The Current Sugarcane Pricing Policy & its Critical Analysis

Mr. Tarun Sawhney

President - ISMA

- Current Sugarcane Pricing Mechanism
- Recommendations of Various Committees
- Sugarcane Price Impact wrt various factors
- Demand – Supply Scenario
- Way Forward

Current Sugarcane Pricing Mechanism

Sugarcane Pricing Policy

- Sugar industry is an important agro – based industry
- About 50 million Sugarcane farmers
- Around 5 lakh workers directly employed in sugar mills
- Indian sugar industry’s annual output is approximately Rs.80,000 crore

Key Objectives of all Sugarcane policies

a fair price to cane growers

adequate returns to industry

supply of sugar to consumers at reasonable prices

Sugarcane Pricing Policy - FRP

- The pricing of sugarcane is governed by the statutory provisions of the Sugarcane (Control) Order, 1966 issued under the Essential Commodities Act (ECA), 1955
- Statutory Minimum Price (SMP) was replaced with the Fair and Remunerative Price (FRP); amendment of the Sugarcane (Control) Order, 1966 on 22.10.2009
- FRP is announced at the recommendations of the Commission for Agricultural Costs and Prices (CACP)
- Factors for fixation of FRP of sugarcane:

Cost of production of sugarcane

Recovery of sugar from sugarcane

Inter-crop price parity

price at which sugar is sold by sugar producers

Reasonable margins for the growers of sugarcane on account of risk and profits

The realization made from sale of by-products or their imputed value

Availability of sugar to consumers at a fair price

Sugarcane Pricing Policy - SAP

- Citing differences in cost of production, productivity levels and also as a result of pressure from farmers' groups, some states declare state specific sugarcane prices called State Advised Prices (SAP), usually higher than the SMP/FRP
- Since early 1970s, State Advised Price (SAP) came into existence in States like UP, Tamil Nadu, Punjab, Haryana etc.

Comparison between FRP and SAP – Major sugar producing states

Sugar Season	FRP (Rs. per quintal @ 9.5% Recovery)	UP SAP (Rs. per quintal @ Normal Variety)	Karnataka (Rs. per quintal)	Tamil Nadu SAP (Rs. per quintal @ 9.5% Recovery)	Maharashtra (FRP)
2010-11	139.12	205	180	190	200 (first advance)
2011-12	145	240	200	200	180-205
2012-13	170	280	200-240	225	210-250
2013-14	210	280	250	255	236-275
2014-15	220	280	220	240	220
2015-16	230	280	230	285	230

Source: Industry data

Sugarcane Pricing Policy - FRP v/s SAP

- Dual sugarcane pricing distorts sugarcane and sugar economy and leads to cane price arrears
- UP declare SAP for rejected variety at just Rs.5/qtl price differential with common variety due to which farmers are not motivated to grow better varieties
- CACP in 2015-16 report recommended that SAP of rejected variety, if any, be kept at a Rs.20/qtl lower than that of the common variety to help improve recovery rate and overall efficiency
- High SAPs without any linkage with the output price is unviable
- Higher SAP than FRP led to year on year rise in cane price arrears
- Industry association recommends to remove the system of SAP; in case states announce SAP, such price differential should be borne by the state governments

Dual Sugarcane Pricing Policy Mechanism is Unsustainable

Recommendations of Various Committees

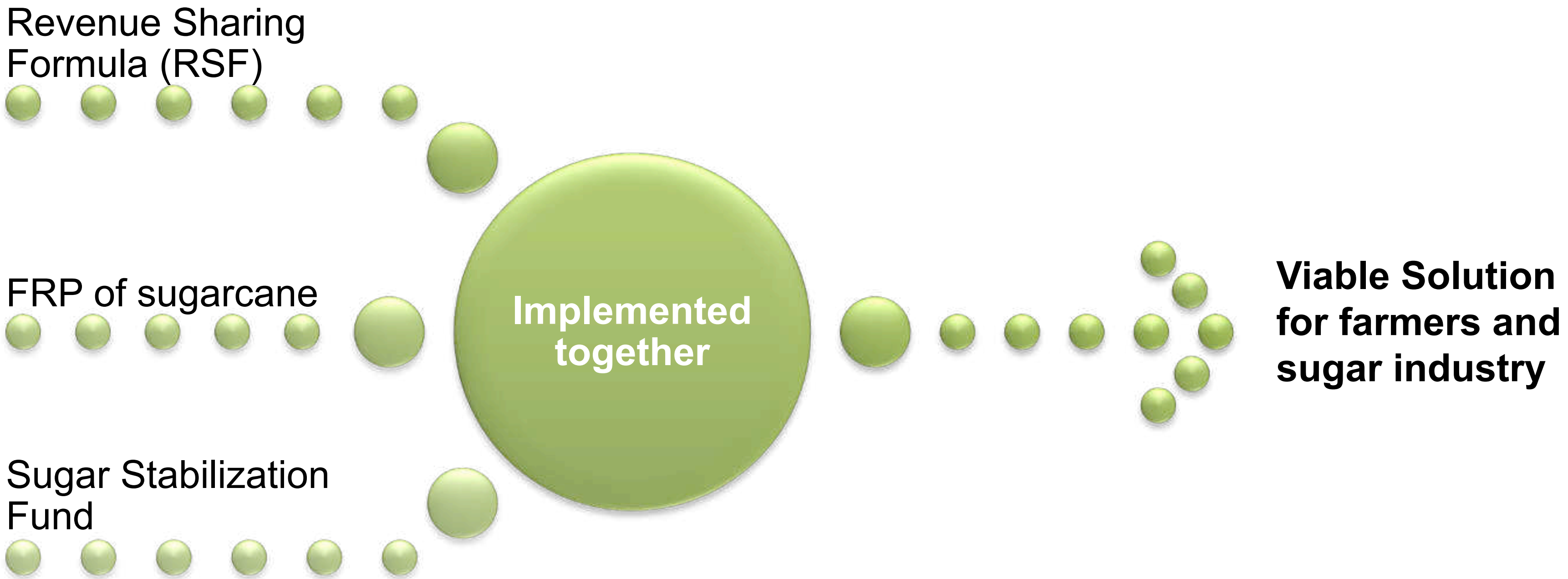
Recommendations of Various Committees on Sugarcane Price Policy

- **Tuteja Committee (2004)**
  - ✓ Payment of SMP along with price sharing benefits as per Clause 5A to continue
- **Thorat Committee (2009)**
  - ✓ Government should withdraw from fixing price of sugarcane
  - ✓ Mills and farmers should settle prices and terms of raw material supply
- **Nanda kumar Committee (2010)**
  - ✓ Recommends for a fixed % of sugar, bagasse & Molasses realisation
  - ✓ Guarantees share to farmers of hike in sugar prices in off-season
  - ✓ Ensures a fair return/ savings to sugar mills too
- **Dr. C. Rangarajan Committee (2012)**
  - ✓ Linkage of sugarcane price with realisation of sugar and its first level of by-products
  - ✓ A minimum price fixed for sugarcane (FRP)
  - ✓ The actual payment for cane dues would happen in two steps. The first would be payment of FRP at floor price as per extant mechanism
  - ✓ Balance payment of cane dues will be done subsequent to publication of half-yearly ex-mill prices and values of the by-products

Source: Information based on public documents

Sugarcane Pricing Policy - CACP Recommendation

- Adopt a Hybrid approach -



Sugarcane Price Impact wrt various factors

Sugarcane Price /Kg of Sugar State Wise Comparative

- Impact of sugarcane price on cost of production:

	Recovery %	Cane Required For 1 tonne of Sugar (in tonnes)	Cane Rate (PMT)	Cane Price per Tonne of Sugar
2015-16(*)				
UP	10.60%	9.434	2800	26,415.09
Maharashtra	11.30%	8.850	2733	24,187.05
Karnataka	10.80%	9.259	2615	24,212.85
2014-15				
UP	9.54%	10.482	2800	29,350.10
Maharashtra	11.29%	8.857	2640	23389.00
Karnataka	11.06%	9.046	2561	23166.81
2013-14				
UP	9.26%	10.799	2800	30,237.58
Maharashtra	11.40%	8.772	2522	22124.00
Karnataka	10.95%	9.132	2500	22831.05

(*)Estimates

Return on Sugarcane – State wise Comparison

For the period 2010-11 to 2012-13

State	Net Returns (Rs./ha)	Net Returns (%)
Andhra Pradesh	32118	28
Haryana	50221	49
Karnataka	74827	81
Maharashtra	69144	47
Tamil Nadu	77201	57
Uttar Pradesh	52367	67
All-India	59213	58

UP has the highest return rate of sugarcane

Source: CACP Report 2015-16

Inter-Crop Price Parity – All India

Crop	Net Returns (Rs./ha)	Net Returns (%)	Per Month Net Returns (Rs./ha)
Sugarcane	59213	58	4934
Paddy	4550	12	1137
Wheat	14260	36	3565

Note:

- **For sugarcane and wheat the average is for the years 2010-11 to 2012-13 and for paddy the average is for the years 2009-10 to 2011-12**
- **Sugarcane crop cycle on an average is about three times that of wheat and paddy, the returns have been normalized for time duration, i.e. returns per month have been derived for these competing crops**

Sugarcane gives highest return as compared to Wheat and Paddy

Source: CACP Report/ Industry Data

Sugarcane Price /Kg Of Sugar Country Wise Comparative

	Recovery %	Cane Required For 1 tonne of Sugar (in tonnes)	Cane Rate (PMT)	Currency	Cane Price per Tonne of Sugar (USD)	Cane Price per Tonne of Sugar (INR @ 67/USD)
India	10.37%	9.64	2511	INR	361.3	24206
Thailand	10.20%	9.80	900	BAHT	342.4	22940
Brazil	13.5%	7.41	26	USD	192.7	12911

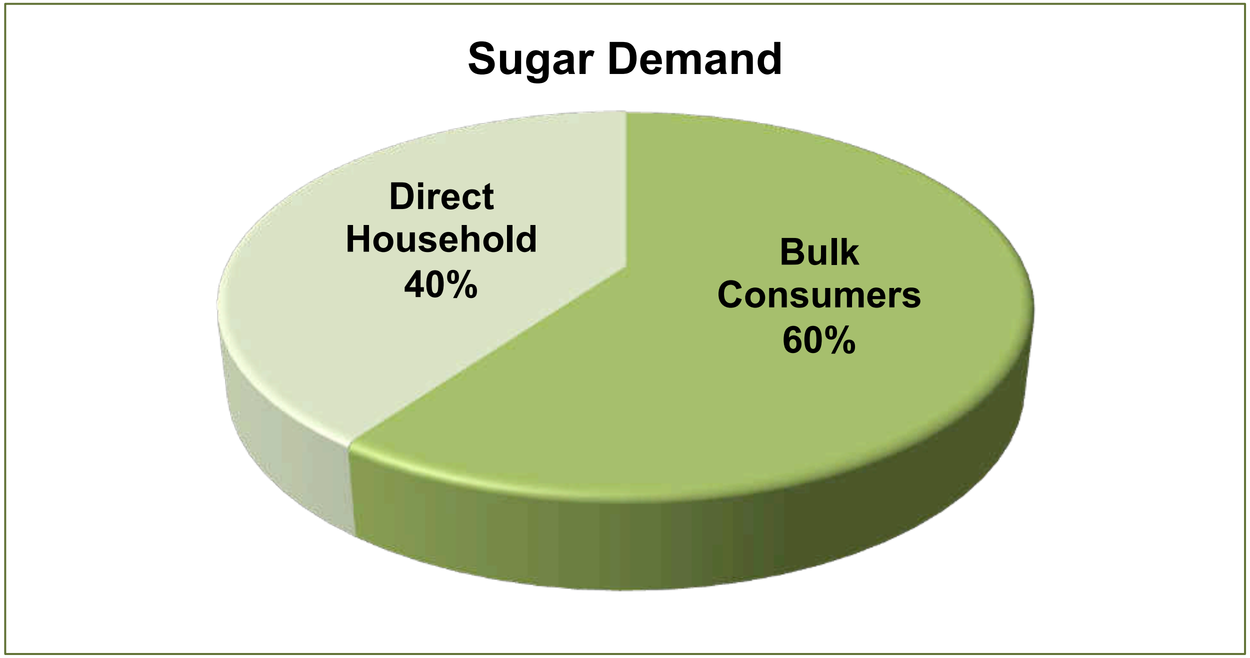
India has the highest sugarcane price in comparison to Thailand & Brazil

Source: Public domain information

Demand – Supply Scenario

Demand – Supply Scenario

- Two demand sources of sugar – Bulk Buyers & Direct Household
- Supply is linked to domestic sugar production, imports and exports



Source: Industry data

Since the bulk of sugar is consumed indirectly, any impact of the sugar price increase will not have major impact in the overall household budget

Demand – Supply Scenario

- All India per capita Direct Household Consumption of sugar is estimated at 804 gms/ month

Monthly/capita expense on Food (Rs.) : All India 2011-12

Item	Rural	Urban	% of total food -Rural	% of total food - Urban
Cereals & Pulses	196	229	26	20
Milk, egg etc	183	280	24	25
Vegetables, fruits etc.	136	212	18	19
Edible oil	53	70	7	6
Sugar	21	25	3	2
Salt & spices	55	69	7	6
Beverages etc	113	236	15	21
Total Food	756	1121	100	100

As the % consumption of sugar in monthly household is only 2-3%, an increase of sugar price of Rs.5/kg in a month, will have only an impact of 0.5% on the overall food budget of any household

Source: NSSO report

Way Forward

Way Forward

Single Sugarcane Price formula across the country

Stable & viable Sugar Industry

Steady supply of Sugar leading to stable sugar prices

Funded by Cess under SDF

Direct Benefit Transfer to Farmers (DBT)

Sugarcane price linkage with sugar and first level of by-products

Farmers

Sugar Industry

Benefit to Consumers

Win-Win for Farmers, Sugar Industry and Consumers

Way Forward

Single Sugarcane Price formula across the country

- In 2015-16 report, CACP recommended that under the Revenue Sharing Formula (RSF), the Total Revenue Pot (TRP) generated from the cane-sugar value chain, which is the value of sugar and its first stage by-products, be shared between the farmers and the millers in the ratio of their relative costs in producing cane at farm level and converting that cane into sugar and its by-products at factory level.
- Based on the Commission's in-depth study undertaken earlier, this ratio works out to 75:25 at 10.31 recovery rate.
- However, arrangement under RSF needs to be aligned with FRP to protect the farmers in the event of any downward movement in prices of sugarcane. The FRP would serve as the floor price which the farmers would receive even when sugar prices fall to a level which leads to prices lower than FRP.
- In-line with the recent Sugarcane Acts of Karnataka & Maharashtra

Way Forward

Single Sugarcane Price across the country

- It is recommended that if price determined on a revenue sharing formula is less than FRP, the difference be financed by the Cess Fund under SDF
- The Central government has already passed the Sugar Cess (Amendment) Bill to allow enhancement in the ceiling of the sugar cess from the current Rs 0.25 to Rs 2/kg
- The proceeds from which will be used to facilitate liquidation of cane payment dues to farmers
- This will help in creating a Sugar Reserve (SR) which can be used for making cane payments to farmers when sugar realisation is lower than FRP
- The funds from SR to the farmers can be transferred directly through Direct Benefit Transfer route (DBT)
- The DBT route has been successfully implemented during 2014-15 season by UP Government for distribution of cane arrears to millions of farmers' accounts directly and Central Government subsidy of Rs. 45/ tonne would also be transferred through this route
- The cess can be levied in a graded manner depending on sugar prices so that it will not have any impact on the consumer
- A cess of Rs. 4/ kg can create a SR of Rs. 10,000 crore without impacting consumers

Way Forward

Farmers

- Stable Returns
- Consistent cash flow

- Cane development
- Adopt latest agricultural practices

Industry

- Reasonable Returns for conversion
- Long term policy & visibility of cane cost

- Mills get funds
- Ability to invest in new capacity/ improve operations & efficiencies

Consumers

- Stable Pricing
- Ability to hedge/ forecast prices

- NCDEX to get depth
- Resets in price possible
- Reduce volatility in pricing

Advantage - Government

- Long term pricing formula
- Limited volatility in prices – can control sugarcane and sugar prices linked with inflation
- No cost to ex-chequer

ONE PRICE FORMULA FOR THE COUNTRY

Thank You