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Govt should allow sugar price to be set by market forces

Measures aimed at clearing growers' arrears will worsen industry's problems

On Wednesday, the Narendra Modi government announced a floor price of ₹29 per kg, below which no mill can sell sugar. Besides, every mill will now have to hold a minimum stock, to prevent sale of any extra sugar that might push prices below ₹29/kg. The government will further finance the creation of a 3-mt buffer stock. The latest policy measures, ostensibly to help clear payment of arrears of around ₹220 billion to sugarcane farmers, will only make a bad problem worse. Today, there is too much sugar in India. Total availability from opening stocks of 4 mt and production of over 32 mt during the 2017-18 season (October-September) will far exceed the estimated domestic consumption of 26 mt. Worse, the coming season is expected to see an even higher output of 34 mt. With so much surplus stocks, it would be impossible for mills to sustain the government-fixed minimum price of ₹29/kg, unless there are controls on how much quantity they can sell. But what will mills do with their excess sugar? And if they don't sell, how will they pay farmers?

The solution to the problem is clear. Mills cannot do without cane, which only farmers can supply. The latter, too, need mills to buy their cane. The government should allow market forces — and mutual interest between the miller and the farmer — to decide what the right price of sugar and sugarcane must be.

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