Lasting solution

WTO ruling is an opportunity to reform the sugar sector

The World Trade Organization (WTO) ruling against India's sugar and sugarcane subsidies is, by and large, inconsequential for the country's current policies concerning this sector. But it does provide an opportunity to address some of the chronic issues that often require the government to bail this industry out. In a complaint filed jointly by Brazil, Australia and Guatemala, the WTO's disputes settlement panel has held that India provided more financial support for sugar exports and cane production than is permissible under the global agreement on agriculture. New Delhi, expectedly, has discounted this decree and has decided to file a review petition to safeguard the interests of the sugar industry, millions of small and marginal cane growers and the workers employed in this sector. The moment the appeal is submitted to the appellate authority, the stay on the enforcement of the decree will automatically come into effect to allow the continuation of the status quo until the final decision.

True, India had been subsidising sugar exports in past years to clear the domestic glut. But these sops have already become redundant — and, hence, stopped — thanks to the spike in the global sugar prices due to crop damage in Brazil, the world's largest sugar producer. The Indian sugar mills are said to have already secured export orders for about 3.8 million tonnes without any government support. The industry seems confident of exporting at least 6 million tonnes of sugar this year. Moreover, the permission granted to the sugar mills to produce ethanol directly from sugarcane juice and sugar for blending with petrol, and fixing relatively higher prices for such alcohol, has also improved the sugar industry's financial health. Analysts anticipate the global and domestic prices, and supply situation to remain favourable for the local sugar industry in the next season as well.

That apart, the current good run in the sugar sector seems like the ideal time to complete the unfinished reforms in this sector. The main factor that often causes liquidity crisis in the sugar industry, leading to accumulation of cane price arrears, is the disconnect in the prices of sugarcane and sugar (read input and output). The fair and remunerative prices (FRP) for sugarcane are generally fixed prior to the cane crushing season with little cue of what the prices of sugar, the end product, would be like. The state-advised cane prices are generally pitched higher than the FRP, guided mostly by political exigencies. To address this issue, the C Rangarajan committee on sugar sector reforms had suggested that the mills should share 70 per cent of their revenue from sugar with cane growers. This is in line with the pricing mechanism followed in many other sugar producing countries, though the average farmers' share is normally 60 to 62 per cent. The sugar industry had accepted the Rangarajan formula, though it has seldom been implemented.

The other way to tackle this issue could be to club it with the minimum support prices of other crops and refer it to the agricultural pricing committee that is being set up under the government's agreement with farmers to end their protracted sit-in at Delhi borders. Some kind of a correlation between sugarcane and sugar prices is imperative to keep the sugar sector in good shape.