NEWS FLASH – 10th June, 2016

SUGAR

Govt manipulation of sugar economy comes a cropper

The government's strategy to incentivise sugar exports to help mills clear cane arrears seems to have backfired, pushing the government now to explore export control measures to check the sweetener's unrestricted price rise. Close on the heels of withdrawal of export incentives, the government is now planning to check the outflow of sugar by either imposing a levy on its export or by banning overseas sales altogether so that domestic prices do not spike further from the current level.

The domestic price of sugar rose to Rs 40 a kg in March from Rs 30 a kg in October last year. The rise was particularly steep after export incentives were introduced in November 2015. The incentives extended at that time was aimed at increasing the income of sugar mills so that they could clear the cane arrears due to farmers.

While the strategy helped clear the came arrears, the export sop has now started hitting domestic consumers by way of rising prices and is forcing the government to change tack in just about six months' time.

When the retail price of sugar went up to Rs 45 a kg in Delhi around the third week of April, the government swung into action and imposed stock limits on the commodity after which the retail price now stands stabilised at Rs 40 a kg.

"The challenge now before the government is to prevent any further increase in sugar prices. This can be achieved by restricting sugar exports, either by banning it completely or levying an exorbitant duty," an official said who did not want to be identified.

Since the NDA government does not favour a blanket ban, export regulation through a duty is a greater possibility, he said.

The government has realised that the sugar stock situation will be tight next year due to fall in production as Maharashtra and Karnataka were hit by two consecutive years of drought.

"There will not be any shortage as the country will have ample stocks which will be higher than the annual demand when next year's production is combined," the official said.

Even if sugar production falls to 23 million tonnes next year (October-September), with carryover stocks of seven million tonnes, the total availability will be about 30 million tonnes, he said.

Unless there is no export from now on, the availability of sugar can meet the domestic demand for 14 months. India's annual sugar consumption is pegged at 26 million tonnes for 2016-17 season. The country has exported 1.6 million tonnes of sugar since the start of the season, official data show.

Till May, there was an export subsidy to boost shipments from the country. The government last month withdrew the export incentive to sugar mills after domestic prices of the sweetener rose. In November, the government had announced a subsidy of Rs 1,147 crore to sugar mills by agreeing to pay the amount to sugarcane farmers on behalf of the companies if they export 3.2 million tonnes of the sweetener.

The production-linked subsidy of Rs 4.50 per quintal was paid directly to cane farmers during 2015-16 sugar season (October-September) on behalf of the mills on condition that they would export at least 80 per cent of their export quota. The Centre has allotted mill-wise export quota that totals four million tonnes.

"The curb on export is logical when there is lower production at home," the official said and pointed out that similar steps were taken in the case of rice, wheat, onion, tomato and other edibles in the past. He also said that there could be a minimum export price (MEP) for sugar as there was for onion. "The MEP system can work effectively as no sugar can go out of the country if the minimum price is set at a much higher level than global rates," he said.

The government is worried that if export is not restricted in time, the outflow could increase, especially in view of the projection of a global sugar shortage in 2016-17. Currently, there is no duty on sugar exports and it is under open general licence (OGL). The government has already abolished its own powers to control sugar export through release order mechanism, which was the practice until 2014.

The total cane arrears are lower at Rs 7,520 crore as of June 7, down from Rs 19,437 crore in the year-ago period. Out of this, sugar mills in Uttar Pradesh have an outstanding of Rs 2,428 crore, the highest among all states.

The food ministry has asked the Uttar Pradesh government to ensure that mills clear the payment immediately as sugar prices are higher this year. According to sources in the government, the arrears of more than Rs 2,100 crore are due from five sugar mills in Uttar Pradesh.

While the country's largest sugar producer, Bajaj Hindusthan, has Rs 834 crore cane arrears as of June 7, the Modi group has Rs 319 crore, Mawana Sugars Rs 403 crore, Simbhaoli Sugar Rs 278 crore and Rana Sugar Rs 210 crore.

As per rules, mills need to clear their cane dues within 14 days of buying from farmers. Cane crushing in Uttar Pradesh ended in the first week of May.

(Source- http://www.indiansugar.com/NewsDetails.aspx?nid=5652, published on 9th June, 2016)

Karnataka clears Rs 300 cr sop for sugar mills; farmers to benefit too

The Karnataka government's offer to waive purchase tax to sugar mills for the next two years is likely to cost about R300 crore to the state exchequer. The government last month announced a waiver of purchase tax and cess to sugar mills subject to the payment of cane arrears to farmers for the last three years. The move will offset any loss sugar mills may incur due to payment of cane arrears to farmers, industry sources said.

Between 2013-14 and 2015-16, sugar mills in Karnataka had defaulted on payment of fair and remunerative price (FRP) for purchase of cane procured from farmers. Since then, cane arrears exceed R2,300 crore.

In a notification, the government said, "In exercise of the powers conferred by sub-section (1) of Section 8-A of the Karnataka Sales Tax Act, 1957 (Karnataka Act 25 of 1957), the government of Karnataka hereby exempts with immediate effect and up to March 31, 2018, the tax and cess payable under Section 25-B by a manufacturer of sugar (including Khandasari sugar) subject to the condition of clearing of dues of the farmers relating to the financial years of 2013-14, 2014-15 and 2015-16 as per the fair and remunerative price (FRP) on or before June 30." The exemption will be applicable to those sugar mills that clear their cane dues and secure clearance certificates from the commissioner of cane development and director of sugar, government of Karnataka, in a specified format, the notification added.

"The idea behind extending purchase tax exemption to sugar mills was to enable mills clear off their cane arrears to farmers for the last three years and also to set off their losses suffered in the last three years," industry sources added.

The state government levies R45 per tonne of cane as purchase tax on sugar recovery of 10.5% and R35 per tonne for less than 10.5% recovery of sugar. For example, the state's sugar mills crushed 37.3 million tonnes (mt) of cane in 2015-16 and the average purchase tax works out to R150 crore. However, cane availability is likely to decline in the coming sugar season due to severe drought that prevailed in the state last year. As a result, a large area under sugarcane suffered shortage of water and the cane area declined drastically. The crop planted last year will mature for crushing during the next sugar season starting October this year, South Indian Sugar Mills Association (SISMA) said.

Karnataka's cane crushing declined 16.4% during the 2015-16 crushing season, while sugar production dropped 18.3% to 4 million tonnes compared 4.9 million tonnes produced in the previous year.

(Source- http://www.financialexpress.com/article/markets/commodities/karnataka-sugar-mills-get-rs-300-crore-purchase-tax-waiver/279531/, published on 10th June, 2016)

Food Minister proposes 25% duty on sugar export

The Food Ministry has proposed to impose 25 percent duty on export of sugar to ensure sufficient supply of the sweetener in the domestic market, Union Minister Ram Vilas Paswan said. The international prices of sugar are rising and therefore traders may increase the export of sugar to make profit, Paswan said. ".. to keep the export of sugar in control, it is proposed to levy 25 percent custom duty on export of sugar," Paswan said in a series of tweets. He added that this move will keep sufficient availability of sugar in domestic market and the price will be under control. According to trade sources, sugar exports have become viable now as global prices have increased by 50 percent in last three months due to disruption in supply from Brazil. As demand and supply of sugar in India are at par, the government does not want any export from the country. The country had exported 1.4 million tonnes of sugar so far in the 2015-16 marketing year (October-September). Retail sugar prices last month had crossed Rs 40 per kg due to 11 percent fall in domestic sugar output in the ongoing 2015-16 season. Sugar production in India, the world's second largest producer is estimated to be about 25 million tonnes in 2015-16, as against 28.3 million tonnes last year.

(Source- http://www.moneycontrol.com/news/economy/food-minister-proposes-25-dutysugar-export_6841401.html, published on 10th June, 2016)

Co-gen/Power

Lots of cheap electricity, few takers, large power cuts; check out why that is

Power minister Piyush Goyal's regular afternoon tweets on power being available in the country's power exchanges at reasonable rates of around R2.5 per unit come as more than a bit of a surprise considering the long power cuts in most areas of the country every day. While it is true the Central Electricity Authority (CEA) took everyone by surprise when it said that India would be power surplus in FY17 with a peak surplus of 3.1%—the east, north-east and north, though, have a deficit—what is not clear is whether Goyal's tweets imply India has licked its power problem or whether they are symptomatic of a deeper malaise. As FE reported on Wednesday, with an average of 1,621 million units of power available on the spot market every month, this can more than cover the deficit of most of the big states. Uttar Pradesh, which has the largest deficit of 846 million units per month just buys 22 million units per month. Karnataka, with a 239 million unit shortage purchases a mere 5 million units; Rajasthan with a 27 million unit shortage buys just 3 million units. It is only Bihar which has a shortage of 21 million units that buys 309 million units from various power exchanges.

While the improved coal situation—local production, which is far cheaper than imports, was up 42 million tonnes, to 536 million tonnes in FY16—has played a big role in electricity availability rising, the collapse of industrial demand is probably a bigger factor. The larger reason, though, is a near complete mismatch between demand and supply creation. Buoyed by the growth of earlier years, generating capacity has increased 105% between FY09 and FY16 while demand has risen just 39%—to that extent, even increased industrial demand may not reverse the power surplus situation, more so if there is more gas available for power plants; indeed, the reason why spot power is priced so low is that generating firms are desperate to sell so that at least part of the capex can be amortised.

(Source- http://indianpowersector.com/2016/06/lots-of-cheap-electricity-few-takers-large-power-cuts-check-out-why-that-is/, published on 9th June, 2016)

Rs 7,480 Crore Extra On State's Electricity Bills, Says Activist

The government owned power distribution company Mahavitaran Limited, overcharged its customers Rs 7,480 crore between 2014 and 2016, Maharashtra Power Consumers Association (MPCA) president Pratap Hogade has alleged. In a complaint addressed to the Maharashtra Electricity Regulatory Commission (MERC), he has asked that if this contention is proven correct under investigation, the affected consumers should be given a relief in their electricity tariffs.

Mahavitaran or Maharashtra State Electricity Distribution Company Limited (Mahadiscom) which supplies power to Mumbai suburbs such Kanjur, Bhandup and Mulund as well as to other parts of the state, claims that the charges are as per rules and regulations laid down by MERC.

The contention rises over money charged under the Fuel Adjustment Clause (FAC). The FAC is a mechanism that permits utilities such as Mahavitaran, to regularly adjust the price of electricity to reflect fluctuations in the cost of fuel, or purchased power, used to supply that electricity. Hogade's calculations are based on the fact that customers have been charged more under this clause, without the justification of increased fuel costs.

According to Electricity Act of 2003, all power utilities must their annual revenue and expenditure approved from the regulator at the beginning of financial year. The regulator – MERC – also approves the power purchase cost for the distribution utilities. The final tariff to be presented to the consumer is based upon this agreed power purchase cost.

(Sourcehttp://indianpowersector.com/2016/06/rs-7480-crore-extra-on-states-electricity-bills-says-activist/lished on 9th June, 2016)

Maha must relook energy policy: Tanti

Suzlon's founder and managing director Tulsi Tanti has asked the state government to take a relook at its renewable energy policy.

"The state government should relook its policy and should allow captive power projects. Just like in the case of solar power rooftop projects, why not industries be allowed to manufacture, use and supply the excess energy to the grid. The state is energy deficient, and if we want to grow, then captive is the correct way to go. Also, the renewable policy should be such that SMEs and medium enterprises are supported," he said.

"Other states are aggressive in their growth in the renewable power projects, while Maharashtra, which had a good growth till now, is not has reached a stagnant stage in the renewable energy space," Tanti added.

While speaking to reporters on Tuesday. Tanti said: "Optimizing overall costs and managing the firm's liability is what helped Suzlon get a turnaround." Suzlon had reported net profits for the last fiscal - FY16, after suffering three years, or 12 quarters of consecutive losses. The wind turbine maker posted a net profit of Rs 483 crore for the last fiscal with its revenue rising by 69%.

After selling Senvion for 1 billion euros, Suzlon is eyeing a growth at a rate more than that of the wind energy market. "The Indian market is expected to increase by 30% in the next five years and Suzlon will continue to outpace the industry. We grew to 27% of the market share last year (FY15) from 19% and now we are aiming for 40%," said J P Chalasani, Group CEO, Suzlon.

Suzlon's FY16 order intake of 1,251MW is also three times higher than in FY15.

(Source- http://timesofindia.indiatimes.com/city/pune/Maha-must-relook-energy-policy-Tanti/articleshow/52663457.cms, published on 9th June, 2016)

Thought of the day

'Coming together is a beginning; keeping together is progress; working together is success.'

-Henry Ford