NEWS FLASH – 20th May, 2016

SUGAR

Sugar rises steadily

Sugar prices ruled firm on back of eased reselling pressure diverting fresh purchases directly from producers at their rates. Mill tender rates were up ₹ 10-20 a quintal and naka prices ₹ 10-50. Arrivals and local dispatches were at par as retailers also increased their buying. The Bombay Sugar Merchants Association's spot rates: S-grade ₹ 3,552-3,662 (3,562-3,652) and M-grade ₹ 3,642-3,760 (3,642-3,732). Naka delivery rates: S-grade ₹ 3,570-3,620 (3,560-3,620) and M-grade ₹ 3,650- 3,750 (3,600-3,700).

(Source- http://sugarnews.in/sugar-rises-steadily/, published on 18th May, 2016)

Maha: 'Sugarcane under drip irrigation will not succeed'

Maharashtra State Cooperative Sugar Factories Federation (MSCSFF), the apex body of cooperative sugar mills, has questioned the state government's decision to bring all perennial crops including sugarcane under 100 per cent drip irrigation by 2019. MSCSFF claimed that though the state of Andhra Pradesh had adopted the scheme, it was highly impossible to replicate it in Maharashtra. Furthermore, the federation suggested increasing subsidy amount and reducing its allocation from two years to zero days to somehow achieve success in the scheme.

Water resources minister Girish Mahajan on Tuesday announced that sugarcane would be brought under drip irrigation by 2019. Reacting to the announcement, MD of MSCSFF, Sanjeev Babar, said that currently, around 9.57 lakh hectares of land was under sugarcane cultivation, out of which, only 1.52 lakh hectares (not beyond 12 per cent of total land under sugar cultivation) was under drip irrigation.

Mr Babar, who has a Masters in soil management from Rahuri Agriculture University, said that drip irrigation would not succeed in Maharashtra mainly because there were two types of soil in the state. The western side of the Pune-Bengaluru National Highway covering Konkan had laterite soil while the eastern side of the highway covering western Maharashtra from Ahmednagar to Kolhapur had black cotton soil. Using excess water for crops in black cotton soil could change its fertility and possibly make it saline, which is why experts and the government were pushing for use of drip for sugarcane cultivation that was mostly concentrated in western Maharashtra. "But the claims are completely wrong and not based on thorough study," said Mr Babar.

"According to study reports, production of one kilogram of sugar needs 2,000 litres of water whereas sugarcane yield requires 14 to 18 months. On the other hand, production of cotton needs 3,000 litres and the yield requires four months. Even rice needs 4,000 litres of water and the yield requires four months. If we calculate the use of water for equal quantity and for equal number of days, it shows that there will be four crops of rice and cotton in the same time taken for one crop of sugarcane. This means that rice and cotton need four times the quantity of water required by sugarcane; a fact ignored by experts and political leaders who are opposing sugarcane cultivation," he said.

(Source- http://sugarnews.in/maha-sugarcane-under-drip-irrigation-will-not-succeed/, published on 18th May, 2016)

Karnataka: Govt. offers purchase tax waiver to sugar mills

After failing to make defaulting sugar factories pay the dues of sugarcane growers in the last three years, the government has come out with a proposal that offers purchase tax exemption for the next two years to the factories if they clear the dues within June.

Minister for Cooperation and Sugar H.S. Mahadev Prasad told reporters here on Tuesday that sugar factories had to pay dues of Rs. 278 crore for 2013–14, Rs. 102 crore for 2014–15, and Rs. 1,950 crore for 2015–16. The dues for 2013–14 and 2014–15 involved 42 sugar factories.

Defending the government's action of offering purchase tax exemption rather than initiating action against defaulting factories, the Minister said such a situation had arisen in the wake of legal hurdles as sugar mills had approached courts.

While some mills had obtained stay on auctioning their sugar stock that had been seized by the government, the Supreme Court had ordered status quo on payment of the State Advisory Price following a petition by the mills, he said.

"We have come out with this offer to find an out-of-court solution," he said. According to him, the purchase tax exemption may cost about Rs. 400 crore to the State exchequer if all sugar factories opted for it.

The Minister also announced that the government had extended the deadline — for the scheme under which farmers get waiver of interest if they pay the principal amount of loan — from March-end to September 30.

(Source- http://sugarnews.in/karnataka-govt-offers-purchase-tax-waiver-to-sugar-mills/, published on 19th May, 2016)

India to revoke compulsory sugar export order: Government sources

India has decided to revoke an order that requires sugar mills to export excess supplies, two government officials said on Thursday, after two consecutive droughts look set to turn the country into a net importer next season.

The government has scrapped the order in view of tightening supplies in the local market , said an official, who spoke on condition of anonymity because the decision has not been formally announced yet.

Late last year the government asked mills to export as much as 3.2 million tonnes to deal with what was then a glut that undermined prices and put mills under financial pressure

Out of the 3.2 million-tonne export target mills had sold around 1.5 million tonnes onto world markets .

To support the scheme and relieve that pressure, New Delhi agreed to pay farmers 45 rupees for every tonne of sugar cane they produced, representing about 2 percent of the costs incurred by mills.

Farmers will no longer get payment after the compulsory export order is revoked, said another official.

Without the production subsidy Indian mills are expected to struggle to export profitably, potentially boosting global sugar prices and allowing rival suppliers like Brazil, Thailand and Pakistan to increase their shipments.

Reuters reported earlier this month that India was considering whether to scrap the compulsory export order.

(Source- http://economictimes.indiatimes.com/news/economy/foreign-trade/india-to-revoke-compulsory-sugar-export-order-government-sources/articleshow/52347403.cms, published on 19th May, 2016)

Centre ends sugar export subsidy

The central government has withdrawn the production–linked subsidy of Rs 4.50 a quintal that it transfers directly into the bank account of sugarcane farmers on the condition that the mills to which they sell have exported 80 per cent of their prescribed quota of sugar. The mills also have to produce a certain level of ethanol.

Ex-factory sugar prices have improved significantly in the past year, from Rs 23-24 a kg to a little over Rs 32 a kg. The move, some officials said, also means that mills would be discouraged from exporting, helping maintaining domestic supplies.

Till date, as against a quota of 3.2 million tonnes, mills have managed to export around 1.5 mt.

Earlier, the government of Maharashtra too had withdrawn an excise duty concession to encourage mills to export sugar from their allocated quota; however, it seems to not have yielded the desired results.

Sugar prices in retail markets have risen by at least 50 per cent in the past few months, despite ample supplies, prompting the Centre to first impose a stockholding limit on retailers and wholesalers, followed by Thursday's decision to withdraw the export incentive.

The direct transfer of incentive into the bank account of millers against mills fulfilling their export and ethanol production obligation would have cost the exchequer Rs 1,147 crore in the entire quota was exported. This was adjusted from the sugar development fund by raising the excise duty on sugar.

A rough calculation shows that assuming the average per hectare cane yield is 700 quintals, each farmer family would have gained slightly more than Rs 2,000 directly from the central government this season.

Sugar production in 2015-16 (October to September) is expected to be around 25.2 mt, 11 per cent less than in 2014-15.

(Source- http://www.business-standard.com/article/economy-policy/centre-ends-sugar-export-subsidy-116051901774_1.html, published on 20th May, 2016)

Return of government controls a risk for sugar shares

The strings attached to the government's relief measures for sugar mills are becoming visible. On Wednesday, shares of sugar mills fell after news that the government may impose stock limits. This is a regressive step, moving away from decontrol, but is not a surprise altogether.

Stock limits will mean sugar in excess of the limits will be sold, leading to more supply and lower prices. The government's concern must be rising sugar prices. But they have been rising since end-September, so why the late reaction?

The increase in recent months has been rapid. Since end-January, wholesale sugar prices are up by as much as 17%, while they are up by 39% since end-September. Globally, sugar prices have risen because of bad weather affecting the sugar cane crop in major producing countries such as India, Brazil and Thailand.

That stress is visible in India's output. Sugar production as of 15 April is down by 8% at 24.3 million tonnes (mt) from a year ago, says the Indian Sugar Mills Association (Isma).

Whether Isma's estimate of 26 mt will be met remains to be seen, as only 117 mills are operating as of 15 April, compared with 245 a year ago. Prices may keep rising, as this situation unfolds.

So what? Prices rise and fall in a free market, sugar is a decontrolled sector, and prices had been lying low for years. Why deny mills a year or two of good profit growth in a cyclical industry?

The government may think it has the moral right to keep prices in check. Sugar mills in India have wrung concessions from the government, in return for paying a higher price for sugar cane. Although the Rangarajan committee has advocated linking sugar cane purchase price to the price of sugar and by-products, major sugar producing states such as Uttar Pradesh have not implemented it.

Mills in Uttar Pradesh are forced to pay a state-determined price. In turn, they delay payments to farmers, leading to huge arrears, resulting in a confrontation between mills and state governments. Over the past few years, the Uttar Pradesh government has given some concessions to mills.

The central government too has taken a number of measures for the sector. These include levying higher import duties on sugar, making it mandatory for oil marketing companies to procure ethanol (including fixing the purchase price), soft loans and an excise duty exemption on ethanol.

The idea was to give some financial support to sugar mills, and the government even looked the other way as sugar prices rose. The government asked sugar mills to export 4 mt of sugar by September 2016. The money realized was to be used to cut down cane arrears and limit domestic supply. However, exports have been below targeted levels as domestic prices were higher. That is unlikely to have gone down well with the government.

Rising sugar prices are a bigger pain. People will complain, state elections are under way and it could push up inflation as well. Maybe, the government is only sounding a warning and does not actually intend to impose stock limits. If sugar prices cool down, it may hold back. Otherwise, stock limits are just one weapon in its arsenal.

In the past, the government has come down heavily on rising sugar prices. It can do so again. Government controls are a risk in sugar shares that investors have to now watch for.

(Source- http://www.livemint.com/Money/jcq2OsJyRPf1mVb9UYGirO/Return-of-government-controls-a-risk-for-sugar-shares.html, published on 21st April, 2016)

Co-gen/Power

Power Tribunal's Compensatory Tariff Decision: Time to Take a Fresh Look at Competitive Bidding?

The ministry of power's standard-form case-1 bid documents for power procurement by the state distribution utilities (Discoms) from coal-based power projects were issued in 2005. Various Discoms held competitive bids to procure power using these bid documents and winning bidders included Adani, Coastal Gujarat Power and Tata Power. Long-term power purchase agreements were executed between these power producers and the Discoms. Most of these bidders premised their bids on a mix of domestic and Indonesian coal in their power plants. Subsequently, the Indonesian government changed their domestic coal policy and benchmarked coal prices to prevailing international coal prices, negating any price negotiated in private contracts. This resulted in a steep rise in fuel costs and these power producers approached the Central Electricity Regulatory Commission (CERC) requesting a pass-through of the increased costs to the Discoms by increasing the tariffs. The CERC concluded that there was no provision under these power purchase agreements that allowed such pass-through of costs. However, given the severe impact of increased fuel costs on power producers, the CERC allowed them compensatory tariffs as relief. The CERC's decision was appealed by the Discoms before the Appellate Tribunal for Electricity (APTEL).

(Source- http://indianpowersector.com/2016/05/power-tribunals-compensatory-tariff-decision-time-to-take-a-fresh-look-at-competitive-bidding/, published on 19th May, 2016)

Himachal to get India's first solar wind power plant inSpiti

State-run Himachal Pradesh Electricity Board Ltd (HPEBL) and Solar Energy Corp of India (SECI) on Wednesday signed a pact to set up India's first solar wind hybrid power plant in the hill state.

The agreement was signed by Managing Directors P.C. Negi of HPEBL and Ashwani Kumar of SECI in the presence of Chief Minister Virbhadra Singh here.

Under the agreement, joint venture Himachal Pradesh Solar Power Corp Ltd has been set up to commission a pilot solar wind hybrid power project of 2.5 MW at Rangrik in Kaza in Lahaul-Spiti district.

It will be commissioned by October 2017, a government statement said. On completion, it would benefit 12,000 habitants of Rangrik, Kaza, Tabo, Losar and Pin valley.

Its estimated cost would be Rs.30.72 crore.

(Source- http://indianpowersector.com/2016/05/himachal-to-get-indias-first-solar-wind-power-plant-inspiti/, published on 19th May, 2016)

Thought of the day

Pray as though everything depended on God. Work as though everything depended on you.

-Saint Augustine