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Introduction of UP sugar sector

With a total of 158 sugar mills in Uttar Pradesh, *(104 in the private and 54 under State Govt control)* and area under sugarcane in 2012-13 of 22.13 lakh hectares when 130.5 million tons of cane was produced, the State is the largest producer of sugarcane in the country. This is substantially higher to the other most important sugar producing State viz. Maharashtra, in the country, where 9.37 lakh hectares was under sugarcane in 2012-13 and the State produced 60.49 million tons of sugarcane. However, UP has been second when it comes to sugar production. During 2012-13, mills in Maharashtra produced almost 80 lakh tons of sugar, whereas UP produced 75 lakh tons. This is despite a total estimated installed daily cane crushing capacity of 7.7 lakh tons of cane in UP, as against 4.7 lakh tons in Maharashtra.

Cane yields as also sugar recovery percentages in UP are much lower to that in Maharashtra. While low sugar recovery is hurting the sugar mills, low yields hurt the cane farmers. There are various reasons for these uncomfortable differences between the two States. Right from cane varieties, to duration of the cane crop and application of inputs, to the practice of harvesting and transportation of the cane, all together contribute to the quality of cane and sugar realisations. A comparative statement of cane and sugar production in the two biggest sugar producing States in India, placed at Annex. 1, brings out these differences.

UP State Sugarcane policy issues and Good practices of other States

Even though the UP State Government has been announcing high cane prices (SAPs) every year, there has been no increase in either the cane yields or the sugar recovery percentages. The present cane pricing policy of UP does not incentivise improvements in cane yields or sugar recovery. Better cane varieties have therefore, not been taken up by the farmers. No other State announces cane price for rejected varieties, and that too at 5 rupee difference. It is seriously feared that sugar mills of UP may not survive the yearly onslaught of 'unreasonable' hikes in cane prices any longer. The CACP has strongly pleaded for an immediate correction of the current practice of cane pricing in the State. An independent study by CRISIL too, has indicated a net loss of Rs.10 billion to the Indian sugar industry in 2012-13 because of the widening gap between sugarcane and sugar prices, adding that because of the SAP system, sugar mills in UP and Tamil Nadu are at a clear disadvantage in comparison to other States.

The CACP recognises that despite better availability of water and more favourable conditions for growth of sugarcane in UP and Bihar, which have been the traditional areas of sugarcane of the country, Maharashtra and Karnataka have become the more favoured States for cane and sugar in India, because of a more friendly and practical set of policies brought in by the Governments there. Maharashtra Government, for example, has helped the industry and farmers with transport subsidies for sugar exports, State Government Guarantees for loans, equity capital for SDF loans, subsidies for farmers for uncut cane, subsidy for drip irrigation etc. Unfortunately, such assistance have been almost totally absent from the Northern States, giving mills in other States financial and policy advantages over States like UP and Bihar.

A detailed comparison of the cane prices paid to the farmers in the last 8 years (2004-05 to 2011-12), both in UP and Maharashtra has been reproduced at Annex. 2. While the cane price payments have varied in the range 65% to 86% of the sugar price realised by the mills in Maharashtra, it has fluctuated in a wider range of 48% to 96% of sugar price realisation in the case of UP cane farmers. However, the average payments over these 8 years, works out to 75% and 72% for Maharashtra and UP respectively. In other words, though <u>on an average, UP farmers did receive 72% of sugar price realised in last 8 years, they suffered major fluctuations in their returns as also the burden of delayed payments, with arrears</u> building up to very high levels in some years.

It is therefore, important to note that from all aspects, the current cane pricing policy followed by the State of UP has not been the best for the farmers in UP. It has also not helped in improving the cane varieties, cane yields (which could have given better returns to farmers) or sugar recovery. If the current cane pricing policy is not benefitting the farmers or the millers in the long or even medium term, and only pushing them to further distress continuously, even to the extent of raising questions on the industry's very survival, then the time has come to review the current cane pricing policy.

There are only 5 States in the country, which fix a State Advised Price (SAP), viz. UP, Haryana, Punjab, Uttarakhand and Tamil Nadu. A look at the sugar economy and growth of sugar sector, including investments in the farm and factory, will clearly distinguish these States from the others like Maharashtra, Karnataka, Gujarat etc, which have never followed the system of SAP. The sugar sector therein have grown in leaps and bounds in comparison to the SAP States, where either the growth is flat or negative. A higher price for the cane is sustainable only if the sugar recoveries compensate for the high costs, like for Maharashtra or Karnataka, but not if the recoveries are the lowest in the country, as for example in UP.

The SAP in UP has been increased from Rs.165 per quintal of cane in 2009-10 sugar season to Rs.280 per quintal in 2012-13, has meant:

- An increase of Rs.115 per quintal in just 3 years (@ *Rs.40 per quintal yearly).*
- It has increased the average cost of production of sugar in UP from Rs.24 per kilo in 2009-10 to Rs.35 per kilo in 2012-13 season.
- As compared to these very high costs, the sugar prices which were Rs.28 per kilo in 2009-10 increased to only Rs.31 per kilo in 2012-13.
- Cane price in UP has gone up by 70% in the last 3 years, but the sugar prices have increased by just 11% in the same period.

One does not deny that cane farmers have to be paid for their costs, but that should also apply to the sugar mills too. After all, <u>the millers too need to cover their costs at least, to continue in the business of making sugar from the State of Uttar Pradesh</u>.

<u>Rangarajan Committee recommendations for revenue sharing</u>

Partially accepting the Rangarajan Committee recommendations on sugar sector reforms in India, the Government of India has freed sugar sales, including the financial burden to supply sugar through PDS. However, recognising that the controls on the sugarcane side, including cane pricing system, are being exercised by the State Governments, <u>the</u>

Government of India in April, 2013, requested the States to consider adoption of the recommendations of the Rangarajan Committee recommendations.

Recognising that the cane pricing system followed by almost all the important sugar producing nations, including Brazil, Australia, Thailand, Mauritius etc., has been very successful in not only ensuring fair and stable returns to the farmers, but also helping in the growth of the industry therein, and making them competitive world-wide, the Rangarajan Committee recommended for adopting a formula whereby cane price will be directly linked to sugar price and by-products realisations. After examining the cane price paid during last decade or so, the Committee *(and later CACP too),* recommended that 70% of the returns from sugar, molasses, bagasse and press mud should be paid by the millers to the farmers. To make the understanding and calculations simpler, the Committee calculated that the contribution from the first stage by-products was about 5% of total revenue, and therefore, recommended that the cane price be fixed at 75% of the sugar price realisation ex-mill. This would be subject to a minimum guaranteed cane price at least at the level of FRP. This revenue sharing formula will:

- Be simple to understand for all stake-holders, and will guarantee a stable return to both the farmers and the mills. There is no windfall gains or losses to either.
- The farmers and the millers become partners to the business of sugar making. The farmers are guaranteed a minimum at the level of FRP, and a share of better realisations if the sugar price improves, even during the off-season.
- It gives an incentive to farmers as well as mills to invest in better cane varieties, since the cane price is based on sugar price realisation (price of sugar x sugar recovered from each quintal of cane). It would mean investments at farm level too, which the current pricing policy does not provide.
- Since mills are also assured of a fair return from the formula, the farmers get stable returns, paid on time,.

However, one realises that since SAP has increased quite drastically in the past 3-4 years in UP, the 75% of the sugar price realisation may not be enough right away. Therefore, there is need to adopt a formula to guarantee the farmers a minimum cane price at least at the level of last year's cane price, and higher if the formula so works out to. As suggested in the CACP Report, the age/duration of cane crop (9.60 months in UP against 12.85 months for Maharashtra) and cost of irrigation (done 7.6 times in UP against 25 times in Maharashtra), need to be also considered to ensure the best deal for all concerned, since these factors directly affect yields and sugar recoveries.

Rationalisation of cane pricing policy and cane development

The State of Karnataka has already passed an Act in May, 2013, adopting the revenue sharing model to decide the cane price. For that purpose, a Sugar Board is being formed, consisting of important Ministers and representatives from the millers and farmers. Maharashtra State already has a slightly different form of revenue sharing formula, wherein the mills pay a second instalment later if their revenue realisations permit them to do so. Therefore, one would be hopeful of this system being adopted by Maharashtra Government too, sooner or later.

If this happens, but if the State of UP does not also by that time adopt a rational and practical cane pricing system linking it to sugar price realisation, as recommended by Rangarajan Committee, the mills in UP may become totally uncompetitive within the country too. With freedom on sales and no quota system any longer, the days are not far when the sugar produced in UP is out-priced by more competitive and low cost mills from other States. <u>Cane farmers in UP would then be at a risk of no longer having buyers in the form of sugar mills in the State itself</u>. As it is, cane prices in UP have increased by so much, that at today's prices, one hectare of land in UP gives a return of Rs.75000 per year from cane as compared to a return of Rs.45000 per year from a combination of wheat and paddy. Business models have already got distorted within the State and would get further distorted between States if the cane pricing policy is not rationalised.

The UP sugar industry is committed to work with the farmers as partners in the changed environment. Large scale investments are needed in UP, both at the farm and mill levels, not only for better efficiencies, but also for better cane varieties which give better yields, longer ratoons and higher sugar recoveries.

The industry, particularly ISMA, has made its efforts in the last 3 years or so, and identified excellent cane varieties viz. Co238, Co239 and Co118. Lot of efforts have been made to propagate the varieties all over the country, with sustained farm extension activities in UP particularly. The industry has been successful in covering 2 lakh hectares under these varieties during last 3 years. These varieties have given an average yield of 80 tons per hectare (going upto 110 tons too in some areas), increasing the farmers' returns by 40-50%. The sugar recoveries is also better at 10.2% as compared to the current average of UP of 9.2%.

But for the industry to invest more and also help its farmers, it has to itself generate some margins first. **It is a case of survival for the sugar industry in UP and therefore, survival of the sugarcane as a crop in the State in the long run**. Adoption of a revenue sharing formula, in any of its modified form, after detailed discussions with the farmers and millers, needs to be brought in by the State of UP, before it is late. The industry is eager to partner with the farmers for a better tomorrow for both.

Annex. 1

Sl.	Item	Maharashtra	UP
1.	Land Productivity (tons/ha)	80.97	59.58
2.	No. of std. irrigations (per crop)	25.00	7.60
3.	Irrigation requirement (lakh litres/ha)	187.50	57.00
4.	Average recovery rate (%)	11.32	9.16
5.	Land productivity, adjusted for recovery rate	98.79	61.04
6.	Crop duration (months)	12.85	9.60
7.	Cane productivity (quintal / hectare/ month), adjusted for recovery rate	75.55	63.29

Annex. 2

(Rs./qtl.,percent)

Sugar season	Ex-mill sugar prices		Cane prices paid to farmers		Cane prices as percent of ex-mill sugar prices		Recovery rate (%)	
	Maha-rashtra	U.P.	Maha-rashtra	U.P.	**Maha-rashtra**	**U.P.**	Maha-rashtra	U.P.
1	2	3	4	5	**6**	**7**	8	9
2004-05	1601.66	1674.70	130.07	104.50	**81.21**	**48.49**	11.39	9.79
2005-06	1820.42	1692.29	140.62	112.50	**77.25**	**66.48**	11.66	9.49
2006-07	1452.29	1296.75	93.92	125.00	**64.67**	**96.39**	11.39	9.49
2007-08	1317.08	1492.71	93.41	125.00	**70.92**	**83.74**	11.80	9.30
2008-09	2082.29	2161.08	158.05	140.00	**75.90**	**64.78**	11.52	8.91
2009-10	3121.67	2889.58	214.69	165.00	**68.77**	**57.10**	11.51	9.13
2010-11	2806.67	2592.96	205.00	205.00	**73.04**	**79.06**	11.32	9.16
2011-12	2720.00	2950.00	235.00	240.00	**86.40**	**81.36**	11.32	9.16
Average					**74.77**	**72.18**		