Sugar reforms

Prices should be determined by market dynamics

The suggestion from the Commission for Agricultural Costs and Prices to introduce dual pricing of sugar for commercial and domestic consumers is unlikely to resolve the recurring financial woes of this sector, as its problems are primarily the consequence of policy limitations and want of reforms. A similar suggestion was made in 2017 by the National Federation of Cooperative Sugar Factories, citing the differential rates for electricity supply to the industrial and domestic sectors. The proposition, however, was deemed impractical as sugar is different from power, which is delivered directly to consumers, leaving little scope for rerouting it to other destinations. But in the case of sugar, its diversion to non-targeted users is hard to forestall. In any case, mere tampering with sugar pricing cannot ensure economic stability for the sugar industry unless the output prices and the input costs (read sugarcane prices) are correlated.

Currently, the sugar industry is having a good run for several reasons. Exports have turned feasible, thanks to government subsidy and a spike in international prices. Realisations from domestic sales of sugar and its byproducts, notably ethanol, have also improved. The burdensome inventories have shrunk with many mills having already got rid of their surplus stocks. A series of bailout measures and fiscal sops have also been offered by the government in recent months. These include lucrative prices for ethanol; creation of sugar buffer stock; and soft loans to the industry with a hefty 7 per cent interest subvention. Though all this has been done in the name of benefiting the farmers by improving the sugar mills' ability to clear cane price arrears, the unpaid dues continue to remain worryingly at over ₹8,200 crore (as of mid-December). This puts a question mark on how long would this sweet phase last. The uncertainty on this count arises also because the official sops are neither limitless nor unending. Besides, the sugar sector is notorious for its cyclic ups and downs.

There is also another disquieting dimension of the recent policy modifications, especially those concerning ethanol production. The permission for converting sugarcane juice and sugar syrup directly into alcohol, without making any sugar, and fixing higher prices for such ethanol can be a case in point. This is set to incentivise cultivation of sugarcane, a water-guzzling crop, exclusively for alcohol making. A water-stressed country like India can ill-afford this. The ecological damage from increased cane farming may be higher than the benefits of using ethanol as transport fuel.

Thus, instead of further complicating the matters through dual pricing, it would be far better to dig up the report of the Rangarajan committee on sugar, submitted in 2012, and implement the prudent pricing system mooted by it. The proposed benefit sharing formula envisages apportioning 70 per cent of the revenue earned by sugar mills from the sale of sugar and its byproducts to the cane growers. The objective is to link the prices of sugarcane with those of sugar and its byproducts. This would, in turn, allow the output of both sugarcane and sugar to be determined by market dynamics and stave off scarcities and gluts. Most importantly, it would safeguard the interests of all stakeholders — cane farmers, sugar industry, traders and consumers.

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