Sugar mills in a soup
SANGEETHA KANDAVE

Tamil Nadu ranks 4th in the country. Photo: Special arrangement

The industry is facing the worst crisis and stakeholders have been demanding revenue-sharing cane price, withdrawal of VAT and measures to encourage ethanol production, but the response from the State government has been tepid.

Sugar mills in Tamil Nadu have made several representations to the State government for the past five months requesting withdrawal of Value Added Tax, which has been a burden on the industry.

The mills have also been requesting the State government to adopt revenue-sharing model for determining cane price (like Maharashtra and Karnataka), encourage ethanol and better rates for co-gen power. But there has been no response.

On Wednesday, Abinash Verma, Director General of Indian Sugar Mills Association (ISMA), came to Chennai to represent the case of industry. The Tamil Nadu government should take immediate steps to help the sugar industry, which is facing the worst financial crisis ever, he said. This would not only benefit the sugar mills, but also the 4.5 lakh farmers and 1.5 lakh workers who are dependent on this industry directly and indirectly.

High cane pricing formula

Tamil Nadu follows an unreasonably high cane pricing formula, which raises the cost of production. At present, the average cost of sugarcane production per tonne is around Rs 1,900. The sugar mills in Tamil Nadu have agreed to pay Rs 2,450 per tonne, whereas the State government has fixed the cane price at Rs 2,650. The average sugar recovery is as low as nine per cent, he said, pointing out that the Central government fixed the fair and remunerative price (FRP) at only Rs 2,200 per tonne.

VAT is also pinching the sugar industry. After the State government decided to levy VAT of five per cent on the sale of sugar within the State...
from November 2014, sugar mills are forced to bear an extra burden of almost Rs 1,200 per tonne.

This makes the industry uncompetitive here compared to other States. “No State in the country, except Andhra Pradesh and Telangana, has VAT on sugar,” Mr. Abinash said.

Another disadvantage faced by the State’s sugar mills is with regard to the rate of tax for alcohol. Compared to a two per cent CST, the State imposes 14.5 per cent VAT on the State-produced rectified spirit and alcohol, making Tamil Nadu products more expensive. The sugar mills here have sufficient capacity to supply the entire requirement of rectified spirit and extra neutral alcohol, yet because of higher taxation they are unable to retain their market.

The tariff for the bagasse-based power, a green renewable energy, supplied to the State Electricity Board, is among the lowest in the country. Statistics indicate that compared to Rs 6.07 to Rs 6.27 per unit in Maharashtra, the rate in Tamil Nadu is just at Rs 3.67 to Rs 4.15 per unit. “Tamil Nadu does not encourage ethanol production nor does it allow it from other States. Ethanol can give adequate returns,” says Abinash.