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Review Of Research

CONSUMER BEHAVIOR FOR ETHANOIL BY PRODUCT IN MAHARASHTRA SUGAR SECTOR.

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ABSTRACT

Sugar mills in Maharashtra, India's biggest sugar-Producing state, have avoided dynamic investment in providing ethanol to oil advertising organizations (OMCs) due to non-reasonability. Plants in other significant maker states, for example, Uttar Pradesh, Tamil Nadu and Karnataka have forcefully taken an interest in supply of the gareen fuel to OMCs.

KEYWORDS: Consumer Behavior , Maharashtra Sugar Sector, Sugar mills , sugar fabricating.

INTRODUCTION:

In India, ethanol, a side effect of sugar fabricating, is acquired by preparing molasses in its unique shape as amended soul (RS), with around 95 for every penny immaculateness. On additionally preparing, ethanol is gotten for coordinate mixing with petroleum. As assembling ethanol specifically from sugarcane or some other agri deliver is uneconomical, the biggest sugar-creating state ought to in a perfect world be in a position to supply the most ethanol.

In any case, sugar community processes in Maharashtra feel providing ethanol to OMCs is prudent. "After the offering procedure is finished and helpful sugar processes effectively take an interest in the process with open value cites, OMCs call them three-four times to arrange costs. There is not really any space for arrangement in the cost offered in the delicate. Still, OMCs need transactions," said Sanjeev Babar, overseeing chief, Maharashtra State Federation of Co-agent Sugar Factories.

Against two tenders by OMCs for 2,736 million liters, sugar processes the nation over offered to supply a sum of 1,168 million liters, of which OMCs concluded 646 million, 23.6 for each penny of their aggregate necessity for coordinate mixing of ethanol with petroleum. As per sources, OMCs issued orders for 526 million liters, of which 382 million were against the initial delicate, skimmed on January 2, 2013. They lifted simply 272 million.

Babar says sugar plants pay agriculturists consistently, tuned in to their stick supplies. Offering molasses, additional nonpartisan liquor, redressed soul or modern liquor (all pre-refined types of ethanol) in the spot advertise yields quick money either through bank stores or the ongoing gross settlement framework; OMCs offer installments following 60 days. By at that point, sugar factories pay enthusiasm on the ethanol sold to OMCs, included Babar.

STATE-WISE STATS

Requirement & lifting quantity of ethanol (in '000 litres)

State	Required	Offered	Finalised	Orders issued	Lifted*
Maharashtra	315,252	47,600	38,800	26,104	24,949
Uttar Pradesh	201,876	208,300	168,841	165,334	104,575
Karnataka	147,982	59,000	45,700	45,702	34,900
Tamil Nadu	116,176	48,000	36,719	36,717	14,533
Andhra Pradesh	103,121	49,100	21,600	20,987	21,395
Gujarat	68,268	6,100	1,000	999	662
Delhi	56,189	41,900	19,100	35,674	24,010
Haryana	53,797	38,084	36,084	18,492	15,961
Rajasthan	48,561	4,800	4,000	4,000	1,040
Punjab	46,051	28,500	27,359	28,183	13,550

*up to March 2, 2014 Source: Industry

That separated, OMCs need the supply at fuel terminals. At a few, octroi and nearby body assess demands make ethanol costlier, additionally lessening providers' acknowledgment. Likewise, OMCs take months to conclude tenders and issue ethanol supply requests to sugar plants.

The cost is another issue. "For industrial alcohol, the cost of creation works out to Rs 33-34 a liter which, if changed over into ethanol, ascends to Rs 36 a liter. Offering at Rs 36-37 a liter, along these lines, does not bode well for sugar factories. For sugar mills, the timeliness of molasses supply additionally bodes well," said Deepak Desai, boss specialist, Ethanolindia, an ethanol consultancy firm.

ETHANOL POLICY

Ethanol and molasses have been the subject of discussion in relation to the desirability and extent of control and taxation by the State Governments. The committee recognizes that while states have the constitutional power to impose taxes and restrict movement of molasses (raw material for alcohol/ethanol) the states have to be persuaded to be reasonable in controlling the movement of molasses and also in taxing ethanol and its derivatives. The State governments should standardize the terms of the market and ensure that the factories do not arbitrage between the variable regulatory and fiscal frameworks prevalent in different states.

Looking to the problems in manufacture and sale of ethanol to oil marketing companies, the Committee recommends that the Government should come up with Comprehensive Ethanol Policy that takes in to account manufacture, blending programme, pricing and investments in new ethanol capacities. As explained in an earlier paragraph the recent notification for direct manufacture of ethanol from cane juice is a welcome development in the interest of energy security. This should be made a part of the long term policy. Further the policy should permit new stand alone units for ethanol manufacture from cane juice. This would reduce the cyclical aberrations introduced by excess production of cane and consequent glut in sugar stocks as explained in a later paragraph. Further the following need to be incorporated in to the policy framework.

1. Excise duty waiver on Molasses
2. Uniform Sales Tax across states and on interstate sale
3. Encouragement to manufacture of flexi fuel vehicles that could run on ethanol as well other conventional fuel
4. Special incentive to ethanol blended petrol on par with Compressed Natural Gas (CNG).
5. Rigorous implementation of 10% doping of petrol with ethanol.

DECONTROL AND DEREGULATION

In most other industries, commercial decisions on procurement of raw material, transport, manufacture of the finished goods, packing, marketing and the sourcing of finance for the entire gamut of operation is done by the industrial units, but in the case of sugar, almost every single aspect of operations is mandated by the government and subjected to regulations. Other sectors have benefited considerably from decontrol and deregulation through promoting greater market discipline in the primary stakeholders. Profitable running of enterprises is a basic requirement if the economy has to thrive. Private enterprise is able to perform better with autonomy, freedom from control in business decisions and non-interference with markets. In case of sugar, as indicated earlier, the almost total control has limited the industry's ability to innovate, invest and improve its efficiency. Higher investments do not flow in to sectors with high level of state control. With low profitability and only windfall profits arising from trading based on a skewed market cycle, entrepreneurs might shy away from making investments required for export markets and integrated sugar complexes.

The sector's future depends on its ability to diversify into bio-fuel and power generation as these have the ability to add as much as 30 t0 50% to the value of sugar produced. Large sized sugar complexes would perhaps be able to function with cost economies of scale and manage their market risks through manufacturing flexibilities and exports. Such large complexes would be driven by merger of existing mills as well investments in new mills. Such investments would be forthcoming only if the government provides autonomy and a stable policy regime which makes returns on investments more certain.

As stated earlier one of the more urgent measures is to consider removing sugar from the list of essential commodities and take care of interest of small consumers through the PDS. The statutory basis for fixing the sugar cane prices and setting terms of market releases of sugar would stand removed.

The reduced government role in these areas would result in cost saving to the government that could be applied for the development of the sugar sector and targeting the protection of interest of small farmers and small consumers through very specific programmes. The industry should be given a 3 to 5 years time frame in which the measures for decontrol are to be taken. Without such a calibrated mechanism of decontrol it is difficult to envisage the sugar sector marching towards a sound future where it is internationally competitive. Some specific aspects of deregulation are discussed in the following paragraphs.

PROTECTION OF CONSUMER

Sugar Consumption in India

India's sweetener market comprises two main sectors. Centrifugal sugar on one hand and traditional cane derived sweetener as gur and khandsari on the other hand. Gur and khandsari producers constitute the un-regulated sector. In terms of per capita consumption the use of jaggery fell from 10.5 kg in 1994-95 to 2.4 kg only in 2006-07. In contrast, per capita sugar consumption shows a stable growth. It improved from 14 kg in mid 1990s to 16.8 kg in 2006-07 as against the world's average of 23.1 kg. If, however, other sweeteners are added India's per capita consumption would amount, however, to more than 23 kg raw value. Similar to other developed countries, sugar consumption in India is driven mainly by growing population and income growth. In the past sugar consumption trend was also influenced by developments in gur and khandsari consumption. It is likely that their replacement by sugar have already reached a saturation point. It is likely to maintain its current average growth rate of about 3 % per annum. This would mean an increase of consumption from 19 MTs white value reported for 2006- 07 to 25.8 MTs in 2014-2015 and further to 34 MT; a cumulative growth of 4.8 Million Tons. Under the present sugar regime the national market is divided into two segments. 10% of the annual production is sold in the PDS as levy sugar and the balance 90% is sold in the free market. Of the total sugar sold in the free market an estimated 61% is for industrial use assuming that all the sugar distributed in PDS is for household consumption. The overall share of direct consumption reaches 46% of the country's sugar production.

PROTECTION OF CONSUMER'S INTEREST

The Government should abolish the levy mechanism and the sugar requirement for PDS should be met through open market purchase / tendering from mills. The issue of protecting consumers' interest in the sugar sector is addressed by the government through influencing the supply of sugar in the market, altering the tariffs on export and import of sugar, stocking and selling sugar through a combination of levy, controlled market releases and other arrangements and making available sugar through the public distribution system to the target group of narrowly defined poor people. The action taken by the government in trying to influence the availability of sugar in the market through introducing a levy system as also operating a mechanism of market releases of sugar has been effective in dealing with price and availability issue, but not the profitability and sustainability of the enterprises. The expert group totally endorses the policy view that the consumers belonging to the poorer sections should be protected through a targeted public distribution system in which sugar may be supplied at reasonable rates. Barring this section of consumers all other consumers do not need any kind of price based protection. The sugar required for PDS could be procured from the market without resorting to levy and similar other mechanisms. The levy system could, therefore, be abolished. This would also result in increasing the remuneration to farmers.

The expert group feels that maintenance of strategic stock for managing prices is not a legitimate role for the government. Government's active involvement in managing stocks would tend to take focus away from managing the risks in the sector and optimizing its performance. As stated earlier the interest of poor consumers could be protected by a targeted programme that supplies sugar through the existing PDS to the existing clients of PDS.

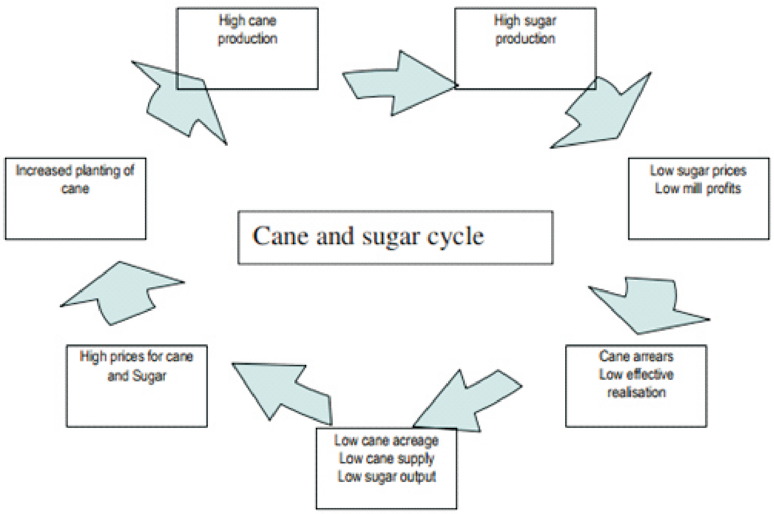
It is recommended that sugar be removed from the list of essential commodities and its weight in the wholesale price index be reduced. Sugar has been placed under the essential commodities Act in view of its mass consumption measure. Sugar, based on the consumption patterns and its criticality to the people does not seem to be a fit case for continuation in the essential commodities list.

Another issue that has been raised is the weight given to sugar in the consumer price index and the wholesale price index. The weight given to sugar is more than the weight of rice and wheat! This needs to be reduced as most of the consumption is by industrial units engaged in confectionary, bakery, soft drink manufacturers and the like. If sugar is removed both from essential commodities Act and also its weightage reduced from the price indices then the present focus on control over price of sugar with all the attendant consequences could be avoided.

The expert group recommends that sugar should be taken out of the list of essential commodities, while retaining sugar cane therein. Retaining sugar cane in the essential commodities list would provide the government with necessary powers for securing the interests of cane farmers, who cannot escape dealing with large corporates for sale of their produce. The Essential commodities cover would enable fixing of fair price for cane, ensuring payments to the farmers and checking wayward behaviour of mills in cane procurement. The EG recommends that the entry under item (xi) (e) of section 2 of Essential Commodities Act 1955, may be deleted (to remove sugar from the list of essential commodities). The timing of removal of sugar from list of essential commodities should be aligned to the phased dismantling of levy and market release mechanisms.

CYCLICALITY IN PRODUCTION AND PRICE OF SUGARCANE

The Expert Group recommends that with appropriate policies, the Government should promote appropriate measures to reduce the cyclicality in sugar and cane production and their prices, by offering full flexibility to sugar mills in manufacturing any product from cane. Price of sugar rules high in a year in which cane production is low and resultant sugar output is low. The high price of sugar raises expectations that in the next season sugar cane will fetch a high price and leads to increased planting of cane over a larger area. The higher production of cane, leads to a glut in the market and high sugar output which brings down the prices. The crop being a long duration one and immediacy of sugar consumption needs do not lend for short term responses which could facilitate farmers to benefit immediately from supply deficits and higher prices. The cycle is perpetuated on account of alternating peaks and troughs in supply of cane. A combination of actions is required to lend stability to cane supplies through reducing volatilities in cane price. The present use of cane only for manufacture of sugar tends to feed the cycle based on sugar price movements. In a season when sugar prices are low, if cane could be directly diverted to manufacture ethanol, sugar production and stocks would remain stagnant thereby improving the price sentiment during a sugar glut. Cane would be able to get a due price on account of ethanol and cogeneration revenues which are not impacted by cycles in commodity sugar. While cogeneration would always remain a remunerative activity on account of power shortage as well as the focus on renewable energy, ethanol is subject to a different commodity cycle – that of crude oil. Even here ethanol's status as a green alternative should find it a ready market, with the government's commitment for a minimum percentage blending.



If the cane production above a threshold could be directly converted to products other than sugar, then low sugar prices and low mill profitability could be avoided. Here the flexibility to the mills for switching from sugar to ethanol or vice versa would ensure that cane is put to the most profitable use and sustain the mills ability to pay an appropriate price to the farmer on time. The second merit of this flexibility is that mills do not have to wait for sugar stock to be disposed off for making cane payments, but dispose of ethanol/ alcohol and power to generate funds for paying the farmers. Maintaining cane payments current prevents erosion of farm incomes and ensures that next season's cane planting does not suffer.

The shifting of the decision on appropriate cane use to the mills would decentralize the same and break down a large problem in to several small enterprise decision situations. For this anti-cyclical measure to work, mills should be encouraged to ramp up their ethanol manufacturing capacity quickly. New stand alone ethanol manufacturing units with multiple raw material (Cane, Molasses, corn, beet, sweet sorghum) capability should also be encouraged. In the expert group's view, the desired policy response for stabilization of cane and sugar production and their prices thus comprises offering full flexibility to sugar mills in manufacturing of any product from cane, support to investment in new capacities for direct production of alcohol, ethanol and derivatives from cane, permission for setting up stand alone ethanol units, creation of cogeneration capacities and dismantling the market release mechanism for sugar.

CONCLUSION:

The issue of protecting consumers interest in the sugar sector is addressed by the government through influencing the supply of sugar in the market, altering the tariffs on export and import of sugar, stocking and selling sugar through a combination of levy, controlled market releases and other arrangements and making available sugar through the public distribution system to the target group of narrowly defined poor people.

The action taken by the government in trying to influence the availability of sugar in the market through introducing a levy system as also operating a mechanism of market releases of sugar has been effective in dealing with price and availability issue, but not the profitability and sustainability of the enterprises.

The Expert Group recommends that with appropriate policies, the Government should promote appropriate measures to reduce the cyclicality in sugar and cane production and their prices, by offering full flexibility to sugar mills in manufacturing any product from cane.

The high price of sugar raises expectations that in the next season sugar cane will fetch a high price and leads to increased planting of cane over a larger area.

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