

Ref:BHL/Gola/ 4027

Date:07.08.2014

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The Cane Commissioner,  
Uttar Pradesh,  
LUCKNOW.

Subject: **Notice suspending cane crushing operations in 2014-15 sugar season**

Dear Sir,

With lot of anguish and despair, we have to inform you that our financial condition has deteriorated so much that it has become extremely difficult to continue our operations under the current circumstances and for the reasons beyond our control. There is an urgent need to rationalize the cane pricing policy in U.P. and adopt the 'linkage formula' recommended by Rangarajan Committee.

On our behalf, our Association, UPSMA, has written to the State Government on 08.07.2014 and 04.08.2014, including through various other letters and representations submitted from time to time, highlighting the present predicament of the sugar mills, which are in brief as follows, Copy of the said letter dated 4.8.2014 is enclosed for your ready reference giving details:

1. It is to be appreciated that in the present scenario of unknown and unbridled cane price and where it is unclear as to when a long-term sustainable cane price pricing policy, based on the 'linkage formula', is adopted in the State, we are unable to make any commitment for purchase of cane in the ensuing season or submit our requirement for the same. We have already requested the concerned authorities to allow us to submit our estimates of cane requirement vide our association letters dated 21.7.2014 and 25.7.2014 also; but the request made in our said letters has not been accepted.
2. Facing a similar problem before start of 2013-14 sugar season, we had submitted that the State Advised Price (SAP) of Rs.280/- per quintal of cane was much beyond our paying capacity, and that there would be substantial cane price arrears, if the State insisted on the high SAP of Rs.280/- per qtl. Our apprehensions have come true and we are struggling to clear the cane price arrears of the current season. We do not want a repeat of this situation again next year (2014-15).
3. While making us start the crushing operations in 2013-14, the State Government gave the following assurances and commitments: -



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- a) Committee under Chief Secretary would recommend for a rationalized cane pricing policy from next sugar season. The Committee was set up in Jan, 2014, and was to give its recommendations in 3 months.
  - b ( i) If the financial condition of sugar industry so requires, State Government would give financial assistance, including subsidy of Rs.9/- per quintal of cane. A Committee was set up in Jan, 2014, and was to give its recommendations in 3 months. But no said subsidy has been given.
  - b (ii) benefit of Rs. 11/- per qtl. of cane was extended to the mills by the State Govt.
  - c) No coercive action would be taken against mills.
4. Relying upon the assurances and commitments given by the State Government, we had started crushing operations for 2013-14, with a clear hope and understanding that if need be, the State Government would come forward with financial help. Instead of getting the assured and committed financial assistance from the State, we are being subjected to all sorts of persecutions, including FIRs against most of the promoters, directors and senior officers of the sugar mills.
  5. The Banks have become quite apprehensive due to seizure and forced auction of sugar stocks of several companies, ignoring the first charge of banks. They also want clarity and transparency on the cane pricing policy to take further exposures on U.P. sugar mills.
  6. The State Government, accepting the losses incurred by cooperative sugar mills of the State, provides financial help to them every year to meet their cane price liabilities. For the season 2013-14 too, the Government of U.P has provided Rs. 400/- crore grant to enable them meet their cane price arrears. This works out to around Rs. 55/- to Rs. 60/- per quintal. No such financial help has ever been provided to the private sugar mills, despite operating in the same State, under similar circumstances. This discrimination against the private sugar mills is unacceptable to us any longer.
  7. The two major sugar producing States i.e. Maharashtra and Karnataka, who together contribute for almost 50% of the country's sugar production, have already adopted and implemented the 'linkage formula' as recommended by the Rangarajan Committee for determining the cane price automatically at 70% of revenue realized from sugar and first stage by-products or 75% of revenue realized from sugar alone. It is understood that a team of senior officials from U.P. had visited Maharashtra and Karnataka to study their cane pricing system and have since submitted their report to the Government. Therefore, the State Government should be able to quickly finalise the formula for U.P. too.

8. UPSMA has submitted several representations to the State Government, apprising them about the factual financial position of the sugar mills, requesting financial help so that the mills could tide over the severe crisis. However, no response has been received to our submissions so far.
9. The Rangarajan Committee after consulting all stakeholders had recommended for adoption of the revenue sharing model of cane pricing, as is being followed all over the world, between the farmers and the millers in a fair and equitable manner. The Central Government had also referred these recommendations to the State Governments, including to the U.P. Government, suggesting for adoption and implementation of the formula. It is common knowledge that the Central Govt. has already declared the fair and remunerative price ( FRP) @ Rs.220/- per quintal linked to 9.5% recovery of sugar for the season 2014-15 vide order dated 14.2.2014.
10. It must be appreciated that the genesis of the problem is high and excessive cane price fixation by the State Government, combined with the low sugar realizations. It is pertinent to point out that even the Central Government in its recent Affidavit filed before the Hon'ble High Court has also observed thus "***That the problem of cane price arrears arises when realization by sugar mills from sale of sugar is not enough to pay the cane prices to the farmers. Surplus production over domestic consumption in the last three sugar seasons and low exports due to subdued international sugar prices have led to building up of sugar stocks with the mills. This has adversely affected the financial health of the mills and led to cane price arrears. Though the Government fixes Fair & Remunerative Price of sugarcane on the recommendations of CACP, fixation of higher cane price by some of the States compounds the problem***".
11. It is also to be appreciated that there is an atmosphere of fear and lack of confidence in the system. The promoters and officers are being branded as criminals. The business environment in U.P. of is vitiated and the industry of unsure not only about the business per se but also the environment in the State. We cannot continue to run our mills in losses. We also expect that we should also earn reasonable and fair profits from the sugar manufacturing business.

It has been emphasized time and again that the sugar industry in Uttar Pradesh is financially distressed and ailing. The promoters, as also the banks and financial institutions do not see any future in the State to continue in the business. We had repeatedly requested and pleaded for a long-term solution to the vexed problem of cane pricing year after year leading to huge losses, lengthy litigations and cane price arrears of farmers. It is to be appreciated business is not sustainable under such



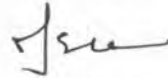
circumstances. We are willing to commence cane crushing operations in the coming season 2014-15 on the basis of FRP and sharing of further revenue and cane price as per Rangarajan Committee recommendations and Rs.9 per quintal of financial assistance be given for current sugar season and coercive action be stopped to allow the Management and Staff to work in congenial and peaceful atmosphere. It is expected that a rational cane pricing formula similar to the 'linkage formula' and as adopted in Maharashtra, is adopted in the State of U.P as well, to give a fair deal to the farmers as well as to the sugar mills.

Under the present circumstances and with no long term transparent, logical and economically viable mechanism or formula to determine cane price, we are constrained to serve "Notice of suspension of cane crushing operations" in 2014-15 sugar season, and are forced to discontinue repair and maintenance of our plant and machinery and accordingly forced to withdraw concerned workers and staff from the factory. We are also informing the concerned authorities about the suspension of works.

Sir, we would like to submit that being conscious of commitment towards cane farmers and in the over-all public interest, it would be prudent that, as submitted above, an amicable long term solution is worked out at the earliest to save this ailing industry of the State.

Thanking You,

Yours faithfully,  
For bajaj hindusthan limited,



( Om Pal Singh)  
Sr. General Manager(Unit Head)

CC: The Chief Secretary, Govt. of U.P  
The Principal Secretary  
District Magistrate  
District Cane Officer  
Chairman/ Secretary of Co-operative Societies.

Ref.No. 187 / 09 / 2014

August 4<sup>th</sup>, 2014

The Chief Secretary,  
Government of Uttar Pradesh,  
Lal Bahadur Shastri Bhawan,  
LUCKNOW.

Subject: Notice suspending cane crushing operations in 2014-15 sugar season

Dear Sir,

1. We wish to invite your kind attention to our letter dated 08.07.2014 and the correspondences we had with your goodself and other concerned authorities. We had most humbly submitted that the Sugar Industry is financially distressed and ailing and do not see any future in the State to afford to continue business in the present scenario of cane price. We had repeatedly requested and pleaded for some long term solutions to the recurring problem of Cane pricing year after year leading to losses and recurring litigations. It would be appreciated that no business can be **sustained** for long **in losses and in** such circumstances.

We were quite hopeful that the Government shall fulfill its commitments with regard to subsidy of Rs.9/- per quintal of cane, finalise the policy for cane price and sugar price linkage formula as per recommendations of Rangrajan Committee as also advised by the Government of India and further help and **subsidy** shall be considered. However, nothing tangible has happened so far. The two high powered Committees constituted by the Government have not **submitted their reports so far**, whereas their recommendations were to be finalised within 3 months of their formation.

We had submitted at the time of the start of the crushing season 2013-14 that at **State Advised Price (SAP)** of Rs.280/- per quintal there would be cane price arrears of about Rs.10, 000/- Crores at the end of the season. Further there were Cane price arrears of about Rs.2400/- Crores pertaining to previous season



2012-13 at the time of start of season 2013-14. Obviously, the same had to be paid by the sugar mills out of the generation of funds from the current season production. The apprehensions of the sugar mills about the cane price arrears of 2013-14 season became true. It would also be appreciated that the genesis of the problem is high and excessive cane price fixation by the State Government combined with the low sugar realizations.

You are fully aware that the sugar mills of U.P have been suffering huge losses during the last 4 years, which is given below for your kind information:

Sugar year	Losses (Rs. crore)
2010-2011	1750
2011-2012	1960
2012-2013	3200
2013-2014	3500 (Estimated)

As a result of this 21 sugar mills have either been closed down or have gone sick and are before BIFR . Around 8 sugar mills have almost wiped out their net worth and all others are facing severe cash crunch since there is hardly funding support available to them from banks and financial institutions because the repayments are not visible. **The credit rating agencies have already severally downgraded the credit rating of U.P based sugar mills.** In these circumstances, Sir, no business or industry **can survive and** run.

2. Admittedly, the sugar mills of U.P have been suffering these losses due to unreasonably high cane prices (SAP) declared by the State Govt., which have been fixed arbitrarily and without considering either the revenue realization of mills or their paying capacity. SAP has not been based on any transparent, logical or laid down economic principles and relevant factors. There has not been any consideration to ensure a fair or reasonable return from the huge capital employed in the sugar business by the sugar industry. The State Govt. has not even been considering the actual manufacturing cost of sugar incurred by the sugar mills, in a tangible and transparent manner while fixing the cane price. No provisions have been made for the sugar mills to get a fair and reasonable return or profit.



3. On the other hand, the **Fair and Remunerative price ( FRP)** determined by the Central Government already ensures a fair, remunerative and reasonable return to the farmers over and above their cost of producing sugarcane, and at the same time attempts to provide for some return to the sugar mills too. Despite determination of a fair and remunerative price by the Central Govt. since 2009, the State Govt. of U.P continued to fix a higher SAP, arbitrarily and unreasonably, without considering the paying capacity of the sugar mills and the sugar price. This has caused huge losses and contributed to the financial crisis that the sugar mills of U.P. are in today. It cannot be denied that the power of fixing the cane price should not be exercised in a manner which continuously causes losses to the sugar mills, is prejudicial to their interests or does not provide for a reasonable, fair margin to the sugar mills, which is admittedly apparent from their adverse financial results of the preceding years. Such fixation of SAP has also been against the objects and the spirit of the provisions of the UP Sugarcane (Regulation of Supply and Purchase) Act, 1953.
4. Having left with no option and due to unsustainable financial condition and immense pressure from the bankers and other stakeholders, the sugar mills were forced to serve a 'suspension of operations notice' in the month of November, 2013. It was then submitted before the State Govt. that the mills are unable to operate under "unbridled, unviable, unaffordable and unreasonable cane prices well beyond the paying capacity of the mills and that continuous losses cannot be sustained any further". The sugar mills were not in a position to sustain the losses or to arrange further funds to start the mills in the sugar year 2013-14. However, the sugar mills were compelled, pressurized and lured by the State Govt. to start the crushing operations, with assurances and commitments that the interests of the sugar mills would be fully protected in equitable manner.

It was realized and appreciated that for UP mills to be able to afford a cane price of Rs.280/- per qtl. and to break even, the average sugar price should be Rs.3600/- per qtl. Admittedly, the State Govt., seeing the ground realities and the paying capacity of the sugar mills and the prevailing sugar price:



- i. did not increase the SAP for 2013-14 sugar season and the SAP was maintained at Rs.280/- per qtl. SAP was higher by Rs.70/- per qtl. as compared to the FRP of Rs.210/- per qtl.
  - ii. a) gave few concessions amounting to Rs.11/- per qtl., viz. waiver of purchase tax on sugarcane, waiver of entry tax on sugar and society commission to be borne by the State Govt.  
b) assured that after seeing the financial results of the sugar mills, another Rs. 9/- per qtl. of cane price would be borne by the State.
  - iii. declared that the State Govt. of U.P would put in place **in advance** a long term, economically sound and rationale sugarcane pricing policy based on well established, transparent and economic business principles, for the survival and growth of the sugar industry in the State and to make the sugar industry of the State competitive in comparison to the sugar mills of major sugar producing States like Maharashtra and Karnataka, which had already adopted a rational sugarcane pricing policy and a linkage formula to determine the cane price.
5. The sugar mills were accordingly forced to agree to pay Rs.260/- per qtl., however, with an assurance by the State Govt. that if the financial situation so demands, further assistance, subsidy and help would be deliberated and given to the sugar mills to bridge the gap between the paying capacity of the mills and the cane price payable.

At that time, the sugar price was **Rs.3000/-** per qtl., on the basis of which, the paying capacity of cane price worked out to be Rs.225 per qtl. Therefore, the losses were written on the wall. But again on hypothetical basis, the State Govt. pressurized and prevailed upon the mills that the sugar price would improve substantially and sugar mills would earn a profit even after paying Rs.260/- per qtl. or the State Govt. **will extend the financial help and subsidy**. This never happened and the average sugar price for the year 2013-14 remained at Rs.3075/- per qtl., as per which the paying capacity of the sugar mills for cane price works out to Rs.231/- per qtl. This is substantially less as compared to the forced cane price (SAP) of Rs.280/- per qtl.





6. Despite the assurance, the Govt. has not extended any financial **help of Rs.9** per quintal and **further help of Rs.29/-** per qtl. (i.e Rs.260- Rs.231 = Rs.29/- per qtl.). Nobody is addressing the issue that with such huge losses suffered by the mills as a result of higher cane price, from where the cane arrears would be paid and mills would be run? Nobody is also bothering and considering that the mills should also earn reasonable profits from the sugar business and should survive with respect and dignity in the larger interest of the State and the farmers. On the contrary, the sugar mills and their directors, officers and staff have been subjected to multiple coercive actions, knowing fully well that this present situation was fully known to the government well in advance and due to this only the sugar mills were hesitant to commence operations in October 2013.
7. The sugar mills based upon the assurances, promises and commitments made by the State Govt. of U.P., started crushing operations in the year 2013-14 with the hope that if need be the State Government would come forward with financial help beyond Rs.20 per quintal of cane. More importantly, they went ahead with the understanding and hope that from the next sugar season, there would be a rational cane pricing policy by which cane price would be determined in direct relation to the revenue realized from sugar and by-products. The sugar mills therefore expected that with the assured help from the State, they will not suffer any further losses in the year 2013-14 and may in fact be able to even earn a reasonable profit. But not only did the situation not improve and the sugar **mills are going to suffer a loss of around Rs 3500/- crore**, aggravating the financial crisis, but the assurances of the State Govt. too did not materialize. This has resulted in the non-payment of cane price and other unbearable crisis and pain to the sugar mills.
8. The State Govt. as per its commitments constituted the following two Committees vide order dated 10.1.2014:
- i. for arriving at a long term and viable cane price fixation system to rationalize the cane pricing policy, similar to that adopted by Maharashtra and Karnataka States.



- ii. for providing an interim relief of Rs.9/- per qtl. considering the sugar price realization and financial position of mills.

The Committees were directed to give their report within three months i.e. latest by 30.4.2014. However, these Committees have not submitted their reports so far and therefore no progress has taken place in either of these assurances. Not only has there been therefore, no decision on a rational cane pricing formula, but the Rs.9/- per qtl. of cane, which would work out to around Rs.700 crore, has not been released to the sugar mills despite the fact that the adverse financial position of the mills and depressed sugar prices are known to the State Govt. The mills **will be** able to realize enough to be able to afford only Rs.231/- per qtl. of cane price.

9. We have submitted several representations to the State Govt. including the representations dated 4.6.14, 18.6.14, 8.7.14, 21.7.14 and 25.7.14 apprising all concerned authorities about the factual and financial position of the sugar mills and begged for financial help so that the mills could come out of the crisis. Copies of letters dated 21.7.14 and 25.7.14 are enclosed for your ready reference. (Marked as **Annexure -1** and **Annexure-2** respectively) . No response or reply has been received to our requests and representations so far. Instead, FIRs have been lodged against the sugar mills. Recovery proceedings to recover the cane price have been launched against the mills, besides other actions, knowing fully that the sugar mills of U.P. have suffered losses in the year 2013-14, only as a result of higher cane price fixed by the State Govt. and non-availability of financial help and assistance by the State Govt.

10. It has always been stressed by the authorities that with a view to regulate the supply and purchase of sugarcane required for use in sugar factories and gur, rab, or khandsari sugar manufacturing units, the State Govt. of U.P. enacted the U.P Sugarcane (Regulation of Supply and Purchase) Act, 1953 and framed the Rules there under. The said Act and Rules framed thereunder embodies a concept to ensure a fair deal to the sugarcane growers as also to promote sugar industries and to maintain harmony between the cane growers and the sugar manufacturers and to enable both of them to share reasonable



profits. The competitive interests of the sugarcane growers and sugar manufacturers are to be protected by the State Govt. But Sir, the sugar mills have not been ever given a fair deal or reasonable profits, rather the mills have been plunged into losses by fixing the high cane prices, which had no correlation with the sugar price or the paying capacity of the mills.

11. Sir, you will agree that cane can be purchased at an affordable price. If the mills purchase or are forced to purchase the cane at an unaffordable cane price, the mills will not be able to pay the cane price, leading to non-payment of sugarcane price. With high cane price arrears, mills have to, year after year, face coercive and uncalled actions from the State Govt., besides causing unbearable civil, criminal and penal consequences including facing of uncalled for public interest litigation and court orders thereof, for no fault of theirs. It is to be appreciated that the sugar mills cannot be forced to purchase the sugarcane at a cane price which is beyond their paying capacity and which the mills cannot pay or afford to pay and /or which causes losses to the sugar mills.

12. The Central Govt. has already declared and fixed the FRP at Rs.220/- per qtl. linked to 9.5% recovery from sugarcane, for the season 2014-15 vide order dated 14.2.2014. The sugar mills are ready and willing to commence and run their manufacturing operations on the basis of FRP and in all fairness will also share further benefits from better revenue realization from better sugar prices **after the end of the season.**

13. You will recall that Rangarajan Committee had recommended for adoption of the revenue sharing model of cane pricing, followed world-over, recommending for a sharing of revenue/value created in the sugarcane value chain, between the farmers and the millers in a fair and equitable manner. The Central Govt. had accordingly referred these recommendations to the State Governments, including to the U.P. Govt., suggesting for adoption and implementation of the formula.

We understand that such a reference has again been made recently by Central Government vide their letter on 30<sup>th</sup> June 2014 (copy enclosed), wherein the Food Ministry, Govt. of India, has while referring to the information



given by the Hon'ble CM of UP, about the Committee under Chief Secretary on the 'linkage formula' for cane pricing, expressed ignorance on the outcome of the Committee's meetings or its recommendations. Central Government has even requested therein that the U.P. Govt. should immediately take a decision on the linkage formula so that sugar mills start their crushing on time and farmers get their cane price payments on time.

It is pertinent to point out that even the Central Government in its recent Affidavit filed before the Hon'ble High Court has also observed thus "***That the problem of cane price arrears arises when realization by sugar mills from sale of sugar is not enough to pay the cane prices to the farmers. Surplus production over domestic consumption in the last three sugar seasons and low exports due to subdued international sugar prices have led to building up of sugar stocks with the mills. This has adversely affected the financial health of the mills and led to cane price arrears. Though the Government fixes Fair & Remunerative Price of sugarcane on the recommendations of CACP, fixation of higher cane price by some of the States compounds the problem***".

14. Two major sugar producing States i.e. Maharashtra and Karnataka, who together contribute for almost 50% of the country's sugar production, have already adopted and implemented the 'linkage formula' so as to determine cane price automatically at 70% of revenue realized from sugar and primary by-products or 75% of revenue realized from sugar alone. But in case of U.P., even the report of the Committee under Chief Secretary has not been submitted.

We believe that a Committee of senior officials from the State had visited Maharashtra and Karnataka to study the cane pricing system therein and have also submitted their report to the Government. We are sure they must have made some suggestions, including the good practices of these States where the cane pricing policy is working very well, cane price arrears are always under control and there is no SAP fixed therein. Adoption of the system of



these States would have also helped the U.P. mills become competitive with the mills therein.

15. Losses being incurred by the sugar mills across the State is evident from the fact that even the State run mills are unable to pay the cane price to farmers on time. The State has been, year after year, giving grants/subsidies to its co-operative mills, for making payments to their farmers. This year too Rs.400 crore has been sanctioned and expected to be disbursed to the co-operative mills. This works out to Rs.58/- per quintal of cane subsidy to the co-operative mills, implying a paying capacity of Rs.222/-per quintal of cane by the co-operative. However, no commensurate financial help has been provided to the private mills in the State, indicating unfair treatment of farmers supplying cane to private sugar mills. Such operation is continuously against the interest of the stakeholders of the sugar **mills**.

16. In order to allow mills to make prudent business decisions, they should know the cane pricing policy well in advance, before they furnish the estimates of cane requirement, which will determine the cane price they will pay, without any coercion or compulsion. In the absence of knowledge of payable and affordable cane price, the consultation process as provided in law is a mere formality. The Association, on behalf of its members, vide letter dated 28.7.14, had **again** requested the Cane Commissioner and the other authorities to allow the sugar mills to submit the estimates of cane requirement on the basis of FRP and the recommendations of the Rangarajan Committee. But the sugar mills were not allowed to do so, even though the offer of the sugar mills is much more than the minimum support cane price formula. In the present conditions, the employees and the staff of the sugar mills are also not ready to face coercive action by multiple FIRs and harassment for no fault of theirs.

17. Price of sugarcane constitutes a major portion of the total price and manufacturing cost of sugar. Therefore, it indisputably has a great role to play towards the fate of sugar mills. It cannot be the intention of the State Govt. or law to contemplate that manufacturer of sugar must continue their activities although the mills are running at loss or will suffer losses due to higher cane price, which cannot be recovered from the price of the sugar. Therefore, it is



essential for the mills to know the economics of cane and sugar price, before deciding and planning their manufacturing operations. In a business scenario, the sugar mills are also entitled to get reasonable profits from the business. It is to be appreciated that cane price, sugar price and market conditions are beyond the control of the sugar mills, therefore, in all fairness a tangible, logical and transparent solution of determining the cane price is required before carrying out any exercise towards the commencement of crushing operations. This has been already done by the Maharashtra and Karnataka State Governments.

18. Sir, the sugar mills of U.P are ready and willing to commence their manufacturing operations in the season 2014-15, if there is some certainty on the formula for determination of cane pricing. The sugar mills cannot plan to commence the operations or purchase of cane if the cane price is continued to be fixed by the State arbitrarily and unreasonably at high levels. The sugar mills are not in a position to commence their operations unless there is a transparent and rational 'linkage formula' to determine the cane price similar to what has been adopted in Maharashtra.

19. Despite assurances, the financial commitments, as mentioned above, made by the State Govt. for the year 2013-14, remains unfulfilled and a rationalized cane pricing policy based on recommendations of Rangarajan Committee or a 'linkage formula' similar to that adopted in Maharashtra, has not been formulated. Instead, RCs, FIRs and arrests alongwith other coercive steps are being adopted by the State. The UP sugar industry, through its representative body, UPSMA, had vide its letter dated 8.7.2014 requested for the above before 31<sup>st</sup> of July, 2014, and had submitted that in the absence of these, the sugar mills will have no other option; but to serve suspension of operations notices immediately thereafter.

20. The sugar mills are not being allowed to submit their estimates of cane requirement or purchase the cane at a fair and remunerative cane price fixed by the Central Govt. and even the genuine offer of the sugar mills offering to make additional cane price payment over and above the fair and remunerative cane price based upon the financial results of the sugar mills, as explained



hereinabove, has not been considered and accepted by the Govt. of U.P. Now, in the above premises and in the absence of any clarity from the U.P Government on the adoption of the 'linkage formula' for 2014-15 sugar season **and** on giving above mentioned financial benefits, as was assured to the mills by the State Government, the sugar mills are not in a position to commence their manufacturing operations and purchase cane for the season 2014-15, for the reasons beyond their control, as stated above.

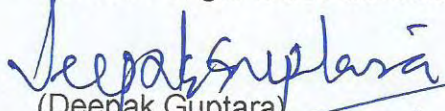
21. The sugar mills are, therefore, constrained to hereby serve "notice of suspension of cane crushing operations". The sugar mills are forced to discontinue all their work towards maintenance and repairs of plant and machinery, and accordingly withdrawing their staff, officials and labour from the factories. The mills are also informing the concerned authorities of their suspension notice.

The sugar mills will resume their repair and maintenance or decide on crushing operations once there is clarity that the price to be paid for the sugarcane is affordable, determined as per the 'linkage formula' in relation to the revenue realised from sugar and/ or primary by-products, similar to that adopted by Maharashtra Government as well as the other assurances on the financial help and grants are announced.

The individual mills may send the notices separately.

Thanking You,

Yours faithfully,  
For U.P. Sugar Mills Association

  
(Deepak Gupta)  
Secretary

~~Encl: As Above.~~



CC: The Principal Secretary, Sugar Industry & Cane Development  
Department, U.P. Government, Babu Bhawan, Lucknow- 226 001  
CC: The Cane Commissioner, Uttar Pradesh, Lal Bahadur Shastri Ganna  
Kisan Sansthan, Bahumanzila Bhawan, New Berry Road, Lucknow.

(Deepak Gupta)

Ref.No. 163/09/2014

08-07-2014

The Chief Secretary,  
Uttar Pradesh.  
LUCKNOW

Sub: Last prayer by UP sugar mills before Uttar Pradesh Government

Sir,

- The financially distressed, ailing Sugar Industry of Uttar Pradesh are no longer able to see a future for themselves in the State to encourage them to continue doing business here. Being naturally endowed with abundant water and soil best suited for sugarcane and therefore, sugar production, the State of UP and its sugar mills should have been the best performers in the country. But it is at the bottom, thanks to several unfriendly policies adopted by successive State Governments in the past 7-8 years. But on the other hand, with helpful and positive policies in other States like Maharashtra, Karnataka and Gujarat, the sugar mills/ societies have performed much better, even though they are water scarce.

Karnataka and Maharashtra have adopted the 'linkage formula for cane pricing. Therefore, the cane price for the mills in these States, from here on, will be automatically determined at either 70% of revenue realised from sugar and first stage by-products or at 75% of the revenue realized from sugar sales alone (75% includes 5% weightage for first stage by-products). Payments to farmers would be paid in two instalments, first, at the time of cane purchase at FRP, and second, at the end of the sugar year, for the difference between the 75% or 70% and FRP. The mills in Gujarat also follow such a system of sharing their revenue with farmers, though unofficially.

Mills in these three States are already the lowest cost producers of sugar in the country, thanks to lower cane price and higher sugar recoveries therein. They produce around 60% of country's sugar and with a further advantage of the "linkage formula", cheaper sugar from this region will flow to all parts of the country. The "linkage formula" assures the mills of not only a stable cane pricing, but also a margin of 25-30% of their revenue, to enable them to take care of their other liabilities like bank payments, repair & maintenance of plants, salary & wages, input costs etc. With no such law in UP, and the uncertainty of an arbitrary and unreasonably high SAP,



sugar production in UP has become totally unviable and we have become uncompetitive.

With a cost of production of sugar in UP of around Rs.3700 per quintal, higher by around Rs.700-800 to Maharashtra, Gujarat and Karnataka and with a freight difference of only Rs.200-250 per quintal between West and North or East markets, you can appreciate the massive disadvantage that the mills of UP are in. Sir, this has resulted in the highest cane price arrears in UP, of around Rs.7000 crore now, as compared to an average of Rs.600-800 crore in other States. UP produces about 30% of country's sugar, but is unfortunately carrying 60% of the country's total cane price arrears.

You will recall that during July-Nov, 2013, before start of current season's crushing, the sugar industry of UP had submitted several times, in writing as well as verbally, during our various meetings with you and the officials of UP Government, that the mills are in no position to incur further losses. We had also submitted that as per our revenue realization and the depressed sugar prices, the mills could at best pay around Rs.225-230 per quintal of cane. You will recall that we had also informed that if the industry is forced to pay anything more than this, cane price of farmers will fall into arrears.

Unfortunately, disregarding everything, the State forced the mills to start crushing operations at Rs.280 per quintal. It was absolutely clear that with a carry forward of around Rs.2405 crore of arrears from last season, Rs.280 of SAP and if sugar prices don't improve, the cane price arrears would cross Rs.10000 crore. Therefore, the current cane price arrears of Rs.7000 crore should be of little surprise. The arrears would have been worse had the Central government not helped with interest free loans of Rs.1385 crore.

With lot of anxiety, pain and with a sense of desperation, we wish to remind you of the several assurances and promises made by you and your Government, when we were forced to start our factories in Dec, 2013. All of them, without any exception, remain unfulfilled:

- a) Neither the Committee under Chief Secretary, UP, vide Office Order No. 81 C.D./46-3-14-3(35)/2013 dated 10-01-2014 has recommended the

rationalized sugarcane pricing policy (which was required to have been done by April, 2014) nor the State Government has adopted a "linkage formula" (that Maharashtra and Karnataka have adopted for cane price.

- b) The promised subsidy of Rs.9 per quintal of cane to assist in bridging a part of the gap between SAP and our paying capacity, has not been announced.
- c) Assurance that if the industry faced financial problems, the State would consider further assistance has not even been deliberated upon, leave alone the fulfillment of the assurance.
- d) Even though you had personally assured us Sir, that the State would be sympathetic and that no coercive action would be taken against the mills, and instead of understanding the problems of the industry created by the State by forcing an unreasonably high SAP once again, and helping with some financial assistance, the officials have done exactly the opposite. All kinds of coercive actions have been undertaken, including RCs, FIRs, seizure of sugar, locking godowns, auctioning the sugar etc.

The business environment has been badly vitiated and the industry does not find any reason to trust the Government with its promises or assurances. The coercive actions are giving us a feeling of being treated as "criminals" in our own State, where we have invested money, time and energy during the past several decades. The feeling of betrayal and helplessness has not been so high in our past several years. This during a time, when the State is looking to attract investors to the State, is unfortunate.

It is extremely difficult for us to understand and accept as to why the cane farmers supplying cane to cooperative sugar mills are being treated as favourites, when the State, year after year, doles out loans and subsidies to its cooperative mills to pay to their farmers, but nothing for the farmers who supply cane to us. It is learnt that budgetary provision is again being made for Rs.400 crore for cane farmers of cooperative mills, in current financial year. This translates into around Rs.70 per quintal of sugarcane. A similar budgetary support to private sugar mills will probably clear off most of the cane price arrears pending. Surprisingly, the State is delaying announcement of even the promised Rs.9 per quintal of cane to the private mills and farmers attached to them.

Considering the difficulties faced by the sugar industry, the Government of India has tried to help by improving liquidity of mills and policy decisions like export incentives, ethanol blending, import duty increase etc. But these have not proved enough to bail out the UP sugar mills from their precarious financial conditions. Out of Rs.2000 crore of loan applications against excise duty paid in last three years, mills in UP got only Rs.1385 crore, thanks to "poor" balance sheets of several mills. Many sugar mills of UP are sick, under BIFR or CDR or under financial distress.

On the one hand the Central Government has come forward to financially assist the sugar mills, including with favourable policy decisions, on the other hand, action from the State Government of UP is still awaited. This is, when the current woes of the UP sugar industry is the result of the unreasonable and arbitrary cane policy.

Instead of helping, the State is creating further problems by adopting coercive measures. Seizure of sugar and not allowing mills to sell as per commercial conditions and attempts by District officials to sell at below market price, will only further reduce our cash flows and increase our losses further. The sugar mills are struggling in an environment of uncertainty, threat and financial losses again. UP sugar mills have been downgraded by almost all rating agencies like CRISIL, ICRA, Ind-Ra as well as all banks, making it more difficult for them to get bank loans, including working capital. With other States adopting the "linkage formula", and UP still not moving away from the arbitrariness on cane pricing and announcing its rationalized policy, banks are already showing reluctance to finance the sugar mills of UP, forecasting a sure loss season next year for UP mills.

Therefore, and after a lot of thought, and after considering advice of several experts in the field, the Association of the sugar mills of UP is constrained to make its following final requests to enable the U.P. mills to decide to operate in 2014-15 season:

- 1) Kindly announce by 23<sup>rd</sup> July, 2014, that the subsidy of Rs.9 per quintal of sugarcane will be given to UP sugar mills against the cane price of 2013-14 sugar season.
- 2) Kindly announce by 31<sup>st</sup> July, 2014, adoption of the "linkage formula" for cane pricing, under which cane price in future, will be automatically determined at

75% of the revenue realized from sugar, and the payment of cane price will be in two instalments, of first FRP and second the difference between the 75% and FRP.


- 3) All coercive action, including actions under FIRs, RCs, auction of property, sugar etc. should be stayed, at least for one month till after the above two announcements are made by the State Government.

A letter was submitted to your kindself on 20<sup>th</sup> June, 2014, requesting for quick decisions on the above, and also informing that the mills are worried that they may not be able in a position to start their operations next season. Unfortunately, there seems to be no progress on our requests or the assurances given by the Government earlier and we have not been informed of any action in this regard. Instead, coercive actions have only increased.

If the above announcements are not made by 23<sup>rd</sup> July and 31<sup>st</sup> July '14 respectively, the sugar mills will be constrained to formally serve a notice to the State Government immediately thereafter to discontinue the manufacturing operations and stop all repair and maintenance activities of our factories. In the meantime, in the present circumstances and conditions, the mills will not participate in any of the activities, including cane area reservation etc. too.

Thanking you, *with personal regards*

Yours faithfully,

  
( C.B. Patodia )

President

Ref. No. 178/63-9/2014

Dated: 25-07-2014

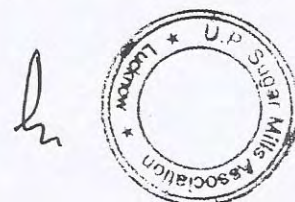
The Cane Commissioner,  
Uttar Pradesh,  
Lal Bahadur Shastri Ganna Kisan Sansthan,  
Bahumanzila Bhawan,  
New Berry Road,  
LUCKNOW-226 001

Subject:- Estimates of requirement of cane by the sugar mills for  
the crushing season 2014-15

Dear Sir,

Please refer to your letter No. 1247/C/KRAY/CC/2014-15 dated 23.7.2014 through which our member sugar mills have again been asked to submit the estimates of the cane requirement for the season 2014-15. In response to your earlier letter dated 1.7.2014, the member sugar mills have submitted individual letters requesting you to kindly wait for the decision of the State Government on the representation dated 08.07.2014 submitted by the Association. However no response has been received by the mills, so far. The Association has also sent a letter No. 177/63/ 2014 dated 21.7.2014 giving the reasons in brief about the inability of the member sugar mills to submit the estimates of cane requirement. It seems that our said letter dated 21.7.2014 has escaped your kind attention. Therefore a copy of the letter dated 21.7.2014 is again enclosed for your ready reference.

It has been emphasized by the sugar mills that their grievances as enumerated in the Association's letter dated 08.07.2014 have not been addressed by the Government and more over the mills are not aware of the cane price at which they will be required to purchase cane in the ensuing crushing season 2014-15.



Your goodself shall appreciate that the cane price is the most important and essential element for the plan of the business of manufacturing sugar. The cane can only be purchased against the affordable cane price where the business becomes viable. If the sugar mills purchase or are forced to purchase the cane at an unaffordable cane price, in that case, the mills will not be able to pay the cane price and the same situation of huge cane price arrears would arise. In that circumstance once again your good self shall be compelled to take coercive actions as are being presently taken. like lodging of FIRs, issuance of recovery certificates, attachment and sale of assets etc.

It is a foregone conclusion that such a situation would again arise and therefore a tangible solution is required before the cane requirement is fixed or reservation of cane area etc is done. If a viable solution is not arrived now than this will put all the stakeholders in a very embarrassing and depressing situation; besides may cause huge losses to the sugar mills and also lead to all civil, criminal and penal consequences for no fault on the part of the sugar mills. The sugar mills cannot afford to commit requirement and commit to purchase the cane on an unknown cane price and later on forced to agree to pay unaffordable cane price and sign Form C after filling the figures of SAP and exposing themselves to all the consequences of non-payment of cane price. In previous years the sugar mills have always been coerced to sign Form C and thereafter it is termed as agreed price.

It is to be appreciated that your goodself cannot have effective consultations with the cane growers and the sugar mills unless the affected parties know the cane price and therefore in the absence of the affordable and acceptable cane price, it is difficult to give the estimates of the cane requirement or to commit for purchase of cane.

We would once again like to submit that the State Government has constituted a Committee vide order dated 10.1.2014 for arriving at a long term and viable cane price fixing formula to rationalize the cane pricing policy similar to that as



adopted by Maharashtra and Karnataka States. We have already submitted our submissions before this Committee. The Committee was to give its report within three months; but so far we have not been provided any further opportunity by the Committee nor have we received any information about the recommendations of the Committee. On the other hand the Central Government on the basis of data submitted by the State Government and after considering all relevant factors has already declared the Fair and Remunerative price (FRP) of cane vide order dated 14.2.2014 for the year 2014-15 . However pending report of the said Committee and deliberations thereon, the member mills are ready to give their proposal of estimates of cane requirement on the basis of the FRP fixed by the Central Government. They are further ready to share as additional cane price average sugar price realized on the basis of principles enumerated in the report of Rangarajan Committee, which has already been considered and adopted by our competitor States Maharashtra and Karnataka.

In a free economy and the present global scenario, there are always ups and downs in the sugar prices because of the domestic and international market conditions as well as the policies of the Government. The recommendations of Rangarajan Committee ensure the payment of FRP to the farmers at the initial stage, which is over and above the statutory minimum price fixing formula and also giving further scope to share the returns from the business at the end of the season after seeing the sugar price and financial results without harming the stake holders.

We are confident that it cannot be the intention of your goodself and the State Government. to force the sugar mills to purchase the cane at an unknown and unaffordable cane price and to again suffer losses as the sugar mills have suffered huge losses in the previous years due to higher unreasonable and unaffordable cane price fixed by the State Government.



In view of the above, it is humbly submitted that while deciding the matter as stipulated in your letter, our representations and the letters written by our members may kindly be considered and our members may be allowed to submit the estimates on the basis of known cane price i.e. FRP and as per the recommendations of Rangarajan Committee.

It would be appreciated that a long term and lasting solution has to be found to avoid unnecessary litigations and an unhealthy business atmosphere.

This letter is being submitted without prejudice to the rights of the member sugar mills as available under the law.

Thanking You,

Yours faithfully  
For U.P. Sugar Mills Association

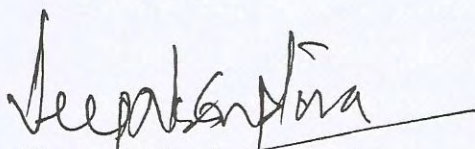
(Deepak Guptara)  
Secretary

Encl: As above.

CC: 1. The Chief Secretary, Govt. of U.P., Lucknow  
✓ 2. The Principal Secretary, Sugar & Development, Government of UP, Lucknow

For kind information please.

For U.P. Sugar Mills Association

  
(Deepak Guptara)  
Secretary





Ref No.177 /63/2014

Date : 21.7.2014

The Cane Commissioner,  
Uttar Pradesh  
Lal Bahadur Shastri Ganna Kisan Sansthan,  
Bahumanzila Bhawan,  
New Berry Road,  
LUCKNOW - 226 001

Subject:- Estimates of requirement of quantity of cane by the sugar mills for the crushing season 2014-15 for the purpose of Section 15 of the U.P Sugarcane (Regulation of Purchase and Supply) Act, 1953

Dear Sir,

Directions have been issued to our member Sugar Mills vide letter No. 653/C/Kray/ GA /2014-15 dated 1.7.2014 under Section 12 of the U.P Sugarcane (Regulation of Supply and Purchase) Act, 1953, directing them to furnish estimates of the quantity of Cane which will be required by the sugar mills for the crushing season 2014-15 for the purpose of compliance under Section 15 of the said Act.

In this regard, it is humbly submitted that our member sugar mills are not aware of the cane price at which they will be required to pay for the purchase of cane for the crushing season 2014-15. The cane price fixed by the State Govt., over and above the fair and remunerative cane price (FRP) fixed by the Central Govt., in the previous years including for the season 2013-2014 had caused huge losses to the sugar mills. In fact, the sugar mills have not been able to even recover the cost of manufacturing of sugar as a result of higher cane price. It is to be appreciated that the mills should also get at least the fair and remunerative return from the manufacturing of sugar. This scenario has caused huge financial crisis resulting into cane price arrears. More over due to excessive Cane price combined with low sugar realizations there were arrears of cane price in the previous years as well. The same were paid out of the generation of funds in the current year, which has further aggravated the situation. Under the



circumstances the member sugar mills do not want to purchase the cane at a price, which they cannot afford and may not be in a position to pay at a later stage. Without knowledge of the price to be paid the mills are not in a position to commit themselves with any requirement of Cane. We understand that the member mills have also responded individually to the aforesaid letter dated 1.7.2014.

Please appreciate that the cane price fixed by the State Govt. has no co-relation with the sugar price and realizing this situation the State Govt. has also appointed a Committee vide notification dated 10.1.2014 to arrive at an acceptable formula of fixing the cane price, considering the expert opinion like that of Dr. Rangarajan Committee and others, besides, formulae recently adopted by other major sugar producing States Maharashtra and Karnataka, so that the sugar mills of U.P can also withstand the competition and at the same time afford to pay the cane price . Report of this Committee has not come so far despite a lapse of considerable time.

It is re-emphasized that the cane price is an important element in sugar business and unless the sugar mills know in advance the cane price and its affordability, based upon the paying capacity and the sugar prices, the mills are unable to submit estimates of cane requirement.

The Central Govt. has already declared the FRP for the season 2014-15 well in advance. It would be appreciable that the State Government also fixes the cane price in advance so that all concerned including the Farmers and Mills, know the price before making any commitment for supply or purchase. Our member sugar mills can, however, submit their estimates of cane requirement on the basis of the FRP and sharing further payment towards the cane price on the basis of Dr.Rangarajan Committee formula. This way the farmers will get fair and remunerative price and at the same time would also stand to get additional cane price, if the price realization to the mills goes up. Under such a set-up the sugar mills may also get some reasonable return on their investments. Thus it would be beneficial to all stake holders in the long run, including the farmers.



We have already apprised all concerned authorities of the State about the situation faced by the sugar mills of U.P through various representations and letters. Recently, we have also sent a representation dated 8.7.2014 to the Hon'ble Chief Secretary of Uttar Pradesh. We await response for a suitable action on the same. A copy of the representation dated 08.07.2014 is enclosed for your kind perusal.

It is, therefore, requested that the assessment of requirement of Cane for the season 2014-15 be kept in abeyance till a decision is taken on our said representation dated 08.07.2014.

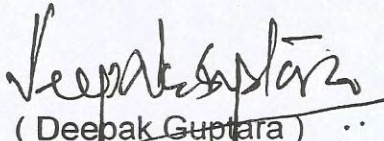
We would be thankful,

Yours Faithfully  
For U.P. Sugar Mills Association

(Deepak Gupta)  
Secretary

CC: Chief Secretary, Govt. of U.P., Lucknow  
✓ CC: Principal Secretary, Sugar & Development, Lucknow

*With regards,*  
For kind information please,

  
(Deepak Gupta) ..  
Secretary

सुधीर कुमार  
Sudhir Kumar



सत्यमेव जयते

सचिव  
भारत सरकार  
उपभोक्ता मामले, खाद्य और सार्वजनिक वितरण मंत्रालय  
खाद्य एवं सार्वजनिक वितरण विभाग  
कृषि भवन, नई दिल्ली - 110 001  
**Secretary**  
Government of India  
Ministry of Consumer Affairs  
Food & Public Distribution  
Department of Food and Public Distribution  
Krishi Bhawan, New Delhi-110 001

अ.शा.सं.-4-5/2010-सांख्यिकी-11

दिनांक 30 जून, 2014

प्रिय श्री दीपक

उत्तर प्रदेश की अर्थव्यवस्था के लिए महत्वपूर्ण चीनी उद्योग एवं गन्ना विकास विभाग में आपकी तैनाती पर हार्दिक बधाई। उत्तर प्रदेश में लगभग 40 लाख किसान परिवार गन्ने की खेती से जुड़े हैं, प्रदेश में लगभग 125 चीनी मिलें, ढाई लाख लोगों को रोजगार प्रदान कर रही हैं। इस प्रकार से इस उद्योग का प्रदेश की अर्थव्यवस्था में एक महत्वपूर्ण योगदान है।

2. उत्तर प्रदेश में सरकार द्वारा भारत सरकार द्वारा निर्धारित उचित एवं लाभकारी मूल्य (Fair and Remunerative price) से भी अधिक गन्ना मूल्य निर्धारित किए जाने के कारण चीनी मिलों की वित्तीय स्थिति प्रभावित हो रही है।

3. गत वर्ष अक्टूबर-नवम्बर माह में भी प्रदेश में कठिन स्थिति थी, उस समय भी गन्ना किसानों का लगभग 2500 करोड़ रुपया भुगतान के लिए बकाया था और प्रदेश द्वारा निर्धारित गन्ना मूल्य पर चीनी मिल मालिकों ने मिल चलाने में कठिनाई बताई थी। तब समाधान ढूँढने के लिए तत्कालीन कृषि मंत्री, भारत सरकार की अध्यक्षता में एक बैठक की गई थी, जिसमें प्रदेश के माननीय मुख्यमंत्री और मुख्य सचिव ने भी भाग लिया था। इस बैठक में निर्णय के अनुरूप भारत सरकार ने जहां चीनी मिलों को बैंकों से सॉफ्ट लोन दिलाने तथा निर्यात को बढ़ावा देने की कार्रवाई की वहीं राज्य सरकार से अनुरोध किया था कि डा. रंगराजन समिति की सिफारिशों के अनुरूप गन्ना मूल्य को चीनी के मूल्य से लिंक किया जाए। उस समय हमें बताया गया था कि मुख्य सचिव, उ०प्र० की अध्यक्षता में गठित समिति इस पर शीघ्र विचार पर संस्तुति देगी, जिस पर सरकार द्वारा निर्णय लिया जाएगा।

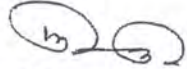
4. अब फिर से प्रदेश में गन्ना किसानों का लगभग 7000 करोड़ बकाया हो गया है और फिर से चीनी मिलों द्वारा भारत सरकार से रियायत दिए जाने के लिए अनुरोध किया जा रहा है। दूसरी ओर मुख्य सचिव की अध्यक्षता में गठित समिति की अभी तक बैठक होने या कोई संस्तुति करने की जानकारी नहीं है। आपको यह भी ध्यान में रखना होगा कि प्रदेश में कम चीनी रिक्वरी के साथ ज्यादा गन्ना मूल्य निर्धारण करने से चीनी की लागत महंगी हो जाती है और प्रदेश की चीनी मिलें महाराष्ट्र आदि राज्यों की चीनी मिलों से भी प्रतिस्पर्धा नहीं कर पाती।

-जारी-

5. यदि राज्य सरकार ने समय से आवश्यक निर्णय नहीं लिए तब अगले सत्र में चीनी मिलों का चलना कठिन प्रतीत होता है, जिससे गन्ना किसानों को अपनी उपज बेचने में तथा खेत खाली कर अगली फसल की बुआई में कठिनाई होगी। अतः आपसे अनुरोध है कि स्थिति की गंभीरता को देखते हुए प्रदेश में चीनी उद्योग के हित में चीनी मूल्य तथा गन्ना मूल्य को लिंकेज पर तत्काल निर्णय कराएं जिससे गन्ना किसानों के मूल्य का समय से भुगतान हो और चीनी मिलें अगले वर्ष सही समय पर पेराई आरंभ कर सकें।

सोमितादन

आपका

  
(सुधीर कुमार)

श्री दीपक त्रिवेदी,  
प्रमुख सचिव चीनी उद्योग और गन्ना विकास विभाग,  
401, चौथा तल, बापू भवन,  
उत्तर प्रदेश सचिवालय,  
लखनऊ उत्तर प्रदेश -226001