

## COOPERATIVE SUGAR MILLS IN UP- OPPORTUNITIES AND CHALLENGES

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### Abstract

Sugar industry plays a vital role in the rural economy and is the second largest agro based industry in India. The state of Uttar Pradesh is the leading producer of sugarcane and the second largest producer of sugar in the country. Sugarcane being the major cash crop, it is an important source of livelihood and income for the farmers. Numerous industries based on sugar and its by-products provide opportunities of livelihood to a large multitude of people in the state. Out of India's total sugarcane area of 49.44 lakh hectares, Uttar Pradesh accounts for more than 21.25 lakh hectares (about 43 percent).

Co-operative Sugar factory have large potentials of creating employment opportunity in the rural area. The experience in co-operative sugar factory in Uttar Pradesh has proved that, the agriculture processing units in co-operative sector if managed well can provide good scope for rural development. The present study is based on the Cooperative Sugar mills situated in the state of Uttar Pradesh reveals the growth and development of the rural area of the state.

**Key-Words:** Sugar Industry, Cooperative sugar mill, Rural Development.

### Introduction

Uttar Pradesh is one of the largest and most populous states of the country which is the principal producer of the sugarcane in the country. It is also the single largest contributor of the sugarcane cultivation and sugar industry to the economy and industrial development of the state. Sugarcane being the major cash crop, it is an important source of livelihood and income for the farmers. Numerous industries based on sugar and its by-products provide opportunities of livelihood to a large multitude of people in the state. Out of India's total sugarcane area of 49.44 lakh hectares, Uttar Pradesh accounts for more than 21.25 lakh hectares (about 43 percent). The state's sugarcane productivity as well as sugar production is less than the national average. The average sugarcane productivity in the state was 59.34 tons per hectare in 2011-12. Several schemes launched by the Sugarcane Development Department of the State are under implementation to augment the average yield of sugarcane. This is expected to increase to 70 tons per hectare. During the season 2011-12, there were 124 operating sugar mills in the state (Cooperative Sector 23+Private Sector 101). The

total crushing capacity of these sugar mills is 7.67 lakh T.C.D. During the season 2011-12, the sugar mills crushed 767.35 lakh tons of sugarcane to producer. The Co-operative sugar industry has been playing an important role in the development of rural area of Uttar Pradesh. The co-operative sugar industry provides several backward linkages like the supply of credit, supply of inputs like improved seed materials, fertilizers, pesticides, agricultural implements etc. in addition to the forward linkages of processing and marketing.

The Cooperative Societies Act was enacted in India in 1904 with a limited objective to provide cheap credit to the farmers and save them from exploitation of money lenders. It was only in the early 1930's that the cooperative movement penetrated into the sugar sector. The increasingly high rates of interest charged by money lenders and violent fluctuations in the Gur, Jaggery and Sugar markets, led the farmers to utilize the under lying notion of self help and self reliance, in the Cooperative Societies Act and led to the setting up of cooperative societies and cooperative sugar factories. However the real growth of the cooperative sugar sector started after India's independence, when the Government decided to industrialize the country by expanding the cooperative sector. The principal of cooperation was assigned an important role for the country's economic and social development and was given priority over the other sectors. Due to the involvement of farmer's right from the inception, the sugar factories were never looked upon as merely processing units of sugarcane, but through the medium of the factories they endeavored for socio-economic, educational and cultural development of the entire area surrounding the sugar factories. During 1933-35, in Uttar Pradesh a cooperative sugar factory was set up at Biswan which had to be sold off to private enterprise

### **Functions Perform by Cooperative Sugar mill**

The Co-operative sugar factories perform the following functions:

1. Procure sugarcane from the members and pay remunerative prices.
2. Improve sugarcane cultivation and provide the inputs.
3. Production of sugar and the various by-products.
4. Mobilize deposits from the members.
5. Carrying out the several developmental activities for the members.

### **National Federation of the Co-operative Sugar Mills**

As more and more cooperative sugar factories were being set up, the need for an apex organization at the State level to mediate with the State Governments and guide them in all respects was felt. This led to the formation of State level Federations of Cooperative Sugar Factories. Simultaneously, it was also realized

in 1957 that as 'Sugar' was central subject, there was a need of a spokesman at the Centre to take up all matters of cooperative sugar factories with Central Government and to guide them technically and otherwise and thus the National Federation of Cooperative Sugar Factories Limited was established on December 2, 1960 for promoting and guiding the increasing number of cooperative sugar factories on a national level.

### **Objects of National Federation of the Co-operative sugar factories**

The National Federation of the Co-operative sugar factories carries out the following objective:

- A) The objects of the Federation shall be to assist, coordinate and facilitate the working of the affiliated cooperative sugar factories, to assist in the promotion and organization of new cooperative sugar factories in the State and to supervise their working and to arrange for manufacture and supply of sugar machinery. The Federation shall promote establishment of Industrial/Manufacturing units based on the by-products of sugar mill preferably under the management of its constituent units. Where the cooperative sugar unit is either unable to set up such units by itself, or else makes a request to the Federation, the Federation may establish such unit (s) directly under its management and undertake all allied activities linked for the purpose.
- B) In pursuance of the objects a stated in bye-laws 4, the Federation may either by itself or with advice or assistance or in conjunction with the National Federation of Cooperative Sugar Factories Ltd., New Delhi :
  1. Provide technical advice and other assistance in the selection, purchase, installation and maintenance of plant and machinery, spares tools and other equipments to member sugar factories.
  2. Recruit, train, appoint, transfer, suspend, dismiss, censure, fine or otherwise punish the employees of the member cooperative sugar factories, exercise disciplinary control under regulations framed regarding the terms and conditions of their service in accordance with section 121 or 122 of the Act; and subject to the provisions contained in Section 70, settlement of disputes between such employees and the member factories with the approval of the State Government.
  3. Undertake or arrange to purchase in bulk on indent basis or otherwise, equipments chemicals, gunny bags, limestone, fuel lubricants and any sale or utilization of any of the by-products and articles;
  4. Suggest measures for increasing the operational efficiency of cooperative sugar factories;

5. Assist in standardizing the accounting and costing methods and practices.
6. Provide servicing and maintain work shop for spares parts required by member factories.
7. Assist member factories through purchase by the Federation of their shares from out of their own funds or the Principal state partnership fund, subject to such terms and conditions as may be prescribed by the State Government, and in procuring financial assistance and accommodation from the State and Central Government, Industrial Finance Corporation of India, State Bank of India, State/Central Cooperative Banks or from any other Financing agency.
8. Supervise and guide the working of member factories generally and as may be necessary under section 123 and advise regarding their work.
9. Render legal and business advice to its member factories and take up or defend legal action on their behalf;
10. Represent the member factories at the National Federation or at other organizations ( permanent or adhoc) and present on their behalf their views to State and Central Governments or any other body, commission or committee of enquiry, or institution; and
11. To raise fund and undertake such other activities as are incidental or conducive to the efficient working of the member factories in order to attain the above objectives in order to attain the above objectives and to further the common interest of member factories;
12. To set up printing press for the benefit of member sugar factories.
13. Take up publication and supply of market and other information relating to sugar industry.
14. To set organization for manufacture of sugar machinery.
15. To purchase sugar machinery and other requirements of the member cooperative sugar factories and enter into contracts on their behalf.
16. To raise loans from financial institutions, banks Government and other institutions for investment in block assets and working capital requirement and for rendering financial assistance to member cooperative sugar factories.

### **Challenges for Co-operative sugar mill**

Cooperative Sugar Mill may face the following challenges:

1. **Competition from other states** - In case UP millers are not supported by pro-industry policies, the industry is on the verge of closing down. Hence,

- resulting in more penetration of non UP millers in the existing market of UP millers.
2. **High prices of sugarcane** - Highest State Advised Price (SAP) in the country.
  3. **Low yield of sugarcane and recovery rates** - Low yield as compared to other states and country average. Resultant in uneconomic nature of production of sugar due to low yield, high cane prices, short crushing season and prices of output.
  4. **Competition from alternate sweeteners like gur / khandsari** - Around 31-32% of sugarcane diverted to production of alternate sweeteners which are not controlled by the government either with regards to purchase price of sugarcane nor on the selling price.
  5. **High cost of production of sugar and ex-mill prices** - Cost of production of sugar is highest in the country.
  6. **Mounting cane arrears** - Highest in the country and contribute around 57.1% of the total arrears of the country.
  7. **Government policies** - High SAP, levy sugar, annual revision of cane reservation area and depressed output prices.
  8. **Competition from cheaper imports and world sugar prices** - The price of Indian sugar is currently higher as compared to current export prices of Brazil. Also with regard to internal competition, states that have adopted Rangarajan Committee recommendations have become more competitive as compared to UP.
  9. The industry is facing net losses and hence the Earning before Interest Tax Depreciation and Amortization (EBITA) margin ratio and Return on Capital Employed (ROCE) are much lower and showing downward trend.
  10. The Profit after Tax (PAT) for the industry is negative for the last four consecutive years. The working capital requirements have increased and due to net losses, mounting cane arrears, the industry is struggling for its survival.
  11. Selling prices of by-products is also a matter of concern.

#### **Implementation of Recommendations of Dr. Rangarajan Committee**

The Central Government considered the recommendations of Dr. C. Rangarajan Committee on de-regulation of sugar sector and decided to do away with levy obligation on sugar mills for sugar produced after September 2012 and dispense with the regulated release mechanism on open market sale of sugar. The de-

regulation of the sugar sector is likely to improve the financial health of the sugar mills, increase the cash flow, reduce their inventory cost and also result in timely and better payment of cane price to sugarcane farmers in the country. The recommendations of the Committee relating to Cane Area Reservation, Minimum Distance Criteria and adoption of the Cane Price Formula have been left to the State Governments for adoption and implementation, as considered appropriate by them. The key aspects of the regulations are as below:

### Implementation of Recommendations of Dr. Rangarajan Committee

Issues	Gist of Recommendations	Action Taken
<b>Cane Area Reservation:</b>	Over a period of time States should encourage development of such market-based long-term contractual arrangements and phase out cane reservation area and bonding. In the interim the current system may continue.	The recommendation has been referred to the concerned State Governments for adoption and implementation as considered appropriate by them.
<b>Minimum Distance Criteria:</b>	It is not in the interest of development of sugarcane farmers or the sugar sector and may be dispensed with as and when a state does away with cane reservation area and bonding.	-do-
<b>Sugarcane Price : Revenue Sharing</b>	Based on an analysis of the data available for the by-products (molasses and bagasse / cogeneration) the revenue-sharing ratio has been estimated to amount to roughly 75 per cent of the ex-mill sugar price alone.	-do-
<b>Levy Sugar</b>	Levy sugar may be dispensed with. The states which want to provide sugar under PDS may henceforth procure it from the market directly according to their requirement and may also fix the issue price. However since currently there is an implicit cross-subsidy on account of the levy some level of Central support to help states meet the cost to be incurred on this account may be provided for a transitory period.	Central Government has abolished levy on sugar produce after 1st October 2012. Procurement for PDS operation is being made from the open market and the Central Government is giving a fixed subsidy @ Rs. 18.50 per k.g. to make sugar available at Retail Issue price of Rs. 13.50 per k.g.
<b>Regulated Mechanism</b>	<b>Release</b> This mechanism is not serving any useful purpose and may be dispensed with.	Regulated Release Mechanism for open market sale of sugar has been dispensed with.

<b>Trade Policy</b>	As per the committee Trade Policies on sugar should be stable. Appropriate tariff instruments like a moderate export duty not exceeding 5 per cent ordinarily as opposed to quantitative restrictions should be used to meet domestic requirements of sugar in an economically efficient manner.	No export duty on sugar. Import duty stands at 15 per cent.
<b>By-products</b>	There should be no quantitative or movement restrictions on by products like molasses and ethanol. The prices of the by-products should be market-determined with no earmarked end-use allocations. There should be no regulatory hurdles preventing sugar mills from selling their surplus power to any consumer.	In order to harness the full socio-economic potential of the sugar sector State Governments have to take appropriate step to enhance the productivity of sugarcane and the recovery of sugar. In addition the effective utilization of its by-products i.e. bagasse molasses and press-cakes are necessary to make the industry globally competitive. The State Governments have been requested to reconsider the regulatory controls on movement of molasses which can be used for producing ethanol.

**Source:** India. M/o Consumer Affairs & Food and Public Distribution, Note of Directorate of Sugar, 2014, pp.10-11

### **Conclusion**

Sugarcane is the major cash crop for the state that provides livelihood opportunities to large segment of the population directly and indirectly. Despite the challenges faced by the farmers and millers, sugarcane production still remains the most profitable crop in the state of Uttar Pradesh. As sugarcane cultivation techniques and technologies are changing day by day so it is essential to accept and apply of all these new techniques and technologies during the time of cultivation. Therefore, the sugar factories must require necessary amendments by the government which enables cooperative mills to be eligible for and have access to cheaper investible funds in the market.

### **Recommendations**

- 1-** The cooperative sugar mills must adopt the recommendation of Rangarajan committee which helps in removal of SAP, in adoption of linkage formula, phasing out cane reservation area and bonding review of minimum distance criterion and introduction of better trade policies.

- 2- The cooperative sugar mills must improve the sugar recovery rates as in Uttar Pradesh the sugar recovery rate is 9.26% as compared to other states. These should be replacement of old machinery with new improved machinery must adopt in modernization of production technique. Also there should be improvement in productivity of sugarcane with use of better quality of seeds, manure and pesticides.
- 3- There should be control over Gur and Khandsari industry as currently there is no government control over the Gur industry. Hence, there is diversion of sugarcane for producing Gur over sugar. With the increase of Gur prices it directly affects the production of sugar. As a result sugar industries are working under capacity due to low availability of sugarcane. A policy to be adopted for control over Gur so as to mitigate the irregular supply of sugarcane.
- 4- There should be revival of sick units. Sick units should be merged with other healthy units and accordingly healthy units be given some financial concessions so as to encourage such mergers.
- 5- There should be an increase in import duty. Currently the international prices are less than the domestic prices leading to increase in import.
- 6- The government must also encourage exports. Export duty exemptions and tax waivers should be provided which will help in finishing our surplus stock.

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