Market-based solution

Sugar sector should adopt a revenue-sharing model

The sugar sector is beset with a crisis the symptoms of which are all too familiar — high production, low prices and accumulation of sugarcane price arrears payable by mills to farmers. This, indeed, is part of the cycle of ups and downs in the supply and prices of sugarcane and sugar that recurs with unfailing regularity and hurts cane farmers the most. The total unpaid dues of farmers crossed ₹160 billion in March-end, reflecting not only the liquidity crunch in the sugar industry but also the financial deprivation of farmers who have already supplied their produce to factories. The government has announced a series of measures to tame the glut through exports and stabilise sugar prices, but these have achieved little success because of the slump in the international market. These measures include doubling of import duty; abolition of export duty; mandatory export of 2 million tonnes of sugar; and fixing the quota of sugar that each mill can sell in the domestic market. Indications are that more financial sops are under way to help the industry and boost exports.

However, such piecemeal moves are unlikely to lead to an enduring solution. What is needed is a sound long-term strategy to link the prices of inputs (mainly sugarcane) with those of the output (sugar and by-products) so that the production of both sugarcane and sugar conforms to market dynamics. The framework of such a strategy has been outlined in the C Rangarajan committee report on sugar deregulation. While the Centre has accepted the report in 2013 and implemented some of the recommendations — such as lifting the levy on sugar production and doing away with the monthly release mechanism for open market sale — yet the relatively more crucial ones were left to the states to accept and implement.

Unsurprisingly, action on the part of states has been wanting. Even the main and, by far, the most pertinent recommendation to abandon the system of state advised prices for sugarcane and replace it with the revenue-sharing formula has not been conceded by most states, barring Maharashtra, Karnataka and, recently, Tamil Nadu. This system, in vogue in many other sugar-producing countries, envisages sharing of 70 to 75 per cent of the revenue generated by the mills from the sale of sugar and its by-products with cane suppliers. Besides balancing the interests of cane producers and the industry, it lets the production of both sugarcane and sugar to be dictated by market demand.

Though originally both the industry and cane producers were willing to accept this model, now the farmers are turning wary of it. Their main apprehension is that sugar factories will always show losses or very little profits to deny them their legitimate stake in the revenue. Better supervision and audit of sugar mills' accounts is, therefore, imperative to restore the farmers' confidence in this system. And this should not be difficult to do for a highly regulated industry like sugar. The revenue-sharing model, indeed, holds the key to production and price stability in this sector for the benefit of all stakeholders — industry, cane farmers and sugar consumers.

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