estimates of area and production of Sugarcane for the year 2010-11 have not been worked out. However, as per the latest Crop Weather Watch Group Meeting, the estimated area sown under Sugarcane as on 18th June, 2010 is 45.24 lakh ha. as against 41.79 lakh ha. covered during last year (IIIrd Advance Estimates).

2.11 When asked whether the Government has any scheme/plan to help the sugarcane growing farmers to enhance the production of sugarcane, the Ministry stated that the revised Macro Management of Agriculture (MMA) scheme is a flagship scheme of the Department of Agriculture & Cooperation to supplement/complement the efforts of the State Governments for enhancement of agricultural production and productivity in the country. The scheme provides sufficient flexibility to the States to develop and pursue the programmes on the basis of their regional priorities and felt needs in the form of Work Plan. Thus, the States have been given a free hand to finalize their sector-wise allocation as per the requirement of their development priorities. The revised Macro Management of Agriculture Scheme consists of 10 Centrally Sponsored Scheme, which includes the scheme called “Sustainable Development of Sugarcane Based Cropping System (SUBACS)”. The funds released under the MMA scheme during 2007-08, 2008-09 and 2009-10 are Rs. 1001.26 crore, Rs. 922.78 crore and Rs. 899.25 crore (as on 10.03.2010), respectively. Out of this, a sum of Rs. 2754.35 lakh, Rs. 2659.46 lakh and Rs. 3708.75 lakh has been approved for SUBACS during the year 2007-08, 2008-09 and 2009-2010 respectively.

2.12 When asked about concrete steps being taken by various stakeholders (including State Governments) to ensure that sufficient sugarcane crops is developed and grown in the mill area for the economic viability of sugar factory, the Ministry informed that Lloans from the SDF are given to the sugar factories for development of sugarcane in their areas for projects of upto Rs.6 crore, with at least 10% contribution by the borrower. The scheme provides for loan for

(1) Setting up of Heat treatment plant
(2) Rearing of Seed Nurseries
(3) Incentives to cultivators to switch over to improved varieties of sugarcane
(4) Integrated Pest and Disease management including the cost of equipments, pesticides and bio pesticides
(5) Irrigation schemes
(6) Ratoon Management
(7) Improvement of problematic soils through surface/sub surface drainage and chemical amendments and
(8) Field Demonstrations and Extension Mechanism.

2.13 In the year 2009-10, a short-term loan scheme was also announced for cane development loans to sugar factories for purchase of seeds, fertilizers and pesticides. Under this scheme 96 sugar factories have been disbursed loan amounting to Rs.182.30 crore upto 15.5.2010.

2.14 To ensure the availability of sugarcane to the sugar factories, the Central Govt. envisages to increase the sugarcane productivity as well as improving the sugar recovery. A Centrally Sponsored Scheme on Sustainable Development of Sugarcane Based Cropping Systems (SUBACS) under Macro Management Mode of Agriculture is being implemented in major sugarcane growing states focusing on mechanization, availability of quality seed, transfer of technology, water saving measures and skill upgradation of farmers and extension workers, etc by providing financial assistance for promotion of sugarcane. Apart from this, some of the State Govts as well as sugar factories are also taking up developmental activities in their respective states and factory areas.

2.15 In view of increase in MSP of wheat and paddy in the recent past, to check against further shift in area from sugarcane and with a view to ensuring that cultivation of sugarcane is not rendered totally unattractive and unprofitable vis-a-vis wheat and paddy so as to ensure adequate production of sugarcane and sugar, the Government has amended its sugarcane pricing policy to fix “Fair and Remunerative Price” (FRP) for sugarcane from 2009-10 sugar season instead of a Statutory Minimum Price (SMP) previously fixed by the Government. Under FRP, the farmers would get upfront payment of price of sugarcane inclusive of margins on account of profit and risk, not earlier available under SMP.

Gur and Khandsari Industry

2.16 The Committee have been informed that diversion of sugarcane towards production of gur and khandsari has an adverse effect on the availability of sugarcane for sugar production and consequently, results in lower sugar production with upward pressure on prices, unless this is in a season of surplus production of sugarcane. However, the above industries do not process the major part of sugarcane produced in a season, though the diversion of sugarcane for gur and khandsari is more in a year when sugarcane production is less and vice-versa. This, therefore, affects sugar production in two ways, viz. less availability of sugarcane overall and less drawal (percentage of sugarcane crushed by sugar mills against total estimated sugarcane produced).

2.17 According to study conducted by National Council of Applied Economic Research (NCAER) relating to “Policy Reforms in the Sugar Sector : Implications for the Gur and Khandsari Industry” submitted in April 2009, the prices paid by Alternative Sweetener Industry in most cases is generally lower than paid by sugar industry. The alternative sweetener industry paid approximately 87-89% of the price paid by the sugar industry. It was observed that alternative sweetner industry made payment to cane producers within a fortnight, which appeared to be the key advantage of supplying cane to Alternative Sweetener Industry. The other advantage was that payments are made in cash as against payments made by sugar factories through cheques or bank accounts.

2.18 According to the above said study, the per capita consumption of gur at all India level has come down by 50% in urban areas and by 70% in rural areas respectively between 1987-89 to 2004-05. The decline in the consumption of gur at all India level is also apparent across all income groups. The above changes in the pattern of sugarcane utilisation by sugar factories and alternative sweetener industry basically reflect the shifts in consumer preference and taste towards better quality sugar produced by sugar factories. According to the study, it is visible that with rising incomes in the future and urbanisation, there will be further decrease in the consumption of alternative sweeteners. At present, there is no control of the Government over the production, distribution and pricing of Gur and Khandsari. Although, the Central Government is empowered to fix fair and remunerative price for the sugarcane purchased by the producer of khandsari sugar, the Government has not exercised this power.

2.19 The Committee are concerned to note that the production of sugar has decreased from 263 lakh tones in 2007-08 to 147 lakh tones in 2008-09. The factors responsible for less production of sugar in the sugar season 2008-09 and 2009-10 are stated to be (i) lack of adequate inputs owing to cane price arrears; (ii) delay and deficiency of rains; (iii) diversion of sugarcane crops to other cash crops; (iv) less sucrose content in sugarcane. In the opinion of the Committee, the production of sugar and sugarcane decreased due to lack of foresightedness on the part of the Government which could not make advance planning to resolve issues leading to decline in the production of sugarcane. The Committee feel that to bridge the gap between the demand and supply of sugar, increase in production of sugarcane is desirable. The Committee, therefore, strongly recommend that to reduce the dependency on imported sugar and to increase the production of sugar, the Government should initiate appropriate public-private partnership in research and extension programs with particular emphasis on ratoon management, propagation of disease and pest resistant varieties, water logged resistant varieties, availability of quality seeds, integrated plan nutrient management and judicious water management by assigning the lead role and responsibility to sugar mills. In addition, the Government should make sincere efforts to set up soil testing laboratories in the sugar cultivation areas to determine the fertility

level of soil to improve the soil health. The Committee urge upon the Government to make available high yielding seeds and fertilizers in time to boost sugarcane crop production capacity.

2.20 The Committee observe that despite a number of steps taken by the Government, there is no satisfactory improvement in production of sugarcane and sugar in the country. The Committee find that various difficulties are being faced by the farmers in raising the sugarcane crop such as (a) inadequate availability of quality seed of the improved variety; (b) non-availability of water logged resistant varieties; (c) poor sprouting initiation in winter harvested cane; (d) scarcity of labour at reasonable rate; (e) high cost of cultivation; (f) non-availability of sugarcane harvester; and (g) delay and untimely cane price payment. The Committee also observe that over the years, the level of ground water has gone down considerably, thereby creating irrigation problem for sugarcane growers. The Committee are happy to note that the Government is encouraging the farmers to grow early maturing and high yielding cane varieties by providing incentives/assistance so that uninterrupted and regular supply of quality sugarcane is maintained. The Committee desire that the Government should also adopt the drip and sprinkler irrigation system which is within the reach of every farmer and provide plant protection cover to take care of attack of pest and diseases. The Committee also recommend that the nodal Ministry, in coordination with the Department of Agriculture and Cooperation should also complement the efforts of various State Governments by implementing the revised Macro Management of Agriculture (MMA) in

letter and spirit for enhancing the production and productivity of sugarcane in the country.

2.21 The Committee note that in order to make the cultivation of sugarcane more attractive and profitable, the Government of India has now amended its Sugarcane Pricing Policy and fixed the Fare and Remunerative Price (FRP) of sugarcane payable by sugar mills from 2009-10 sugar season at Rs. 129.84 per quintal which is substantially higher over the Statutory Minimum Price (SMP) of Rs. 81.18 per quintal announced for 2008-09. The Committee, however, feel that in the ground reality position is far different and the cane growers do not get the announced prices. The Committee feel that in the absence of remunerative price for sugarcane, farmers opt for other cash crops. The Committee, therefore, recommend that adequate FRP of sugarcane should be fixed so as to attract farmers for cultivation of sugarcane crop, thereby ensuring adequate production of sugar by the sugar mills. The Government should fix the FRP every year in advance so that farmers get right price signal and ensure that sugarcane remain equally competitive with other food/cash crops.

2.22 The Committee note that diversion of sugarcane towards production of Gur and Khandsari is one of the main reasons for less production of sugar by the sugar mills and that too in the year when sugarcane production is less. The Committee observe that the Government has no control over the production, distribution and pricing of Gur and Khandsari, which has an adverse effect on the availability of sugarcane for sugar mills and consequently results in lower production of sugar leading to rise in prices. The Committee, however, observe that consequent upon rise in income and change in taste, consumption of gur at all India level has come down in both urban and rural areas across all income groups. The Committee also observe that despite there being shifts in consumer preference, there is large scale diversion of sugarcane to the alternative sweetener industry. The Committee are of the opinion that due to failure on the part of the sugar mills to make timely payment for sugarcane supplied to them by the farmers, there is still large-scale diversion of sugarcane to Gur and Khandsari units, particularly in the years of less production. The Committee, therefore, recommend that the sugar mills should purchase the sugarcane directly from farmers to check the diversion of sugarcane to Gur and Khandsari industries. Further, the Government should persuade the sugar mills to make timely payment of sugarcane to the farmers in cash, rather than by cheque or bank accounts. Besides, they should start the production of sugar

in their mills in the beginning of the sugar season so that the famers are not forced to divert their produce to Gur and Khandsari units and they get fair price of sugarcane.

CHAPTER III

CONSUMPTION OF SUGAR

3.1 The Committee have been informed that the levy, non-levy (free sale) ratio of sugar is 20:80 for the current sugar season. All the sugar mills have to surrender 20% of their production as levy sugar for its allotment through PDS. The Department has furnished the following details with regard to internal consumption/demand of sugar during the last 5 sugar seasons i.e. from 2004-05 to 2008-09:-

(Qty. in lac tons)

S.No.	Sugar Season	Consumption of Sugar
I	2004-05	171
2	2005-06	183
3	2006-07	191
4	2007-08	205
5	2008-09	220

As regards the demand projection for the current sugar season 2009-10, the demand for sugar is provisionally estimated at the same level as that of last sugar season 2008-09 i.e. at about 220 lac tons.

3.2 When enquired about the overall demand of sugar for distribution through PDS, the Department replied that allocation of levy sugar for distribution under Public Distribution System (PDS) is not made on the demand of the States/UTs. In February, 2001, the Government restructured the supply of levy sugar in the Public Distribution System (PDS) and restricted its supply to BPL families except in the North Eastern States, Hill States and Island Territories where universal coverage was allowed to continue. Accordingly, the allotment of levy sugar is made on the basis of fixed State/UT quotas with effect from 1.2.2001. Besides, a quantity of about 1.00 lakh MT is allotted as fixed Annual Festival quota of the States/UTs as per the scheduled festival requirement of the State Governments/UT Administrations.

3.3 When asked about the quantity of sugar required for distributing under PDS in the country, the Ministry stated that the quantity of levy sugar required for distributing in the PDS and for supply to Army purchase organization (APO)/ Para Military forces is about 28 lac tons as given below:

State Governments/UTs	26 lac tons
Festival quota	1 lac ton
Army Purchase Organization/ Para Military Forces	1 lac ton
Total	28 lac ton

3.4 During evidence, the Secretary, Department of Food and Public Distribution gave an overview of the production and consumption of sugar for the last five years as under:-

> ‘In 2004-05 our production of sugar was 136 lakh tones and the consumption was 171 lakh tones; in 2005-06, production went up to 193.21 lakh tones and estimated consumption was 183.21 lakh tones. Then in 2006-07, our production had peaked at 281.99 lakh tones and the consumption was about 191 lakh tones. Then in the next year, viz. 2007-08, our production was 263 lakh tones and the consumption was estimated at 205 lakh tones. The production in 2008-09, the year that is just over, was about 146.7 lakh tones and the estimated consumption was 220 lakh tones. In the current year, we estimate a production of about 150 to 160 lakh tones. It is too early yet to say about it but the estimated requirement may be about 230 lakh tones.’

3.5 When enquired as to how the Government ensure that sugar allocated under PDS reaches to the targeted people, the Department stated that the Central Government is concerned only with the allocation of the levy sugar to the State Government/ UT Administration and its delivery by sugar mills to authorized agencies on payment of cost of levy sugar. Besides, for North Eastern States (except Sikkim), J&K and island territories, the Food Corporation of India as an agency of the Central Government is entrusted with the responsibility of lifting of levy sugar from the sugar mills and its transportation to the concerned state and delivery to the state agency. It is the responsibility of the concerned State Government/ UT Administration that sugar allocated under PDS reaches to the targeted people.

3.6 When enquired whether the Government maintains the data of States where consumption is more to ensure availability of sugar in these States, the Committee were informed that no such data is available with the Ministry. The sugar mills are free to sell non-levy sugar quota to a sugar dealer in any State/UT, which facilitates sale of sugar to those states where consumption is more.

3.7 During evidence, the Committee enquired the details of sector where sugar is consumed in the country, the Secretary, Department of Food and Public Distribution stated as under:-

> 'Of the total sugar which is consumed in the country, it is said that 62 to 65 per cent is consumed by the non-household sector, that is, the commercial sector, the business sector, etc. It means that roughly about 35-38 per cent is only consumed by the household sector. The remaining is consumed by the industrial or commercial users.'

3.8 The Committee pointed out that the breweries, alcohol industry, the whisky companies, ice-cream manufacturers, soft-drink companies, bakeries etc. are getting the sugar at the rate at which the common man is supplied and enquired whether these sectors can be prevented from taking sugar when there is a crisis in the country and allowed to import sugar to lessen the burden on the Government, the Secretary, Department of Food and Public Distribution stated that at the moment, anybody is free to buy any quantity from the 80 per cent sugar that is sold in the open market.

3.9 The Secretary further added that the Department of Food and Public Distribution is seized with the proposal that bulk consumers should only purchase or procure imported white / refined sugar to meet their requirements. The Ministry has taken up the matter with the Department of Legal Affairs in this regard. The legal opinion on the issue is yet to be received from the Department of Legal Affairs.

3.10 The Committee observe that the Government has no control over the distribution of non-levy sugar. Consequently, the sugar mills are free to sell non-levy sugar to any sugar dealer in any State/UT. The Central Government is concerned only with the allocation of the 20% of the sugar production by the sugar mills as levy sugar to the State Governments/UT Administrations and its delivery by sugar mills under PDS. It is surprising to the Committee that the Department has no details about the remaining 80% non-levy sugar consumed by the States/UTs, which in the opinion of the Committee is one of the factors responsible for hoarding of sugar and hike in its prices. The Committee feel that the Government should explore the possibility of setting up a mechanism to have some sort of monitoring on the distribution of non-levy sugar so that each State/UT may get sugar as per their requirement. The Committee, therefore, recommend that the Government should devise a mechanism so as to monitor the distribution of non-levy sugar and impress upon the States/UTs to furnish the details regarding consumption of sugar by them which will help the Government for fair distribution of sugar and curb the tendency of hoarding and blackmarketing by the unscrupulous traders. The Committee also recommend that the Government should widen the scope of PDS so that middle-class families including APL may get sugar at reasonable price.

3.11 The Committee note that only 35 to 38 per cent of sugar is consumed by the household sector and remaining 62 to 65 per cent is consumed by non-household sector i.e. commercial sector/business sector. The Committee are dismayed to note that the Government has allowed the sugar mills to sell unlimited quantity of sugar to any industrial organizations like breweries, alcohol industry, confectionery, bakeries, ice-cream manufacturers, soft-drink companies etc., at the same rate at which the general public is getting. The Committee feel that these industries never bring down the rates of their products even when the price of sugar is down in the market and continue to make profit. The Committee are of the firm view that non-levy sugar should be sold to such industrial organizations at higher rate and not at the same price at which it is sold to the household sector particularly, when there is a scarcity of sugar due to less production of sugarcane and sugar. The Committee have been informed that the Department of Food and Public Distribution is seized with the proposal that bulk consumers should only purchase or procure imported white/refined sugar to meet their requirement. The Committee, therefore, strongly recommend that the Government in consultation with Ministry of Law should take quick decision in the matter.

Stockholding Limits on bulk consumers of sugar

3.12 The Central Government has imposed stockholding limit on bulk consumers of sugar (using or consuming more than ten quintals of sugar per month) vide notification dated 22.08.2009 providing that they shall not hold stocks exceeding 15 days of their requirement from domestically produced sugar. The notification came into effect from 19.09.2009. Vide notification dated 05.02.2010, the Central Government reduced the stockholding limit on bulk consumers from fifteen days to ten days of requirement, with effect from 20.02.2010. The notification dated 22.08.2009 has now been superceded by another notification dated 18.05.2010 which has come into effect from 21.05.2010 and is valid for a period of ninety days. The notification dated 18.05.2010 has now restored the stockholding limit to fifteen days for bulk consumers. Since non-household consumers are, according to KPMG study commissioned by the Indian Sugar Industry reported to be consuming more than sixty percent of the total non-levy (free-sale) sugar consumed in the country, the measure is intended to make adequate quantities of sugar available to the household sector and sobering impact on prices of sugar.

3.13 The Secretary, Department of Food and Public during briefing stated as under:-

> 'We have taken a step in this direction by allowing them to import sugar at zero duty. Secondly we have imposed a stock holding limit on what they can get from the domestic market. If PEPSI used 10 tonnes sugar in a day, they may be stocking 2,000 tonnes or even 10,000 tonnes of sugar earlier. But now we have said that only 15 days requirements which would be only 150 tonnes, they can stock from domestic sugar at any point of time.'

3.14 When pointed out that an industry has so many units and they hold their stock in different units and can say that they are not holding it, the Secretary responded:-

> ‘The stock holding limit is for each industrial unit. For example, there is a Coco Cola unit in Mumbai and its consumption is 100 tonnes of sugar per day, now they can keep sugar for 15 days requirement.
>
> I think the suggestion that is coming from the Committee is that the stock holding limit of 15 days should be reduced further.
>
> We came up, for the first time in the history of the country, with a stock holding limit for these bulk consumers. It was imposed in August, 2009 and whether stock holding limit can be reduced further downwards, we will consider.’

3.15 When enquired the reasons for providing flexibility for holding the stock of sugar while notifying the stock holding limits order, the Secretary stated:-

> ‘We have given power to the State Governments to relax these limits and have higher limits. It is because supposing in a town, you have got only ten wholesalers and the requirement is big, but since the number of wholesalers is limited, then if the State Government has 100 tonnes of stockholding limit for these ten wholesalers, they would only be able to stock 1,000 tonnes while the requirement of the town may be 2,000 tonnes or 3,000 tonnes.’

3.16 To a query that the traders can take the benefits of the provision and would hold the stock as they desire, the Secretary replied:-

> ‘Nobody is getting the benefit. Take the example to the North-East. If you have got in the North-East very few traders and if you were to have the same stockholding limits as are there is Delhi where there may be many more traders, you would have the problem of availability there. There will be a flight of goods from that region because an individual trader cannot keep more than ‘X’ quantity and for ten traders the quantity will be 10X. But if you have got 100 traders, then it

> becomes 100X. So, the number of traders would also determine your requirement of stockholding limits. We always have to have some faith in the State Governments and give them flexibility so that they can regulate. After all, implementation has to be done by them.'

3.17 The Committee have been informed that on constant persuasion with State Governments/ UTs, twenty three States / UTs like Andhra Pradesh, Assam, Bihar, Delhi, Gujarat, Haryana, Jharkhand , Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Tripura, West Bengal, Administrations of UT of Andaman & Nicobar Islands, Daman & Diu and Dadra & Nagar Haveli have imposed stockholding and turnover limits / licensing system for sugar / khandsari dealers in their States/ UTs. Four States/UTs have intimated that they have examined the matter and do not consider it necessary to impose any stockholding limits. Seven States/UT have not responded, as such the reasons for not imposing the limits are not available.

3.18 The Committee note that the Central Government has imposed stockholding limit on bulk consumers of sugar using or consuming more than ten quintals of sugar per month vide notification dated 22 August, 2009 providing that they shall not hold stock exceeding 15 days of their requirement from domestically produced sugar with a view to making adequate quantities of sugar available to the household sector and having a sobering impact on prices of sugar. The Committee note with concern that only 23 States/UTs have issued stock holding limits, 4 States/UTs do not consider it necessary to impose any stockholding limit whereas seven States/UTs have not responded. The Committee are of the opinion that if the stock holding limit is not imposed in all the States, the multi-national companies and private traders may stock the sugar much in excess of their requirement leading to profiteering, hoarding and blackmarketing of sugar. The Committee, therefore, recommend that the period of stockholding limit should be fixed in accordance with the need of the time and should be reduced further at the time of scarcity. State Governments should be impressed upon to conduct frequent raids to check the stock and if any company or trader is found hoarding more than the limit, prompt and strict action should be taken against them. The remaining States/UTs should also be impressed upon to implement the stock holding limit in their respective States in letter

and spirit to fight the menace of hoarding and blackmarketing of sugar, thereby curbing rise in price.

Buffer stock of sugar

3.19 The concept of buffer stock of sugar is different from that of foodgrains. In case of sugar, the Central Government creates buffer stock when there is excess production of sugar which results in decline in price of non-levy sugar constraining the capacities of the sugar factories to pay cane price including cane price arrears. The quantum of buffer stock and the period for which the buffer stock is to be maintained is decided having regard to the stock of sugar held with the sugar factories, the prospects of sugar production, the requirement of sugar for consumption within the country and export. Further, the share of the each sugar factory is decided having regard to the production of the sugar or the stock held by it or considering the both. When there was excess production of sugar in 2006-07 and 2007-08 sugar seasons, the Central Government created a buffer stock of 50 lac tons for a period of one year (20 lac tons from 01.05.2007 to 30.04.2008 and 30 lac tons from 01.08.2007 to 31.07.2008). As production of sugar declined considerably in 2008-09 and 2009-10 sugar seasons, there was/is no question of creating buffer stock of sugar.

3.20 Under the scheme of buffer stock of sugar, the sugar is not procured by the Central Government. The stock of sugar is maintained by the sugar mills as per the allocations made by the Central Government. Under the buffer subsidy scheme, the sugar factories are reimbursed the interest charges @ 12% or the actual interest rate charged by the bank, on the value of the stock held as buffer stock, whichever is lower, and insurance and storage charges @ 1.5% on the same, for the quantity maintained as the buffer stock from the Sugar Development Fund. This is to be utilized for sugarcane price payment as a first priority. In the case of sugar, the buffer stock is created to stabilize the prices and supply of sugar in the open market, whenever, there is excess production of sugar in the country which results in decline in the market prices of non-levy sugar; thereby constraining the capacity of sugar mills to pay the cane price to sugar cane growers. Further, unlike wheat and rice, the Central Government does not purchase and build buffer stocks of sugar with Food Corporation of India/State agencies. The Central Government will have to purchase sugar from sugar mills/open market for building up buffer stock and bear carrying cost for its maintenance which would impose heavy burden on the Government exchequer. It is pertinent to state that the sugar mills have to stock sugar with them and cannot sell till release orders are issued by the Central Government. As such, stocks of sugar are there with the sugar mills to meet the demand of the people in case of natural calamities. As regards keeping the stocks for distribution of sugar under PDS, it is intimated that the sugar mills are statutorily required to keep a part of their sugar production as levy sugar (presently 20%) for distribution in PDS. However, the levy sugar supply under PDS is restricted to targeted beneficiaries.

3.21 Regarding maintaining the buffer stock of sugar, Prof. Abhijit Sen, Member, Planning Commission, in his memorandum submitted to the Committee has suggested that:-

> ‘Nonetheless, the present amplitude of the cane/sugar cycle requires consideration of much larger buffer stocks and a deficiency calibrated buffer stock policy. Rather than relying on ad-hoc decisions in situations of excess production, it is necessary to upgrade storage conditions and capacity and evolve a system whereby the Government could contract with mills so that they are paid to build up stocks in surplus situations against a commitment to offer these to government at pre-determined prices during situations of production deficit’.

3.22 National Federation of Cooperative Sugar Factories Ltd. in their Memorandum submitted to the Committee stated that: there should be a permanent buffer stock of sugar, replacing the old stock with new. The buffer stock of sugar can either be maintained by the factories as is being done now or by the Government by purchasing sugar from market as is done in the case of wheat or can be maintained by FCI/STC which can build up strategic stock by purchasing sugar from the open market in the years of surplus production of sugar. The Government can release this sugar for sale in the years of deficit sugar production. Such a system is in existence in China and is reported to be functioning very well.'

De-control of Sugar

3.23 The Committee have been informed that the Central Government has been following a policy of partial control and dual pricing for sugar. Under this policy, a certain percentage of sugar produced by sugar factories (raised to 20% for 2009-10 sugar season) is requisitioned by the Central Government as compulsory levy at a price determined by the Government for every sugar season. Levy sugar is distributed under the Public Distribution System (PDS) at a uniform retail issue price (at present Rs.13.50 per kg.) throughout the country. The non-levy sugar is allowed to be sold as per the monthly quota released by the Central Government under Regulated Release Mechanism. Import of sugar is free subject to payment of customs duty, countervailing duty and education cess. Export of sugar is allowed subject to release orders of the Central Government. The policy on export / import of sugar is decided having regard to the level of production achieved / likely to be achieved in a season.

3.24 The decontrol of sugar has two aspects viz., doing away with the regulated release mechanism and abolition of levy obligation on sugar factories. The possible advantages and disadvantages of de-control are given below -

Advantages

(i) This will enable sugar factories to sell sugar as per their commercial prudence.

(ii) This will give freedom to the State Governments / UTs to procure sugar as per their requirement and preferred sources.

(iii) It would simplify the system.

(iv) It would improve financials of sugar mills, as sugar mills supply levy sugar to the Governments at below the cost of production, which would, in turn, improve the capacities of sugar mills to pay remunerative cane price to sugarcane growers.

(v) It would eliminate litigation between sugar mills and the Central Government on levy sugar price issue.

(vi) It will help in better price discovery in future exchanges (futures trading in sugar has been suspended from 27.05.2009 upto 30.09.2010 and suspension will be revoked as and when considered appropriate) with higher participation of sugar factories and traders etc.

Disadvantages

(i) On decontrol of sugar, prices of sugar in the open market may decline initially and create problem of payment of cane prices to sugarcane growers.

(ii) Sugar factories may form cartels and restrict sale of sugar in the open market with a view to jack up sugar prices, especially when there is shortfall in production of sugar.

(iii) Procurement price of sugar for distribution in Public Distribution System, if continued, may increase substantially as sugar mills will be under no obligation to supply levy sugar at an ex-factory price fixed by the Central Government.

3.25 Asked whether there is any demand of total de-control of sugar from sugar industry and what are the views of farmers on the policy of de-control, the Committee were informed that Indian Sugar Mills Association (ISMA) and National Federation of Cooperative Sugar Factories Ltd (NFCSFL), apex bodies of private and cooperative sugar factories in the country, have represented to the Government for decontrol of sugar. The Government is yet to take a view on their request. However, the interest of all the stakeholders including those of farmers will be kept in view as and when the decision on decontrol of sugar is taken.

3.26 The Committee note that in order to mitigate the hardship of the sugarcane growers, the Government of India had created a buffer stock of 50 lakh tones of sugar for a period of one year in 2006-07, and 2007-08 sugar season when there was excess production of sugar. Subsequently, as the production of sugar declined, the Government did not consider it necessary to maintain the buffer stock of sugar. The plea of the Government that to build up the buffer stock of sugar, the Government have to bear carrying cost for the maintenance which would impose heavy burden on the Government exchequer is not acceptable to the Committee. The Committee observe that the country has imported a large quantity of sugar during 2008-09 when there was a heavy shortfall in production. The Committee, therefore, strongly recommend the Government to review its buffer stock policy with regard to sugar. The Committee are of the opinion that the buffer stock of sugar is very much essential not only to meet the requirement of PDS, but also to meet crisis situation in the years of deficit sugar production. The Committee concur with the views of Prof. Abhijit Sen, Member Planning Commission and National Federation of Cooperative Sugar Factories Ltd. and desire that the Government should take appropriate measures to maintain a strategic stock of sugar.

3.27 The Committee note that the Government of India is following a policy of partial control and dual pricing for sugar under which 20% of the levy sugar is requisitioned by the Government for distribution to targeted people under PDS at a price of Rs. 13.50 per kg and rest of the 80% as the non-levy sugar, allowed to be sold by the sugar mills to States/UTs under Regulated Release Mechanism. The Committee are of the opinion that if entire control on the manufacturing and distribution of sugar is removed, the Public Distribution System (PDS) scheme would be adversely affected as the sugar mills would be under no obligation to supply levy sugar at ex-factory price fixed by the Central Government. Besides, sugar mills may take benefits of decontrol and stock sugar in their godowns with a view to jack up the sugar prices, especially when there is shortfall in production of sugar. The Committee feel that the country is already facing the problem of deficit production of sugar and decontrol of sugar will add fuel to the fire. The Committee, therefore, recommend that the Government should not adopt the concept of de-control and de-regulation of sugar as it may not be in the interest of farmers as well as consumers.

Import/Export of Sugar

3.28 The data with regard to import/export of sugar during the last five sugar seasons is given below:

Import of Sugar

Sugar Year (Oct. – Sept.)	Quantity (In Lac MTS)
2004-05	9.77
2005-06	0.10
2006-07	0.005
2007-08	0.004
2008-09	25.18
2009-10 (upto 3rd June)	36.36

Export of Sugar

Sugar Season (October-Sept.)	Quantity (In Lac MTs)
2004-05	0.69
2005-06	15.039
2006-07	24.90
2007-08	58.23
2008-09	2.165
2009-10 (upto February 2010)	0.183

3.29 At present, the central Government does not have any plan to import sugar during the year 2009-10 on its account. However, Sugar mills/Merchant importer-exporters including State Trading Corporation of India Ltd (STC), Metals and Minerals Trading Corporations Ltd (MMTC), Project equipment Corporation Ltd (PEC) and National Agricultural Co-Operative Marketing Federation of India Ltd (NAFED), are free to import duty free raw/white and refined sugar upto 31-12-2010 without any quantitative cap as per their commercial prudence.

3.30 During evidence, the Committee pointed out that on the one hand the Government is importing sugar to meet shortages, on the other the

Government is exporting the sugar. To this, the representative of Department of Food and Public Distribution responded that

> 'There are certain bilateral agreements between India and neighbouring countries and other treaty obligations under which sugar has been allowed to be exported this year. But the quantities have come down drastically and it is not much, hardly 2 lakh tones and about 20,000 tonnes.'

3.31 The Committee pointed out that one of the reasons for less availability of sugar is export of sugar in large quantity and suggested that a clause may be inserted in the Bilateral Agreement that in the event of shortage, India may not be able to fulfill its commitment to supply sugar. The Additional Secretary, Department of Food & Public Distribution stated during evidence:-

> 'Bilateral agreements are entered into by the Ministry of External Affairs. They take inputs from various Ministries. We also give them inputs. We have given this input. This is a very good suggestion that we can put a clause in case of any shortage. We would probably request them that we would not be able to export.'

3.32 The Committee are pained to note that while on the one hand, the country faced the deficit of sugar stock in the country due to less production of sugarcane in 2008-09 and 2009-10, on the other hand, the country also exported sugar during this period. The Committee have been informed that there were certain bilateral agreements between India and neighbouring countries and treaty obligation under which sugar was allowed to be exported. In the opinion of the Committee, there should not be any obligation to export the sugar when there is crisis in the country. The Committee feel that there is need to insert a clause in the Bilateral Agreement that in the event of acute shortage, India may not be able to fulfill its commitment to supply sugar to these countries. The Committee, therefore, recommend that the nodal ministry should take up the matter with the Ministry of External Affairs to put a clause in the bilateral agreements to exempt the country from its export obligations in case of shortages.

CHAPTER IV

PRICING OF SUGAR

4.1 Under section 3 (3C) of the Essential Commodities Act, 1955, the price of levy sugar (up to sugar season 2008-09) is required to be determined by the Central Government having regard to–

(a) the minimum price, if any, fixed for sugarcane by the Central Government under this section;
(b) the manufacturing cost of sugar;
(c) the duty or tax, if any, paid or payable thereon; and

(d) a reasonable return on the capital employed in the business of manufacturing of sugar.

4.2 However, Section 3(3C) of Essential Commodities Act, 1955 has been amended vide notification dated 22.12.2009 for determination of price of levy sugar from 2009-10 sugar season having regard to-

(a) the fair and remunerative price, if any, determined by the Central Government as the price of sugarcane;
(b) the manufacturing cost of sugar;
(c) the duty or tax, if any, paid or payable thereon; and

(d) a reasonable return on the capital employed in the business of manufacturing of sugar.

Price of non-levy (free-sale sugar)

4.3 The Central Government does not fix the price of non-levy sugar which is market driven and influenced by various factors like production, supply, demand, international prices and market sentiments & expectations etc.

Price of raw sugar

4.4 Raw sugar is not fit for direct human consumption; as such, it is not allowed to be sold in the market for consumption. Raw sugar is input for production of white / refined sugar.

4.5 The Levy price of sugar for distribution under PDS throughout the country has been Rs.13.50 per kg. since 01.03.2002. The range of retail price of sugar in the four metropolitan cities viz. Delhi, Mumbai, Koklata and Chennai during the last three sugar seasons 2006-07, 2007-08, 2008-09 and 2009-10 (upto June) has been as under:

Sugar season	**Delhi**	**Mumbai**	**Kolkata**	**Chennai**	**All four centers**
2006-07	16.00-21.00	15.50-21.00	16.00-21.00	14.00-18.00	14.00-21.00
2007-08	16.00-22.00	16.50-21.50	16.00-17.00	14.00-21.00	14.00-22.00
2008-09	20.00-34.00	19.50-35.00	19.50-32.00	19.00-33.00	19.00-35.00
2009-10*	30.50-47.00	31.00-44.00	30.00-45.00	30.00-42.00	30.00-47.00

4.6 When enquired about the factors responsible for rise in prices of sugar, the Ministry informed that the mismatch between domestic production and demand for sugar is primarily responsible for rise in price of sugar. However, the rise in prices in mid December, 2009 and first week of January,2010, was mainly due to following reasons –

(i) Increase in international prices of raw and white/refined sugar;

(ii) Rumours of very low domestic production of sugar in the current sugar season; and

(iii) Restrictions on movement and transportation of imported raw sugar in the State of U.P.

4.7 When asked about the corrective steps taken/being taken by the Government to check the sugar prices and to increase sugar production and availability in the country, the Ministry stated that the Central Government has taken the following steps to augment domestic stocks of sugar and also to moderate its prices in the open market :-

(a) Allowed duty-free import of raw sugar under Advance Authorization Scheme by sugar mills on ton-to-ton basis with effect from 17.02.2009 upto 30.09.2009.

(b) Allowed duty-free import of raw sugar by sugar mills under Open General License with effect from 17.04.2009 and opened up to private trade from 31.07.2009 for being processed by domestic factories on job basis. Presently, this facility is in force upto 31.12.2010.

(c) Allowed duty-free import of white/refined sugar by STC/MMTC/PEC and NAFED upto 1 million tons with effect from 17.04.2009 and opened up to other Central/State Government agencies and private trade in addition to existing designated agencies with effect from 31.07.2009. Presently, this facility is in force upto 31.12.2010 with out any quantative cap.

(d) Levy obligation has been removed in respect of all imported raw sugar and white/refined sugar. The white/refined sugar has been also allowed to be sold at the discretion of the importing organizations, but sugar processed from imported raw sugar is subject to accelerated releases.

(e) States have been requested to waive VAT on imported white/refined sugar so as to make the imports competitive.

(f) The levy obligation on sugar factories has been enhanced from 10% to 20% of production for 2009-10 sugar season only.

(g) Stockholding and turnover limits on sugar dealers were imposed vide notification dated 12.03.2009. Further, khandsari sugar has been brought under the ambit of stockholding and turnover limit from 16.07.2009. Presently these limits are in force upto 30.09.2010.

(h) An order has been issued vide notification dated 22.08.2009 imposing stockholding on large consumers of sugar who are using or consuming more than ten quintals of sugar per month as a raw material for production or consumption or use, stipulating that such bulk consumers shall not hold sugar stock exceeding fifteen days of their requirement. The notification has come into effect from 19.09.2009. The stockholding limit has been lowered to ten days, and the revised limit has been notified on 05.02.2010 which has come into effect from 20.02.2010 and will continue for a period of 180 days thereafter i.e. upto 18.08.2010.

(i) Futures trading in sugar in domestic exchanges has been suspended by the Forward Markets Commission(FMC) w.e.f 27th May 2009 to curb any possible speculative tendency. Currently, this is in force upto September, 2010.

(j) Monthly quotas of non-levy sugar for sale by sugar mills in open market, have been sub-divided into fortnightly and periodically weekly targets for sale to ensure even flow of sugar into open market.

4.8 During evidence, the representatives of Department of Food and Public Distribution gave overview of the price situation of sugar in the country as under:-

> ‘Sir, sugarcane being a cash crop and being linked with the prices of sugar in the domestic as well as international markets, undergoes a typically four to five year long cycle in India. Over the last 50 to 60 years, we have not been really able to regulate it, although some efforts have been made lately to regulate this. So, what happens is that when the sugar prices are high, the farmers also get good prices for the cane supplied to the sugar mills in that particular year which leads to the rise in area which is witnessed for the next two years. It is because first they will plant more cane in that particular year, in which high prices are there which will yield a higher harvest next year for production of sugar and sugarcane. Next year also, the same situation continues to a large extent which leads to carry over of the planted crop in the first year to the third year as ratoon crop and second year also similar high proportion of plantations take place. So, the rise typically lasts for two to two and a half years in the production cycle and that in turn leads to over abundance of sugar produced and in course of time, it reduces the prices of sugar. When this happens, there are problems in payment to the farmers because of the delays, etc. which takes place. Although there are legal provisions for quick recovery etc. of the arrears and that in turn also effects shifting of acreage

from cane to other crops as had happened in some parts in 2007-08 leading to less harvest in the subsequent years. Now, this in turn causes great reduction in production of sugar. As a result of which the prices go up and again after another one year or two years of shortage which persists. The cycle repeats all over again. Presently, we are just coming out from a shortage situation in the last two years, the current year which is expiring in September also is a shortage year but we anticipate that the coming year starting 1st October, 2010, to be a balanced year when the prices of sugar will neither be too high nor the cane prices too low so that our production and consumption of sugar will be more or less balanced. But in the year thereafter in 2011-12 starting from October 2011, we anticipate again a huge surplus in cane and sugar production and therefore lower prices and attendant problems.'

4.9 The Committee pointed out that the prices of sugar in the open market has increased sky high but no concrete steps has been taken by the Department to bring down the prices. The Secretary, Department of Food and Public Distribution stated during briefing as under:-

'We are not regulating the price. It is a free market economy, demand and supply driven, except for the levy sugar. For PDS, there is a control on prices. For others, there is no price control.'

4.10 The Additional Secretary, Department of Food and Public Distribution also informed the Committee during evidence that they have no mandate to control the sugar prices. On this, the Committee enquired whether market intervention to control the prices has totally failed, the Additional Secretary replied:-

'It is not correct to say that market intervention has totally failed. In fact, if you see the prices of the last few months, the sugar prices have come down. But the fact remains that we have to have a policy and, as the Chairman has said, we have to have a long-term policy. I would agree with you that this problem is not only with sugarcane. Even in other crops like potato and wheat this happens. When the farmer gets better price for potato one year, then everybody produces

> potato next year and then there is a glut and so the prices crash. Similarly, in sugarcane, if you give remunerative price to farmers, more and more farmers produce sugarcane and next year there is surplus. So, there is a need for collecting agricultural intelligence as to how much production increase will take place over a long time. If you so desire and order, then we can have a committee of two or three Ministries and that committee can sit together and decide as to what measures can be taken so that we can stabilize the production areas and thereby we can also stabilize the prices.'

4.11 On being suggested that for availability of sugar at a reasonable price to common man, the Government should increase the percentage of levy sugar and also to increase the coverage of the PDS so that ordinary consumer would be benefited, the Secretary, Department of Food and Public Distribution responded during evidence:-

> 'We shall examine that. There is, of course, an element of pricing involved in it and perhaps subsidy too involved. But we would certainly look into this if it is the recommendation of the Committee that we cover every household.'

4.12 The Committee pointed out that one of the reasons for rise in price of sugar is the hoarding and blackmarketing of sugar and asked to clarify the steps taken by the Govt. against the hoarding and blackmarketing which create artificial scarcity of sugar in the market. The Department in a note furnished to the Committee has stated that to check the hoarding and blackmarketing of sugar which create artificial scarcity of sugar in the market, the Central Government has imposed stockholding and turnover limit on recognized dealers of sugar and khandsari. As per the reports received from the State Governments/UT Administrations, the action taken under the Essential Commodities Act, 1955 during 2008 and 2009 are as under:

YEAR	No. of raids	No. of Persons arrested	No. of Persons prosecuted	No. of Persons convicted	Value of goods confiscated (Rs. in Lakhs)
2008	268775	8001	6425	790	6095.22
2009	188119	8707	4848	118	18878.28

4.13 The detention orders made by the State Governments year-wise and state-wise during 2008 and 2009 are given as under:

Name of the State	2008	2009
Gujarat	16	31
Tamil Nadu	141	112
Orissa	01	02
Maharashtra	-	02
Andhra Pradesh	04	-
Total	**162**	**147**

4.14 The State-wise details of quantity of sugar seized and persons arrested, prosecuted and convicted under the " Essential Commodity Act 1955" and Prevention of Blackmarketing of Essential Commodity Act during the last 2 years is as under:-

Andhara Pradesh – A quantity of 11517.49 quintals of sugar worth Rs.3.22 crore seized during the period January,09 to December,09 and cases have been filed against the erring sugar dealers.

Chattisgarh A quantity of 4,261 quintals of sugar seized.

Karnataka - A quantity of 996 quintals of sugar was confiscated from a hoarder and the case is sub-judice.

Gujarat - A quantity of 32309 quintals of sugar worth Rs.11.57 crore was seized.

Madhya Pradesh - A quantity of 56535 quintals of sugar seized.

Maharashtra - A quantity of 396114 quintals of sugar seized from sugar dealers out of which 181133 quintals of sugar has been confiscated.

Punjab - Massive raids were conducted and a quantity of 147402.5 quintals of sugar were seized in the districts of Amriatsar, Ludhiana and Patilala.

Rajasthan - A quantity of 7418.71 quintals of sugar was seized.

Tamil Nadu - A total quantity of 1651 quintals of sugar was reported as excess stockholding in the districts of Ramnathapurama and Vellore.

Uttar Pradesh - In January,2010, 1,20,000 quintals and 4195 quintals of sugar were seized from Gaziabad and Hardoi respectively and cases have been filed against hoarders.

The States of **Assam, Bihar, Arunachal Pradesh, Uttar Pradesh and UT of Daman & Diu** have informed that no such case of hoarding are reported.

4.15 When enquired whether the Govt. propose to strengthen the Enforcement Machinery to take stringent action against the hoarders and blackmarketers who create artificial scarcity of sugar in the market, the Department stated that the States/ UTs are empowered to take stringent action against the hoarders and blackmarketers who create artificial scarcity of sugar in the market and they have field machinery for this purpose. The Standing Committee in its 2nd report has also recommended that '**……*the Government should strengthen its enforcement machinery to conduct raids on the godowns of traders and take stringent action against them in order to check hoarding and blackmarketing of sugar…..'*** The said recommendation of the Committee has already been forwarded to the State Governments/ UT Administrations.

4.16 When pointed out that the Government have no control on the hoarding of sugar because there is no definite law on hoarding, the people are not afraid of hoarding due to very little punishment for hoarding, the Secretary, Department of Food and Public Distribution stated during evidence as under:-

‘The laws are very stringent and they are very pernicious. What has to be done is enforcement which has to be done by the State Governments. Wherever the Government has taken strong and effective action against hoarders, price has come down. In Madhya Pradesh, where they have taken action against hoarders, the price of sugar came down by Rs. 3 per kg. immediately and in Punjab and Gujarat also, price of sugar came down because they have taken action against hoarders. So what is needed is strict enforcement of the law.’

4.17 The Committee express concern over the rising trend in prices of sugar during the last two years. The Committee have been informed that the mismatch between domestic production and demand for sugar is primarily responsible for rise in prices of sugar. The Committee also note from the information furnished to them that increase in international prices of raw and white sugar, rumours of very low domestic production of sugar and restriction on movement and transportation of imported raw sugar in the State of U.P. contributed to rise in the price of sugar during the period December 2009 to January, 2010. The Committee find that due to various measures taken by the Government, the prices of sugar have come down to some extent but the prices are still very high in the open market. The Committee feel that the cyclic nature of sugarcane production, which has been observed over the years, needs to be regulated. It has been observed that two to three years of very high/surplus production results in a glut in the market and crash of sugar prices, leading to shifting in cultivation from cane to other crops, in turn resulting in reduced production, shortage and consequent rise in sugar prices again. The Committee strongly desire that the Government should sincerely work for a long-term policy to deal with the problem. The Committee feel that with the help of scientifically gathered agricultural intelligence, the long-term production trends can be assessed and necessary steps taken to deal

with the situation. Such a task may involve concerted efforts on the part of a number of Departments/Ministries. The Committee strongly recommend that the Government should take immediate necessary steps in this direction so that long-term stabilization of sugar production and prices could be achieved.

4.18 The Committee note with concern that the Government is not serious to take action against the hoarders and blackmarketers who create artificial scarcity in the market. From the information furnished by the Government, the Committee find that the number of persons prosecuted and convicted under Essential Commodities Act, 1955 and Prevention of Blackmarketing and Maintenance of Supplies of Essential Commodities Act, 1980 is very low particularly in 2009. The Committee find that out of 1,88,119 raids conducted during 2009, only 4,848 persons were prosecuted resulting in the conviction of only 118 persons. The information furnished establishes clear slackness and failure on the part of the several States/UTs in taking stringent action against hoarders and blackmarketers who create artificial scarcity leading to price rise. The Committee strongly recommend that the Department should work for strengthening the enforcement mechanism and persuade the State Governments/UTs to conduct regular raids to check hoarding and blackmarketing.

CHAPTER – V

SUGAR DEVELOPMENT FUND

5.1 The Committee have been informed that financial assistance from the Sugar Development Fund is provided for general growth and development of sugar industry as per provisions contained in section 4 of the Sugar Development Fund Act 1982, as amended from time to time. Under the Sugar Development Fund Act, the Fund has to be utilized by the Government of India for the following: -

(a) Making loans for facilitating the rehabilitation and modernization of any sugar factory or any unit thereof;

(b) Making loans for undertaking any scheme for development of sugarcane in the area in which any sugar factory is situated, including to a potentially viable sugar undertaking.

(c) Making grants for the purpose of carrying out any research project aimed at the promotion and development of any aspect of Sugar Industry.

(d) Defraying expenditure to a sugar factory on internal transport and freight charges on export shipment of sugar with a view to promoting its export.

(e) Making loans to any sugar factory having an installed capacity of 2500 TCD or higher to implement a project of bagasse-based co-generation of power.

(f) Making loans to any sugar factory having an installed capacity of 2500 TCD or higher for production of anhydrous alcohol or ethanol from alcohol or molasses with a view to improving its viability.

(g) Defraying expenditure to a sugar factory for the purpose of building up and maintenance of buffer stock with a view to stabilizing price of sugar.

(h) Defraying expenditure for the purpose of financial assistance to sugar factories towards interest on loans given in terms of any scheme approved by the Central Government from time to time.

(i) Defraying any other expenditure for the purpose of the Act.

5.2 Since inception of SDF, large number of sugar factories both in the cooperative and in the private sector have benefited from loans under the scheme, which inter alia, have increased the production of cane and viability of the sugar mills.The overall performance of the Sugar Development Fund for the last three years is given below:-

(Rs.in lacs)

Sl. No.	Description/head of Account	Expenditure during 2007-08	Expenditure during 2008-09	Expenditure during 2009-10
1	Administration of Sugar Development Fund	38.93	998.00	971.60
2	Rehabilitation/Modernisation of Sugar Mills	12500.00	18249.27	27500.00
3	Sugar Mills for Cane Development	506.200	650.73	16000.00
4	Sugar Factories for bagasse based cogeneration power project	15000.00	25696.00	35000.00
5	Sugar Factories for production for Anhydrous alcohol or Ethanol from Alcohol	836.2	6000.00	9000.00
6	Reimbursement of Internal Transport & Freight to Sugar Factory on	8032.47	28500.00	28500.00
7	Subsidy for maintenance of Buffer Stock of Sugar	17618.85	27309.00	12394.00
8	Grants-in-aid for development of Sugar Industry 2408-01-02-00-31	27.69	34.74	11.61
9	Scheme for Extending Financial Assistance to Sugar Undertaking 2007	NIL	NIL	37683.00
	Total	**54560.34**	**107437.74**	**167060.21**

5.3 As regards the modernization of sugar mills to encourage them for more production of sugar, the Secretary, Department of Food and Public Distribution stated during evidence as under:-

> ‘We have a Sugar Development Fund from which we give assistance to sugar mills for modernization, for increasing capacity, for taking up manufacture of other products like ethanol or setting up distilleries, and also for cogeneration of power and of course, for cane area development. We give assistance. This year, we opened two special windows. One was that we provided for a separate loan assistance programme for sugar mills to be passed on immediately to the farmers for inputs for cane productivity. They could buy fertilizers, they could buy pesticides, they could look at better seeds and they could look at other package or practices so that productivity of sugarcane, which is already planted and which is being planted, improves. This loan was at a differential rate of interest of four per cent. Further, most of the sugar mills can process raw sugar only along with fresh cane juice. Normally the ratio is 80:20, that is, 80 per cent juice and 20 per cent raw sugar except for those mills, which have stand alone refineries or which have coal fired boilers. Because if the boilers are run on furnace oil when bagasse is not available, it is totally unremunerative. So ,we have also tried to encourage sugar mills for processing raw sugar to a larger quantity by giving them balancing equipment – loan for balancing equipment is also at four per cent – so that they can increase the mix of raw sugar and they can then also spread their cane for crushing over a longer period of time and use more of raw sugar simultaneously.’

5.4 Since inception of SDF, large number of sugar factories both in the cooperative and in the private sector have benefited from loans under the scheme, which inter alia, have increased the production of cane and viability of the sugar mills.

5.5 Applications are required to be received through the State Governments only in cases of SDF loans for Cane Development along with the recommendations of the State Government concerned. The details of applications received year-wise are as under:-

Year	**Number of Applications received**	**No. of Applications Pending**
2007-08	7	Nil
2008-09	10	1
2009-10	64	39
2010-11	8	8

State-wise details of pending applications:

2008-09	2009-10	2010-11 (upto 20.6.2010)
UP-1	Maharashtra – 4	Tamil Nadu-1
	Uttar Pradesh-25	Uttarakhand-1
	Madhya Pradesh-1	Uttar Pradesh-1
	Andhra Pradesh-1	Andhra Pradesh-2
	Haryana-1	Maharashtra-3
	Karnataka-5	
	Gujarat – 2	
	Total : 39	**Total: 8**

5.6 When enquired whether Government has any mechanism to ensure that money sanctioned is being utilized for the purpose for which it has been released, the Department in a note furnished to the Committee stated that implementation of projects for modernization/rehabilitation/ expansion of plant and machinery; bagasse based cogeneration of power projects and projects for production of ethanol undertaken by sugar factories, where SDF loans are given, are monitored on behalf of the Government by the Industrial Finance Corporation of India and the National Cooperative Development Corporation. The cane development scheme funded by SDF loan is monitored by the State Governments in which a sugar factory is situated. The performance of the schemes being implemented with SDF assistance is also reviewed frequently by the Standing Committee of the SDF chaired by the Secretary of the Department. The need for defraying expenditure under certain other heads like that for the maintenance of buffer stock and that for reimbursement of internal transport and freight charges on export shipments of sugar is monitored and reviewed in the Department. Utilization certificates for utilisation of the funds are taken for all the loans and subsidies disbursed, before any further funds are released to the sugar factory.

5.7 In order to further improve the monitoring and control over performance of cane development schemes funded from SDF, the

Government has further appointed agencies like IFFCO Foundation, National Federation of Cooperative Sugar Factories Ltd., Indian Sugar Mills Association and Vasant Dada Sugar Institute, Pune to monitor the same on behalf of the Government.

5.8 A statement indicating details of funds of SDF to be recovered as on 30.9.2009 from the sugar mills and total loans provided from Sugar Development Fund upto 28.2.2010 is as follows:-

(Figure in crore)

Sl No.	Name of the Scheme	Financial Assistance provided to sugar mills from SDF upto 28.2.2010	Outstanding SDF dues to be recovered from sugar mills as on 30.9.2009	
			Principal	**Interest**
1.	Loan for cane development	686.19	26.89	25.30
2	Loan for Modernization/ Rehabilitation	2014.67	280.73	318.65
3	Loan for Bagasse Based Co-generation Power Project	995.22	8.10	4.34
4	Loan for production of Alcohol/Ethanol	162.26	--	--
	TOTAL	3858.34	315.72	348.29

5.9 When enquired about steps taken by the Government to increase the recovery of fund, the Ministry informed as under:-

1) Letters have been issued from time to time to the defaulter sugar units advising them to liquidate overdues to avoid legal complications.

2) Under SDF Rule 26, a provision has been made for restructuring of loans of potentially viable sick undertakings.

3) Meetings have been held with major defaulters for liquidation of default.

4) SDF dues are being recovered out of claims of reimbursement of expenditure on export of sugar and buffer stock subsidy maintained by the sugar units. Upto Feb.2010 an amount of Rs.55,13,65,789/- and Rs.69,78,81,282/- respectively have been recovered from defaulting sugar mills.

5) The recovery of SDF dues was also taken up with the Ministry of Finance for deductions from the Normal Central Assistance to the State Governments in the cases where the State Governments have guaranteed the repayment of loan and there is a default. During the year 2008-09, the Ministry of Finance has adjusted/recovered Rs.306.31 crore of SDF dues from the Normal Central Assistance of the State Governments of Maharashtra, Uttar Pradesh and Punjab. Similarly, the dues of mills in 6 other states (Andhra Pradesh, Karnataka, Bihar, Madhya Pradesh, Assam and West Bengal) are under process with the Ministry of Finance for adjusting another Rs.57.06 crore which are outstanding as on 28.2.2010.

6) The Monitoring Agencies for SDF i.e. IFCI & NCDC have been advised to put in extra efforts for early recovery of defaults. Till now, the Agency Commission to the IFCI & NCDC was paid on outstanding SDF Loans (Principal + Interest). The terms and conditions of Agency Agreement have been changed from 2008-09 according to which the payment of Agency Commission will be partly based on amount recovered by IFCI/NCDC. This will also encourage the IFCI/NCDC to make more efforts for recovery.

SICK SUGAR MILLS

5.10 The Department have furnished the following statement showing the State-wise and Sector-wise number of sugar mills in operation during the sugar season 2009-2010 (As on 31.05.2010).

STATE	COOPRATIVE SECTOR	PUBLIC SECTOR/ STATE OWNED	PRIVATE SECTOR	TOTAL
1	**2**	**3**	**4**	**5**
PUNJAB	10		5	15
HARYANA	11		3	14
RAJASTHAN		1		1
UTTRAKHAND	4	2	4	10
UTTAR PRADESH	25	11	91	127

MADHYA PRADESH	3		7	10
CHATTISGARH	1			1
GUJARAT	17		1	18
MAHARASHTRA	109		30	139
BIHAR			9	9
ASSAM				0
ORISSA	2		2	4
WEST BENGAL			1	1
NAGALAND				0
ANDHRA PRADESH	9		26	35
KARNATAKA	15	2	34	51
TAMILNADU	15	2	20	37
PONDICHERRY	1		1	2
KERALA				0
GOA	1			1
ALL INDIA	223	18	234	475

5.11 The State-wise, Sector- wise number of sick sugar mills are given below:-

STATE	No. of sick sugar mills in private sector as provided by the BIFR (As on June, 2010)	No. of sick sugar mills in the cooperative sector as provided by the NABARD (as on 31.03.08)	Total
PUNJAB	1	8*	9
RAJASTHAN			
MADHYA PRADESH			
HARYANA		7*	7
MAHARASHTRA	2	57	59
UTTAR PRADESH	10	25	35
UTTATRA KHAND	1	4	5
ORISSA			0
WEST BENGAL			0
KERALA	1	1	2
NAGALAND			0
TAMILNADU	4	13	17
KARNATAKA	2	15	17
GUJARAT	1	7	8
ASSAM			0
BIHAR	1		1
ANDHRA PRADESH		8	8
			0
ALL INDIA	**23**	**145**	**168**

* In respect of sick sugar mills of cooperative sector in respect of Punjab and Haryana, the position is as on 31.03.06 as intimated by NABARD.

5.12 When asked about the main causes/reasons for sickness of the sugar mills, the Ministry informed that the main causes/ reasons for sickness of the sugar mills are non-availability of adequate raw material, poor recovery from sugarcane, uneconomic size, lack of modernization, up-gradation and diversification, high cost of working capital, declaration of high State Advised Price (SAP) of sugarcane by some States, control of molasses, lack of professional management, overstaffing etc.

5.13 As regards the steps taken by the Government to give financial assistance to the sick sugar mills to revive and equip them with modern machinery, the Committee was informed that Rule 21 of Sugar Development Fund Rules, 1983 provides that a potentially viable sick sugar undertaking shall be eligible for a loan for the modernization or rehabilitation of plant and machinery as well as for sugarcane development. The loan from the Fund should be recommended by the Board for Industrial and Financial Reconstruction or the Committee for Rehabilitation as the case may be, as part of the rehabilitation scheme for a potentially viable sick sugar undertaking. The scheme or project for such modernization or rehabilitation of its plant and machinery should be approved for financial assistance by a financial institution or a scheduled bank under its relevant scheme for a minimum of 20% of the project cost. SDF loan can be given up to 60% of the project subject to the sugar mill contributing at least 20% of the project cost. No application for SDF loan under Rule 21 has been received as yet in this Department during the last three years.

5.14 The Central Government has constituted a Committee under the chairmanship of Joint Secretary (Sugar) to consider proposals for rehabilitation of sick cooperative sugar mills. However, the concerned cooperative sugar mills have to prepare the rehabilitation plan and route it through the State Government. No application for restructuring of SDF loan from the cooperative sector has been received. As such, no proposal from the cooperative sector has been considered by this Committee. In case of private and public sector sugar mills, the proposal for sanction of loan from the Sugar Development Fund should be recommended by the Board for Industrial and Financial Reconstruction (BIFR).

5.15 When enquired as to why sick sugar industries are not utilizing the loan guaranteed by SDF, the Committee was informed that as per the provisions of SDF Rules, a sick undertaking is required to get a revival package approved by the BIFR in the case of private and public sector sugar factories and by the Committee on Rehabilitation (COR) in the case of Co-operative sugar mills, with a component of SDF assistance in the package. Loan is available from SDF both for cane development and rehabilitation/modernisation. The eligibility criteria for such loan to a potentially viable sick unit is quite favorable to the sugar factories in so far as loan up to 60% of the project cost (as against 40% in normal cases) can be given from SDF for rehabilitation/modernisation projects and the moratorium period for repayment can be decided by the Central Government on case to case basis (against a fixed moratorium period of 8 years in normal cases). Similarly for cane development loan, the 10% contribution required to be met by the sugar factory can be met by the concerned State Government also. The condition of approved revival package by BIFR/COR cannot be dispensed with in view of the fundamentals of financial propriety in the use of public funds. The procedural formalities regarding sanction of loan is in the public domain and is available on the web site of the Department of Food and Public Distribution - www.fcamin.nic.in.

5.16 The Committee note that Government of India has created Sugar Development Fund with a view to providing loan to sugar mills for the rehabilitation, modernization and development of sugar industry, carrying out research projects and production of anhydrous alcohol or ethanol from alcohol or molasses as well as building up and maintenance of buffer stock to stabilize price of sugar. The Committee are concerned to note that although a huge amount is released from the Sugar Development Fund every year both in the cooperative and private sector, yet a number of applications are still pending consideration for the year 2009-10 and 2010-11. The Committee have been informed that the Government have now opened two separate windows – one for separate loan assistance programme for sugar mills to be passed on immediately to farmers to buy seeds, fertilizers and pesticides to increase the production of sugar and another for loan at four per cent to encourage sugar mills for processing raw sugar to a large quantity by giving them balancing equipments. While considering it to be a right step, the Committee recommend that concerted efforts should be made for the disposal of pending applications so that the mills could utilize the funds for the intended purpose.

5.17 The Committee observe that loan from SDF is not given directly to farmers but it is disbursed to sugar factories who in turn pass on this loan to sugarcane farmers. The farmers thus remain at the mercy of sugar factories. The Committee find hardly any justification in giving the assistance for cane development schemes through sugar enterprises, especially when such functions are to be discharged by cane growers. The Committee feel that the farmers should be directly involved in such a programme. The Committee, therefore, recommend that the loan for cane development from SDF should be given directly to farmers so that they may get the best benefits of the scheme.

5.18 The Committee regret to note that despite various measures taken by the Government, there is no satisfactory improvement in the recovery of outstanding loans sanctioned to sugar mills from the Sugar Development Fund. The Committee observe that out of Rs. 3858.34 crore sanctioned upto 28.02.2010, an amount of Rs. 664.01 crore which includes Rs. 315.29 crore as principal and Rs. 348.72 crore as interest is still outstanding to be recovered from the sugar mills. The Committee, therefore, recommend that concerted efforts should be made to step up the recovery of the entire funds with interest by removing all procedural obstacles coming in the way of recovery.

5.19 The Committee note that there are 475 sugar mills in operation in the country and majority of them are located in Uttar Pradesh (127) and Maharashtra (139). Similarly, out of 168 sick sugar mills, 59 are in Maharashtra and 35 in Uttar Pradesh. The main causes of sickness of the sugar mills are stated to be (a) non-availability of adequate raw material (b) poor recovery from sugarcane (c) uneconomic size (d) lack of modernization (e) upgradation and diversification (f) high cost of working capital (g) declaration of high State Adversed Price (SA) of sugarcane by some States (h) control of molasses (i) lack of professional and management, overstaffing, etc. The Committee are concerned to note that despite the provisions of financial assistance from Sugar Development Fund for rehabilitation/modernization, sick sugar mills are not availing the benefits of the scheme. The Committee are of the opinion that the Government should view the revival of sugar mills seriously and encourage them to join the mainstream in production of sugar in the country. The Committee feel that the country is already facing the problem of scarcity of sugar thereby causing unexpected rise in its price in the open market. The Committee take a serious note of the fact that until and unless the causes of sickness of the sugar mills are resolved, the number of sick sugar mills may increase in future. The Committee, therefore, strongly recommend that the Government should improve its monitoring mechanism over the Sugar Development Fund and ensure that the

funds are released to sugar mills for their modernization so that the production of sugar is not hampered. The Committee also recommend that the Government should relax the conditions laid down in the rules so that maximum sick sugar mills could avail the benefit of the scheme.

CHAPTER – VI

CANE PRICE ARREARS

(Provisional)

STATEMENT SHOWING THE STATEWISE / ZONEWISE POSITION OF CANE PRICE PAYABLE, PRICE PAID AND OUTSTANDING FOR CANE PURCHASED DURING 2009-10 SEASON AS WELL AS ARREARS OF CANE PRICE AS ON

(FIG. IN LAKH RS.) -

STATE/ZONE	TOTAL PRICE PAYABLE FOR CANE PURCHASED DURING 2009·10 SEASON UPTO 30/04/2010	CANE PAID UPTO 30/04/2010 FOR 2009- SEASON	BALANCE CANE PRICE PAYABLE AS ON 30/04/2010 FOR 2009-10 SEASON	%AGEOF BALANCE PRICE PAYABLE OVER TOTAL PAYABLE	ARREARS OF CANE PRICE AS ON 30/04/2010 OR THE LATEST AVAILABLE DATE FOR SEASON		No. OF REPORTED	
					2008·09	2007-08 & EARLIER		
PUNJAB	42,368.56	42,357.82	10.74	0.03	0.00	0.00	16	23
HARYANA	50,970.30	50,333.57	636.73	1.25	0.00	0.00	5	16
RAJASTHAN	835.01	606.70	228.31	27.34	0.00	0.00	0	3
WEST UP	477,760.70	412,280.41	65,480.29	13.71	0,00	391.74	36	37
CENTRAL UP	525,867.25	491,666.90	34,200.35	6.50	0.00	1,170.07	52	58
EAST UP	311,709.32	310,921.74	787.58	0.25	81.46	6,162.78	43	61
TOTAL UP	1,315,337.27	1,214,869.05	100,468.22	7.64	81.46	7,724.59	131	156
UTTARAKHAND	31,516.26	25,631.27	5,884.99	18.67	0.00	629.73	I	10
MADHYA-PRADESH	5,838.70	5,749.12	89.58	1.53	0.00	1,061.67	0	16
CHATTISGARH	0.00	0.00	0.00	0.00	0.00	0.00	0	I
soum GUJARAT	137,924.94	107,481.33	30,443.61	22.07	0.00	1,197.61	17	18
SAURASHTRA	7,576.34	7,462.34	114.00	1.50	0.00	0.00	2	5
TOTAL GUJARAT	145,501.28	114943.67	30,557.61	21.00	0.00	1,197.61	19	23
SOUTH MAHARASHTRA	388,859.75	386,131.02	2,728.73	0.70	0.00	250.41	47	48
NORTH MAHARASHTRA	232,682.58	230,862.29	1,820.29	0.78	36.12	1,604.98	78	91
CENT·MAHARASHTRA	495,767.14	493,327.49	2,439.65	0.49	0.00	195.97	55	61
TOTAL MAHARASHTRA	1,117,309.47	1,110,320.80	6,988.67	0.63	36.12	2,051.36	180	200
NORTH BIHAR	53,842.46	53,283.41	559.05	1.04	20.71	3,853.87	14	25
SOUTH BIHAR	0.00	0.00	0.00	0.00	0.00	0.00	0	3
TOTAL BIHAR	53,842.46	53,283.41	559.05	1.04	20.71	3,853.87	14	28
ASSAM	0.00	0.00	0.00	0.00	0.00	0.00	0	3
ANDHRA PRADESH	109,712.74	99,507.83	10,204.91	9.30	0.00	3,309.32	38	43
KARNATAKA	447,734.00	409,000.00	38,734.00	8.65	146.00	2,624.00	60	63
TAMILNADU	175,056.57	161,082.36	13,974.21	7.98	24.54	215.94	40	45
KERALA	0.00	0.00	0.00	0.00	0.00	384.74	0	2
ORISSA	3,291.76	3,251.23	40.53	1.23	0.00	0.00	I	8

WEST BENGAL	588.00	582.30		5.70	0.97	0.00	0.00	0	3
NAGALAND	0.00	0.00		0.00	0.00	0.00	0.00	0	I
PUDUCHERRY	2,300.31	2,300.31		0.00	0.00	0.00	0.00	2	2
GOA	1,403.39	1,403.39		0.00	0.00	0.00	0.00	I	I
	._ .. '.,'-								
ALL INDIA TOTAL	3,503,606.08	3,295,222.83		208,383.25	5.95	308.83	23,052.83	508	647
						• •••••••• NIC-FCA INFOSYS DIVISION •••••••••			

6.2 The Committee have been informed that the basic reasons for not making timely payment to the sugarcane growers by the mill owners are that in the years of high production of sugar, sugar prices decline which constrains the capacities of sugar mills to pay cane price in time and leading to cane price arrears. One of the reasons for high production of sugarcane and sugar is the scarcity induced high prices of sugarcane and sugar in years of deficit production which incentivises higher plantation and leads to bumper production of sugar in subsequent years leading to steep price drop. High cost of production of sugar due to high sugarcane prices and low recovery rates, render independent exports (without state support) uneconomical to sugar mills, which is also compounded by decline in international prices due to India's large weight in world sugar production. High State Advised Prices providing state price support for growing sugarcane in comparatively expensively producing areas of sugarcane, also compounds the problem of cane arrears in those States. Lack of growth in productivity of sugarcane in the last two decades and consequently low output per unit of area, affects the income of farmers leading to increasing demands for enhanced prices, and adding to the problem of arrears in years with low sugar prices due to over-production.

6.3 The Sugarcane (Control) Order, 1966, contains the necessary provisions for action against defaulting sugar mills and the powers in this regard are delegated and vested with the State Governments concerned who have the necessary field formations. The action taken by the State Governments against such sugar mills is not available.

6.4 The problem of cane price arrears arises when there is excess production of sugar. During 2006-07 and 2007-08 sugar seasons, there was high production of sugar and the Government took the necessary initiatives to ensure that the excess production of sugar does not lead to excessive cane price arrears i.e. a buffer stock of 50 lac tons was created; export assistance for export of sugar was extended; and a novel scheme under the title '**Scheme for extending financial assistance to sugar undertakings 2007'** was formulated.

6.5 The problem of cane price arrears normally arises when the sugar mills do not get fair realization on their sale of sugar, which in turn, affects their capacity to pay cane price to sugarcane growers. This happens when there is excess production of sugar and also partly when State Governments fix high State Advised Prices.

6.6 The Central Government regularly monitors payment of cane price by sugar mills to cane growers and maintain data on cane price arrears. The State Governments/sugar mills are required to send a fortnightly report on the total cane price due, total cane price paid, and cane price arrears payable for the current sugar season as well as the previous sugar seasons to the Directorate of Sugar. There is no provision under the Sugarcane (Control) Orders 1966 to declare a mill as defaulter due to non-payment of cane price arrears.

6.7 During evidence, the Committee wanted to know the steps taken by the Government to decrease the cane price arrears from the sugar mills, the Secretary, Department of Food and Public Distribution stated as under:-

> 'The Government took a series of measures. You would recall that the Government at that time had taken up measures like, for example, interest subvention. If the sugar mill was taking a loan and the interest was being subvented so that there could be more payment to the farmers.'

6.8 She further added:-

> 'The State Government would announce their State Advised Price. We have, on the request of the State Governments, withdrawn that provision wherein we said that the State Governments, if they announce the SAP, they would have to bear the burden themselves. That was really because while the State Governments are fixing the SAP but that SAP was not really being paid by mills immediately. The sugar mills were obliged to pay the Statutory Minimum Price within 14 days. But the difference between the SAP and the SMP was continuing as arrears. So, effectively on paper, notionally the farmers were being shown as getting so much of money but that money was never coming to them. Now, with this F&RP, the sugar mill is obliged to pay the price upfront immediately, the moment it takes cane. So, this is, definitely, a very, very pro-farmer measure.'

6.9 When asked about the reasons for difference between SMP and the SAP as arrears, the Secretary stated:-

> 'Sir, the law says that the Statutory Minimum Price should be paid within 14 days failing which it would accrue interest and it would be recoverable as arrears of land revenue. Now, for the State Advised Price, the law does not mandate anything specifically. The very word says, it is the State Advised Price, So, it is not statutory; it is an advised price. Effectively, the sugar mills were compelled to pay SMP.'

6.10 To a query whether any mill owner paid the arrears with interest, the Secretary stated that as per provision, District Magistrate are empowered to recover the cane price arrears from sugar mills in the form of arrears of land revenue.

6.11 When asked whether the Government impress upon the State Government at highest level to make payment of the dues where the State has given the Government guarantee, the Department stated that the issue of payment of dues is taken up at the level of the Chief Secretary of the States, which have stood guarantee for the loan. It is only after taking up the matter with the State Governments that the Ministry of Finance is moved for making adjustments out of Plan fund assistance to the States for recovery of outstanding dues.

6.12 The Committee are pained to note that arrears to the tune of Rs. 2084 crore for the sugar season 2009-10 are still outstanding. The Committee desire that the Government should take appropriate action under 'Sugarcane (Control) Order, 1966' under which Central/State Government Officers are authorized to recover the arrears of cane price remaining unpaid after 14 day's supply of cane by the growers, together with interest @ 15% per annum. The Committee would also like to be apprised of the details of sugar mills which are still to liquidate their outstanding arrears against the farmers and the reasons for not paying outstanding arrears along with interest. The Committee feel that the interest of farmers should be protected in such a manner that they continue to cultivate sugarcane without any hindrance. For achieving this, the Committee recommend that all incentives/aids/assistance provided to sugar mills should be contingent upon the liquidation of cane arrears with interest from the mills. In defaulter case, no funds should be released.

NEW DELHI
25 AUGUST, 2010
3 Bhadrapada, 1932 (Saka)

VILAS MUTTEMWAR
Chairman,
Standing Committee on Food,
Consumer Affairs and Public Distribution

MINUTES OF THE TENTH SITTING OF THE STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION HELD ON THURSDAY, 4TH FEBRUARY, 2010.

The Committee sat from 1500 hrs to 1710 hrs in Committee Room 'B', Parliament House Annexe, New Delhi.

Present

Shri Vilas Muttemwar - Chairman

Members

Lok Sabha

2. Smt. Harsimrat Kaur Badal
3. Shri Kamlesh Balmiki
4. Shri Arvind Kumar Chaudhary
5. Shri Sanjay Singh Chauhan
6. Shri Marotrao Sainuji Kowase
7. Shri Puranmasi Ram
8. Shri Laxman Tudu

Rajya Sabha

9. Smt. T. Ratna Bai
10. Shri Lalhming Liana
11. Shri Kanjibhai Patel
12. Shri Rajniti Prasad
13. Shri Matilal Sarkar
14. Shri Kaptan Singh Solanki

Secretariat

1. Shri P.K.Misra - Joint Secretary
2. Smt. Veena Sharma - Director
3. Shri Jagdish Prasad - Deputy Secretary

Representatives of the Department of Food and Public Distribution

Sl No.	Name		Designation
1.	Smt. Alka Sirohi	-	Secretary
2.	Shri Chaman Kumar	-	AS & FA
3.	Dr. Joy I. Cheenath	-	Joint Secretary
4.	Shri N. Sanyal	-	Joint Secretary
5.	Shri Naveen Prakash	-	Joint Secretary
6.	Shri Abinash Verma	-	Director
7.	Shri Arvind Kumar	-	Director (Policy
8.	Shri R.P.Bhagria	-	CD (Sugar)

2. At the outset, Hon'ble Chairman welcomed the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) to the sitting of the Committee convened to have briefing on the subject 'Production, Consumption and Pricing of Sugar' selected for examination during 2009-10. In his opening remarks, the Chairman asked the Secretary to brief the Committee on some of the important issues related to the subject specifically, steps initiated by the Department for increasing the production of sugar in the country, stabilizing the constant rising prices of sugar, new schemes/incentives for encouraging the farmers to go in for more sugarcane production, timely payment of cane price to the farmers, liquidation of the existing cane price arrears, production of ethanol by the sugar mills, to educate the sugar mills to avail loans for various schemes from the Sugar Development Fund (SDF), revival of sick sugar mills, to prevent black-marketing and hoarding of sugar, etc. The Secretary gave a brief overview of the subject and also

on various points raised by Hon'ble Chairman. Explaining the reasons for big shortfall in the production of sugar, the Secretary stated that the MSP for wheat and rice was more attractive than that of sugarcane and since the alternative crops were more remunerative, there was shift in acreage from sugarcane to other crops. The productivity also came down sizably because of unseasonal rains and lack of rains. Explaining the measures taken by the Government to increase the availability of sugar, she stated that imports of sugar were incentivized to ensure that adequate stocks of sugar were available. Apart from this, the MMTC, FCI, STC and NAFED have also been allowed to import refined sugar on zero duty. Now they have also been encouraged to import raw sugar and process it in the sugar mills to cut the processing cost. The Secretary also explained about the parity between the domestic and the imported price.

3. While expressing concern over the constantly soaring price of sugar, the Committee observed that at the time of crisis, the organized industries such as beverage industry such as coca-cola and pepsi, confectionery and bakery industry, alcohol industry etc. which are the bulk consumers, should be asked to directly import sugar so that they do not make bulk purchase of sugar from the domestic market and cause hardship to the common man. There should be control on their purchase from domestic market and a stock holding limit of less than 15 days on what they get from open market should also be imposed. The Committee also observed that there is need to check blackmarketing and hoarding of sugar and also to take strict action against the traders/hoarders who create artificial scarcity in the market to earn heavy profit. The Members were of the view that the percentage of levy sugar may be increased so that more sugar may become available for distribution through Public Distribution System.

4. The representatives of the Department responded to the queries raised by the Members of the Committee. On some of the points on which the information was not readily available, the Committee asked the witnesses to furnish the written replies to the Secretariat at the earliest.

A verbatim record of the proceedings has been kept.

The Committee then adjourned.

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MINUTES OF THE NINETEENTH SITTING OF THE STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION HELD ON MONDAY, 28TH JUNE, 2010.

The Committee sat from 1200 hrs to 1330 hrs in Committee Room 'B', Parliament House Annexe, New Delhi.

Present

Shri Vilas Muttemwar - Chairman

Members

Lok Sabha

2. Smt. Harsimrat Kaur Badal
3. Shri Kamlesh Balmiki
4. Shri Tarachand Bhagora
5. Shri Shivraj Bhaiya
6. Shri Arvind Kumar Chaudhary
7. Shri Sanjay Singh Chauhan
8. Shri Anant Gangaram Geete
9. Shri Lal Chand Kataria
10. Shri Marotrao Sainuji Kowase
11. Shri Puranmasi Ram

Rajya Sabha

12. Smt. T. Ratna Bai
13. Shri Lalhming Liana
14. Shri Shantaram Laxman Naik
15. Shri Kanjibhai Patel
16. Shri Rajniti Prasad
17. Shri Ram Narayan Sahu
18. Shri Kaptan Singh Solanki

Secretariat

1. Shri P.K.Misra - Joint Secretary
2. Smt. Veena Sharma - Director
3. Shri Jagdish Prasad - Additional Director

Witnesses

Department of Food and Public Distribution

Sl No.	Name		Designation
1.	Shri Desh Deepak Verma	-	Addl. Secretary & FA
2.	Shri N. Sanyal	-	Joint Secretary (Sugar)
3.	Shri C.Viswanath	-	Joint Secretary (BP&PD)
4.	Shri R.P.Bhagria	-	Chief Director (Sugar)
5.	Shri Adhir Jha	-	Director (SDF)
6.	Shri Ranjan Sehgal	-	Director (Finance)
7.	Shri Kalyan Negi	-	Director (Cost), Directorate of Sugar

Food Corporation of India

	Shri Siraj Hussain	-	Chairman cum Managing Director

Department of Agriculture &Co-operation

	Shri Rajeev Lochan	-	Advisor, Dte.of Economics & Statistics

Indian Council of Agricultural Research

	Dr. K.C. Jain	-	Asstt. Director General

Department of Consumer Affairs

	Dr. Kewal Ram	-	Sr. Economic Advisor

Ministry of Petroleum and Natural Gas

	Ms. Rashmi Agarwal	-	Director

Ministry of Commerce & Industry

	Ms. Aditi Das Raut	-	Director

BIFR

Shri Gajendra Bhujbal - Secretary

NABARD

Shri M.S.Rathore - DGM

2. At the outset, Hon'ble Chairman welcomed the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) and other Ministries/Departments to the sitting of the Committee convened to take evidence on the subject 'Production, Consumption and Pricing of Sugar' and drew their attention to Direction 55 (1) of the Direction by the Speaker. In his opening remarks, Hon'ble Chairman raised various issues related to the subject, viz. steps taken to increase the production of sugar in the country, stabilizing the rising prices of sugar, de-control policy of sugar, sick sugar industry, Sugar Development Fund, direct use of sugarcane for production of ethanol and cane price arrears, etc.

3. While responding to the observation made by the Chairman, the representative of the Department of Food and Public Distribution stated that there was decline in production of sugar in the year 2008-09 and 2009-10 as compared to the year 2007-08. He further stated that starting from October 2011, huge surplus in cane and sugar production is again anticipated and, therefore, the prices of sugar will also come down. The following main points were also discussed during the evidence at length:-

(i) Sugar availability and price situation

(ii) Decrease in the area of cultivation of sugarcane

(iii) Change in the policy to prevent rise in price of sugar

(iv) Production of Gur and Khandsari

(v) Bilateral agreement between India and neighbouring countries under which sugar is allowed to be exported.

(vi) Areas to divert sugarcane and steps to prevent diversion of sugarcane

(vii) Market interventions to control prices of sugar

(viii) Buffer stock of sugar

(ix) Demand of sugar in soft drinks and biscuit industries.

(x) Use of various by-products of sugar industry

4. The witnesses resolved to the queries raised by the Members. The Chairman then thanked the witnesses for appearing before the Committee and sharing their views with the Committee in a free and frank manner. They were asked to send the written replies to points on which the information was not readily available with them.

A verbatim record of the proceedings has been kept.

The Committee then adjourned.

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