Ethanol, which is at three per cent, could be easily raised to 10 per cent for which it needs 130 crore litres.

Ethanol, which is a plentiful product in the sugar manufacturing process and is blended with petrol, can be a vital revenue earner for the mills.

According to Abhinash Verma, Director General Indian Sugar Mills Association (ISMA), ethanol blending is only at around 3 per cent. It could easily be raised to 10 per cent for which around 130 crore litres of ethanol would be consumed, he pointed out.

“Even at 100 crore litres, it will reduce sugar surplus by 1.7 million tonnes,” Mr. Verma said.

Mr. Verma felt that the government should do away with the 12.5 per cent excise duty on ethanol to further incentivise its use.

“However, if mills sacrifice their sugar, they should be compensated for loss of revenue at around Rs.7 more a litre. The mill-gate price of Rs.41 per litre is not remunerative enough as oil marketing companies (OMCs) pay Rs.48.5-Rs.49.5 a litre, including levies and taxes. This, though, will be a long-term solution.”

The sugar industry feels that increasing the import duty on sugar from the current 25 per cent to 40 per cent will be a solution for the longer-term.

Record sugar output

Under normal circumstances, a record output will be a reason for cheer. But sugar mills across the country have little to celebrate their fifth surplus year as the Indian sugar industry finds itself in an unenviable position.

Mr. Verma said sugar prices had been declining while the price of sugarcane had been steadily increasing rendering the operations of sugar mills unviable. “Clearly, any industry where the cost of the final product is lower than the cost of the input for a sustained period is heading for a disaster,” he said.

Worryingly, ex-sugar mill prices fell by Rs.8-9 a kg, in the last six months from the start of the sugar season – their lowest level in seven years and are below the cost of production by Rs.7,000-9,000 a tonne.

“The ex-mill prices have been falling to the extent of Rs.25 per quintal on a daily basis,” Mr. Verma said. In India, while the average cost of sugar production is Rs.28.64 a kg., selling price is Rs.25 a kg. in north India and Rs.22 a kg. in Maharashtra.

ISMA figures show that in the sugar year (ending September) up to April 15, 2015, sugar mills production was 12 per cent higher over the previous year at 26.26 million tonnes over the previous year. ISMA expects mills will produce 27 million tonnes in the current season — a surplus of 2.2 million tonnes over estimated consumption. Cane price arrears are alarmingly close to Rs.20,000 crore.

Creating buffer best option

The closing balance end-September 2015 would be 9 million tonnes. Industry carries three months consumption totalling 6 million tonnes and the surplus 3 million tonnes is what is causing the mismatch.

ISMA has suggested that the government should buy 3 million tonnes of sugar at cost of production and store it as a buffer. “It would set a precedent but if they do that, Rs.7,000-8,000 crore of cash comes into the system and not only takes out the surplus, but the distress levels reduce, market sentiment would improve and sugar prices could recover,” Mr. Verma said.

The other options to solve the problem seem limited. In February 2015, the government approved export subsidy of Rs.4,000 a tonne on exports of up to 1.40 million tonnes of raw sugar. “This was clearly a missed opportunity,” Pallavi Munankar, commodity analyst at Geofin Comtrade said. “The announcement came towards the end of the crushing season leaving little scope for mills to gear up for raw sugar.” India exported 7 lakh tonnes of raw sugar in the sugar year ended October 2014.

Also, given the weak global prices, exports are not viable anymore as international prices have declined due to a glut. Brazil determines global sugar price, and it exports 40 per cent of its production. “Brazilian real depreciated by almost 50 per cent in the last six months and...
India cannot compete with them. Remember that Indian mills pay highest price for cane globally,” Mr. Verma said.