Sweet timing

The sugar industry is ripe for reform

With sugar production looking up, prices being stable and most other factors affecting the sugar economy being positive, the conditions seem ripe to carry forward reforms suggested by the Rangarajan committee on sugar deregulation in its report in 2013. The task that warrants particular attention is linking the prices of inputs (basically sugarcane) with those of the output (sugar and its by-products) through a revenue-sharing mechanism mooted by this panel. The other pending or partially done reforms, such as doing away with cane area reservation for mills, removing minimum distance criteria for setting up sugar factories and discarding the system of state advised prices (SAPs) of sugarcane, also need to be executed. These measures will promote much-needed competition in the sugar industry and boost efficiency.

Overall sugar inventories have remained comfortable over the past five years despite seasonal fluctuations in output. Barring a few financially distressed mills, most sugar companies have been in profit. Cane price arrears have more or less been liquidated. Nearly 99.7 per cent of the cane price dues — on the basis of the fair and remunerative price (FRP) fixed by the Centre — have been cleared even for the 2016-17 sugar season (October to September). Stockholding curbs on trade and turnover limits on sugar mills have been lifted. All these are indications of a satisfactory sugar situation. There is, therefore, little reason for delaying the completion of the reforms process that began soon after the Rangarajan panel submitted its report but moved forward only haltingly. In particular, some proposals that were left to the states to carry out have not made much headway. For instance, the practice of cane area reservation for mills has been given up only in Maharashtra. The requirement of a minimum distance between sugar factories has not been removed in any state. The objective of both these measures is to stop bonding farmers with specific sugar mills and, instead, encourage market-based long-term contractual arrangements between cane growers and sugar producers. This will provide farmers the right to sell their produce to whoever offers the best terms.

In the case of the revenue-sharing formula for cane pricing, Maharashtra and Karnataka are the only states that have gone for it. This mechanism, which conforms to global norms, stipulates 70-75 per cent of the total revenue earned by sugar mills from the sale of sugar and its by-products such as molasses, bagasse and co-generated power be shared with farmers. Besides being fair to both cane growers and sugar producers, such an arrangement can balance sugarcane and sugar output with demand. More importantly, it has the potential to end the unhealthy cycle of ups and downs in sugar production and prices. Since, like the FRP, the revenue-sharing returns will also depend on the sugar recovery from cane, the new system will spur farmers to grow better varieties and improve the efficiency of cane cultivation. However, a fair and transparent assessment of sugar recovery and revenues of sugar mills will be vital to the success of this system. Otherwise, it will not win the confidence of farmers.

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