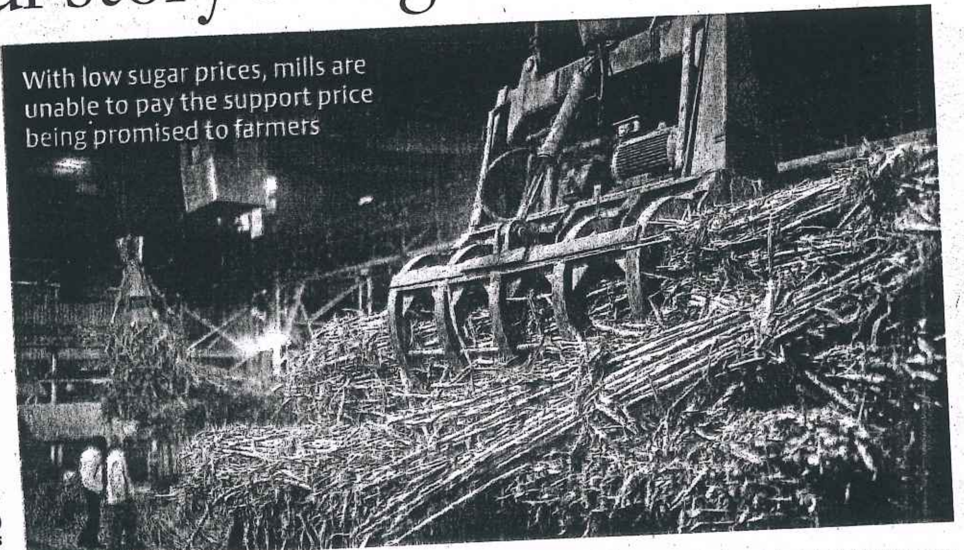
Farm Reform

The sour story of sugar mills

RAJALAKSHMI NIRMAL



With low sugar prices, mills are unable to pay the support price being promised to farmers

BLOOMBERG

Sugarcane payment arrears have gone up, again. Mills owe farmers ₹20,000 crore on the cane crushed till date.

As per the Sugarcane (Control) Order, 1966, farmers are to be paid within 14 days of delivery of cane, but this seldom happens. Last week, after an inter-ministerial meet, Food and Consumer Affairs Minister Ram Vilas Paswan said the government is looking at a few options, including a production subsidy of ₹7-8/quintal for cane farmers to reduce the burden on sugar mills. But sugar mills can't be blamed, as the problem lies with the cane pricing policy.

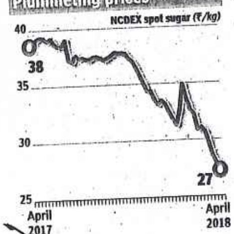
While sugar prices have been sliding south to ₹26-27/kg, mills have to pay an FRP (Fair and Remunerative Price) of ₹255/quintal, making a loss of ₹8 on every kilogram of sugar produced. It is a bigger challenge for mills in Uttar Pradesh, as they have to pay a State Advised Price (SAP) of ₹315/kg.

Targeting their vote bank, different governments at the Centre, at various points, have kept increasing the support price for cane farmers. This has led to a significant rise in acreage under sugarcane cultivation. Now, supply far exceeds demand and prices have crashed, but farmers demand compensation at the assured support price, and the mills are not in a position to pay.

Mountain of sugar

Anticipating a higher cane output — though, not as high as it finally turned out to be — the Centre in December 2017 removed the stock-holding limits on mills. Also, the import duty on sugar was doubled to 100 per cent (in February). But all this was in vain as sugar prices kept sinking.

Plummeting prices



While lower prices in the global market did take a toll as sugar exports became unrewarding for the mills, the trigger for a sharp correction in domestic sugar prices was the large surplus production. At the beginning of the season, industry associations estimated sugar output at about 25 million tonnes, but this was revised to 26.1 million tonnes in January, and 29 million tonnes in March. The market was caught unaware, and sugar prices took a blow. At 29.3 million tonnes, as per the latest estimate of the Indian Sugar Mills Association (ISMA), the output for 2017-18 will be 45 per cent more than last year's.

The global market is not in a position to absorb this excess. With higher output in the European Union, China and Thailand, there is surplus sugar in the global market, too.

The EU had put an end to its sugar production quota and export limits with effect from October last year; its production is estimated to increase 22 per cent this year.

The US Department of Agriculture (USDA) estimates global sugar production in 2017-18 to be 184.9 million tonnes (including India's), with consumption at 174.2 million tonnes, leaving a surplus of 9.8 million tonnes.

How much is it actually?

There are different estimates on the sugar output. While ISMA holds it at 29.3 million tonnes, there are estimates that put it at 27-27.5 million tonnes, based on the government's cane production estimates of 353 million tonnes. With a yearly consumption of 24-25 million tonnes, either way, there is an excess supply in the market.

How did it form?

The higher sugar output in the current year can be attributed to favourable weather. But a good monsoon in any year hereon, will be only bad news for mills as prices will take a hit given the large area under sugarcane farming and the amount of output farmers will bring to the market, unless demand also grows equally.

Despite being a water-intensive crop, an increasing number of farmers have been shifting to sugarcane every year. The area under cane cultivation was 24 lakh hectares in 1971-72. This increased to 34.4 lakh hectares in 1989-90 and 45 lakh hectares in 2002-03. It is now close to 50 lakh hectares.

Until 2009, cane pricing was as per the provisions of the Sugarcane (Control) Order, wherein a Statutory Minimum Price (SMP) was set every year; then came FRP. While the support price given to cane farmers had been increasing every year — both under SMP and FRP — the hike in recent years has been significant.

Sharp increase

	FRP#	
	₹/quintal	Change*
2009-10	129.84	
2010-11	139.12	7.1%
2011-12	145	4.2%
2012-13	170	17.2%
2013-14	210	23.5%
2014-15	220	4.8%
2015-16	230	4.5%
2016-17	230	0.0%
2017-18	255	10.9%

* y-o-y % #Fair and Remunerative Price

While in the late 1990s, the yearly increase under SMP was ₹3-4/quintal, it became ₹5-8/quintal in 2000s, with drought years seeing higher dole-outs. Since 2009-10, the yearly increase under FRP has been ₹10-25/quintal.

In UP, which fixes its own price (SAP) for cane farmers, the price incentive offered to the cultivators is substantially higher — ₹50-100/quintal.

Rangarajan formula

In 2013-14, the Centre accepted the recommendations of the panel chaired by C Rangarajan and discontinued the levy obligation on sugar mills (wherein they had to mandatorily sell 10 per cent of their output to the government for distribution through PDS), and put an end to the regulated release mechanism on open-market sale of non-levy sugar, too. But the choice of implementing the committee's formula for cane pricing was left to the States.

The panel suggested sharing the revenue between farmers and millers in a 70:30 ratio; if the value of sugar alone is considered, without by-products, the ratio proposed was 75:25.

The minimum price a farmer will receive at any point, though, will be FRP.

Maharashtra and Karnataka are the only two States that have so far implemented the revenue-share pricing in cane. Tamil Nadu is implementing it in the current season.

Undoubtedly, scrapping SAP and moving to the revenue-share formula will be a relief to sugar mills.

But during years of low sugar prices, when mills pay the FRP, will they be compensated?

It will be interesting to see how Maharashtra and the two other States handle it in the current season.

State Advised Price

- Not based on scientific calculation
- Cane arrears for States that pay SAP is higher
- Not linked to sugar recovery rate

Did you know?

The Commission for Agricultural Costs and Prices says drip irrigation has the potential to save 40-50% of water used for sugarcane cultivation, and raise productivity by 25%