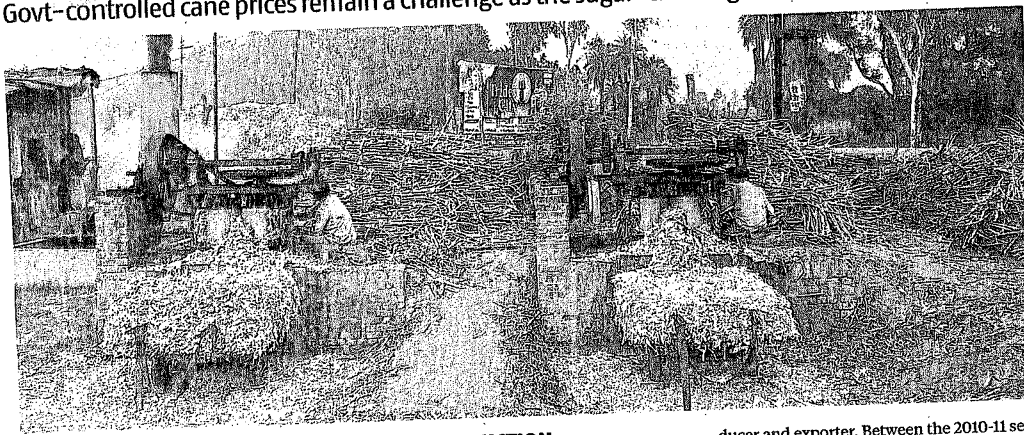
Sugar producers pay the price of reform

Govt-controlled cane prices remain a challenge as the sugar-crushing season gets into full swing



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As the crushing of cane reaches its seasonal peak in India and around the world, the Indian sugar industry presents the disturbing picture of the government controlling cane prices, while the revenues that crushing factories will earn are left to market forces. In times of good to bumper production, when ex-factory prices of the sweetener will fall short of production cost, factories find it difficult to settle cane bills of farmers on time.

Not very long ago, cane dues of sugar factories climbed to an astronomical amount of over ₹220 billion, leading to many distressed farmers committing suicide and great unrest in the country's cane-growing regions. Government intervention came in the form of loan packages to factories to settle unpaid cane bills. But the industry that provides livelihood to 50 million farmer families and employment to around 500,000 in cane-crushing units will remain vulnerable to not being able to make timely payment to farmers for cane supplies till policy reforms are made to end the mismatch between cane and sugar prices, especially when the sweetener enters a bear phase.

Reforms are needed both at the central level where the Fair and Remunerative Price (FRP) of cane is fixed yearly on recommendations of the Commission for Agricultural Costs and Prices, and in those states, which solely because of political considerations slap a hefty premium on the FRP. Factories operating under state-advised prices (SAP) are, therefore, at a handicap to the ones operating in Maharashtra and Karnataka, which alone of all sugar-producing states, introduced a revenue-sharing formula (RSF) in 2013 following a central non-binding recommendation. Under RSF, farmers are paid the FRP as the first installment; if dues to farmers under the RSF are more than the FRP, then they will be entitled to payment for the second time.

PEAK PRODUCTION

Estimate of sugar production in 2017-18 (in million tonnes)

Uttar Pradesh	10.5
Maharashtra	7.4
Karnataka	2.3
Gujarat	1.7
AP & Telangana	0.7
Tamil Nadu	0.6
Punjab	0.6
Haryana	0.6
Bihar	0.5
Others	0.8

On both FRP and SAP, the Indian industry's cane cost compares hugely unfavourably with that of Brazil, the world's leading sugar producer and exporter. Between the 2010-11 season (October to September) and the current one, FRP linked to 9.5 per cent sugar recovery is up from ₹139.12 a quintal to ₹255 a quintal. During the same period, SAP for the normal variety of cane in Uttar Pradesh climbed from ₹205 a quintal to ₹315 a quintal.

Although there remains a divide in the industry between factories coming within the ambit of the scientifically-based RSF and those under the politically-designed SAP, sugar prices will, more often than not, sink below its production cost. In a recent presentation to the food secretary, Indian Sugar Mills Association (ISMA) said there are occasions when the industry's cane cost will be more than realisation from sugar sales "leaving nothing for other liabilities". India stands in sharp contrast to other sugar producing countries where cane will claim "62 to 65 per cent of revenue realisation from sugar sales".

Former ISMA president Om Dhanuka says: "The last few weeks were marked by sugar price falls of over ₹400 a quintal at different centres. If you take sugar alone and not its by-products such as ethanol and electricity wheeled through state electricity board grids, then the industry on all-India basis is now losing ₹485 per quintal of the sweetener. The loss for factories in Maharashtra and Karnataka, which have the benefit of high rates of sugar recovery from cane, is less than the national average. The per quintal loss in star-crossed Bihar recording a recovery of 9.48 per cent against a national average of 10.60 per cent is ₹792 against ₹324 for Maharashtra."

T Sarita Reddy, the immediate past president of ISMA, says the industry's operations will become viable once RSF along with a Price Stabilisation Fund (PSF) for cane becomes operational countrywide. This will make Indian sugar competitive in the global market and also allow factories to make timely payments to farmers for cane supplies. As is the case now, FRP is the minimum price for cane. In case a situation arises when farmers' dues under RSF will fall short of their entitlement under FRP, funds will be drawn from the PSF to compensate cane suppliers. PSF can be built by way of subsuming the cess on sugar meant for the Sugar Development Fund. Ideally, the cess should be imposed when sugar prices are down. That way household consumers who use around 35 per cent of sugar output will not feel the pinch of the levy. A cess of ₹1 a kg will give PSF ₹25 billion annually.

Reddy says just as the Goods and Services Tax has ushered in one nation one tax, the sugar industry has a rightful claim to "a uniform cane pricing policy". The objective is to create a situation that will allow both factories and farmers to ride out seasons of bumper production and low sugar prices without unpaid cane bills piling up and the industry not consigned deep in the red. The merits of ending the mismatch between cane and sugar prices are acknowledged in all quarters, including the Reserve Bank. In order to make this a reality, the states, which still retain the right to fix cane prices in disregard of the FRP, will have to accept New Delhi's 2013 directive.

Principally on account of high cane cost, sugar produced in India has remained uncompetitive in the world market. Generally, sugar produced in the country is used locally, leaving enough surpluses at season end to take care of demand of the first two and a half months of the next season. But there will always be times — and 2018-19 is expected to be one — when supply bounty will not leave the country with any option but to export to shore up the limping domestic market. Dhanuka says apart from exports, the government has the option to create a buffer from out of the surplus. The government, according to him, should not grudge bearing the interest and storage costs of the buffer since this will reinforce industry capacity to make payments for cane supplies in surplus years.

Sugar production forecasts for the current season are between 25 and 25.5 million tonnes (mt). Quite likely on the basis of production in this season's first three months till December at 10.326 mt being 26 per cent ahead of the corresponding period of 2016-17, the output estimate for the current year will call for a revision. The production surge is mainly on account of good showing by UP and Maharashtra. According to ISMA Director General Abinash Verma, the situation on the ground does not warrant any need for imports at any point in the current season.

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