

# HIGH HOPES

*For the first time after 15 years, the State Government in Uttar Pradesh will be from the same political party as that in the Centre. In the last 15 years, sugar industry has seen massive increase in the sugarcane price fixed by the State Government in UP. The same was unmatched with the returns from sale of sugar and other by-products.*



**Abinash Verma**

**T**he unreasonable hike in sugarcane prices, in the form of SAP, has been more due to political considerations and less due to economic reasons. Otherwise, there is no explanation for sugarcane price increases in some years, by Rs.40/- per qtl. of sugarcane, when the sugar prices had hardly increased. In fact, in some years, sugar prices had even fallen but cane prices had still been increased. This resulted in sugarcane prices (SAP) crossing 90% to 95% of revenue realized by the sugar mills. Such high percentage of revenue going away only for sugarcane, meant that there was hardly anything left for the mills to pay for their other costs and requirements, including for plant maintenance, input costs, interest burden, salaries, wages etc.

The unmatched and unreasonable increase in SAP vis-à-vis revenue realization, caused damage to almost all the sugar companies working in the State of UP. All of them incurred losses in the past few years; some of them even became NPA accounts or became sick. Sugarcane price arrears of farmers crossed record levels.

However, seeing no other way out, the sugar companies in UP, in 2013 and 2014, agitated together to convince the State Government that continuous increases in SAP was making the UP mills unviable and operations unsustainable. The situation had reached a point where most of the private sugar companies gave closure notices to the State Government. This forced previous State Government to sit up and find a way out, to ensure that the sugar mills in UP continue to operate and the sugarcane grown by the farmers get harvested. The UP Government even extended financial help for a couple of years thereafter, by way of tax waivers and direct subsidies for sugarcane price payment.

However, the State Government once again in 2016, increased the sugarcane price by almost 10% for the current sugar season, making things again very difficult for the sugar mills in UP. Current SAP of Rs.305/- per qtl. of sugarcane for general varieties in UP for 2016-17 sugar season, is higher to the FRP fixed by the Central Government at Rs.230/- per qtl. linked to 9.5% basic recovery. The difference between SAP and FRP is substantially large. There would be some sugar companies who would be getting good sugar recovery, say at 11% also, and therefore may pay FRP of even Rs.290/- per qtl. of sugarcane. Yet, the SAP of Rs.305/- per qtl. is still significantly beyond the FRP of Central Government. Secondly, the SAP of the State Government is a fixed price, without any linkage to the sugar recovery, and therefore there is almost no incentive for the farmers to improve to better varieties. As compared to that, the FRP which gives a premium for higher sugar recovery beyond 9.5%, has an inbuilt system of incentivizing the farmers for growing better sugarcane varieties with better sugar recoveries.



Almost all the important and major sugar producing countries, have a system wherein the sugarcane price is automatically determined through a formula as a percentage of revenue realized by the sugar companies.

Some of these countries consider the revenue realized from sugar and molasses, whereas some other countries, which use sugarcane juice to produce ethanol also, consider the revenue realized from sugar and ethanol.

These formula have worked very successfully in all these countries and one is witnessing that other countries, even in Africa, are trying to examine how to adopt such a formula in their respective countries.

Rangarajan Committee set up by the then Hon'ble Prime Minister in 2012, had studied these models and recommended adoption of a similar sugarcane price linkage formula in India also. The States of Maharashtra and Karnataka went ahead and enacted laws in their respective States, to link the sugarcane price to the revenue realized from sugar and primary by-products or revenue from sugar alone. However, the State Government of UP did not enact a similar law and continues to fix SAP, substantially higher to FRP fixed by the Central Government.

With a BJP Chief Minister in UP and after a long time similar to the Centre, will the State have a different view on cane price to that of the Central Government?

One has seen that increases in sugarcane price has not

helped the ruling political party in the State in the elections, otherwise the ruling party in the State should have got elected again and again and in the last 15 years, which has not been the case. Therefore, the new BJP Govt. needs to accept that there are other issues which are probably more important, including the fact that sugar is the largest industry in UP. Can we now onwards have a situation where majority of the cane prices arrears in the country as a whole, will be from the State of UP?

That has been the case in almost all the years in the past. But now that one has a BJP Government both at the Centre and the State and the Hon'ble Prime Minister has assured that the farmers will get payment on time, can the State afford to stand out again with higher cane price arrears?

Therefore, there needs to be a serious rethinking on the sugarcane pricing policy in UP.

One now expects that unreasonable increase in sugarcane price in the form of SAP, much beyond what the Centre fixes as FRP may not get repeated under the new BJP Government in the State.

The State Government now could be accepted to toe the line of Central Government, and we may see adoption of a rational sugarcane pricing system in UP. The best system would be what is being followed world over successfully i.e. a link between sugarcane price and sugar price realization. ■

*Writer is DG, ISMA*

