Sugar muddle

The sector must undergo market reform

The sugar industry, known for crying wolf most of the time, is at present facing a financial crisis that seems real. The banks' move to put the sugar sector on the "caution list" for fixing borrowing limits is clear evidence of that. Excess supplies have dragged ex-factory sugar prices below production cost, leading to an accumulation of cane price arrears of ₹180 billion. The bulk of these are accounted for by sugar mills in Uttar Pradesh, which have to incur a relatively high cost for sugarcane procurement because of the state-advised cane pricing system. The country's sugar output is estimated to have surged by nearly 10 million tonnes in the 2017-18 sugar season (October 2017 to September 2018) to 32.2 million tonnes. This is way above the effective demand of around 25 million tonnes. Worse still, the output is anticipated to swell over 35 million tonnes in the 2018-19 season, thanks to the government's pro-cane growers' stance with an eye on the forthcoming general election in 2019. This would worsen the sugar glut. Coupled with working capital constraints due to reduced bank financing, it would make it harder for the industry to recover unless the process of sugar sector reforms, which has been put in the reverse gear, is revived and carried forward.

Clearly, the genesis of the sugar sector's woes is rooted in the overproduction of both sugarcane and sugar, and the consequential meltdown of sugar prices. But, instead of disincentivising additional cane production, the government is taking measures which would have the opposite effect. The notable among these are a sharp hike of ₹20 a quintal in the "fair and remunerative price" (floor price for sugarcane fixed by the Centre); mandatory additional payment for sucrose recovery in excess of 10 per cent; and cash dole of ₹5.50 per quintal of cane used by the mills. Other steps which can also directly or tacitly spur higher output of sugarcane and its crushing by the mills include permitting direct conversion of cane juice into ethanol, instead of using only the byproducts for this purpose; fiscal incentives for setting up more distilleries; and creation of a 3 million-tonne sugar buffer. This aside, the government has also doled out an elaborate package of sops to the sugar factories to continue their operations. All this amounts virtually to managing the symptoms rather than curing the disease.

The real solution for the sugar muddle lies in letting the production of both sugarcane and sugar move in tandem with the requirement, or demand, of sugar for domestic consumption and export. This would tend to stabilise prices and tame the pernicious cyclicality in sugar output. The way to achieve this objective is outlined explicitly in the report submitted by the Rangarajan Committee on sugar deregulation in 2013. The revenue-sharing formula for cane pricing mooted by it can help strike the needed balance between input supplies and output demand to stave off gluts and scarcities. This mechanism seems fair to both cane growers and sugar producers as it envisages sharing 70 to 75 per cent of the revenue earned by the mills with farmers. But transparency in the assessment of the sugar factories' revenues is vital to make this system a success by winning the farmers' confidence in its fairness.

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