



BALRAMPUR CHINI MILLS LIMITED

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Ref. No. : C/CC/11/124

Dated : 08/08/2014

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: -
 - 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 Balrampur Chini Mills Ltd.



Occupier

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