

**August 14, 2007**

To,  
Chief Executive Officers,  
All Scheduled Urban Co-operative Banks

Dear Sirs,

**Advances to Sugar Industry – Holding of Buffer Stock**

Please find enclosed a copy of the notification dated April 20, 2007 issued by Government of India, Ministry of Consumer Affairs, Food & Public Distribution, Department of Food & Public Distribution on the captioned subject.

2. It may be observed therefrom that Government has decided to create a buffer stock of 20 lakh tons of sugar for a period of one year with effect from May 01, 2007. Under the arrangement, the Government will release subsidy of Rs. 378 crore out of Sugar Development Fund and the banks will have to sanction additional credit limits amounting to Rs. 420 crore to release the margin consequent upon creation of the buffer stock from the existing stocks of sugar. In this connection, it may be noted that no margin is to be kept in respect of buffer stocks of sugar. As advised by Government, the entire amount of Rs. 798 crore will be used exclusively by the sugar mills for payment of cane price to farmers.

3. A copy of Ministry of Consumer Affairs, Food and Public Distribution Notification dated December 6, 2001 setting out guidelines in regard to creation of buffer stock is enclosed for guidance of banks.

4. For operation of the Scheme, it would be necessary for sugar mills to segregate the stocks meant for buffer stock operations from the stock of sugar already held by them. The banks should allocate out of the regular limits, separate sub-limits representing 100% value of buffer stocks held by sugar mills. The amount released as a result of providing 100% drawings against buffer stocks i.e. the amount in lieu of the margin money should be credited to a special account. It would be necessary for the banks to ensure that the amount available in this account is utilized for making cane payments.

5. Directorate of Sugar, Ministry of Consumer Affairs, Food & Public Distribution, New Delhi have, vide their Notification No. 6-5/2007-CC dated April 30, 2007 advised all sugar mills individually of the quantity and quality of sugar stocks to be held by them as buffer stock. It will be in order for the banks to take appropriate action on the strength of such a communication received by the sugar mills. The banks should ensure that no operations on the separate account kept for buffer stocks are allowed and no withdrawals from stocks earmarked as buffer stocks are permitted.

6. Interest on the separate account for buffer stock may be debited to the regular cash credit account.

7. The stocks earmarked as buffer stocks may be valued in the same manner as free-sale stocks.

Yours faithfully,

(N. S. Vishwanathan)  
Chief General Manager-in-Charge