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Knee-jerk reaction

Sugar sector is crying out for real reforms

The story of the sugar industry in India has been anything but sweet. The country received a bitter reminder of this on Wednesday after the Union Cabinet approved a ₹70 billion bailout package for the sector, which will offer only temporary palliatives without addressing the root cause of the sugar economy's deteriorating fortunes: High output that is well in excess of domestic needs. Between October 2017 and September 2018 — referred to as the sugar season of 2018 — production is expected to go up 48 per cent to reach 31.5 million tonnes. It is projected to go up even further next year to 32 million tonnes, thanks to increased acreage. Not surprisingly, prices witnessed a sharp drop from ₹37 per kg on average during the last sugar season (2017) to ₹26 per kg in June 2018. What made matters worse was the fall in international prices. This left the farmers with record unpaid arrears of ₹220 billion from sugar mill owners.

Distress and anger among farmers are believed to be among the reasons for the Bharatiya Janata Party's defeat in a recent bypoll in Kairana, in Uttar Pradesh's sugar belt. But the government's solution to the problem faced by the sugar industry appears to be nothing but a knee-jerk reaction. The measures include fixing the minimum domestic selling price of white/refined sugar at the mill gate at ₹29 per kg. The government has also announced the creation of a buffer stock of 3 million tonnes for a year, apart from declaring an interest subvention on loans taken for augmenting distillery capacity through "upgradation" and setting up new ones. To be sure, these are not the first stabs at relieving stress in the sector. In the last few months, as signs of the crisis became more visible, the government imposed a customs duty on sugar imports, tweaked stock-holding limits and provided financial assistance to sugar mills.

Will these measures help? They will perhaps provide some immediate relief to farmers who have not received arrears. But they do little to address the structural ailment of a lack of market linkage. In other words, thanks to the arbitrarily announced prices by the government, there is no link between the input (sugarcane) cost and the output (sugar and its by-products). This essentially means there is no signalling of changing demand and supply conditions in the sugar economy. That is why the sector is stuck in a never-ending cycle of imbalances, the worst sufferers of which are the farmers. For instance, while ₹220 billion might be the highest arrears this year, just three seasons ago, they stood at ₹194 billion. Next year, when production rises further, it is almost certain that the farmers will again be on the streets demanding compensation. The most baffling aspect of this repeated crisis is that the real solution has been known to everybody since 2013 when the Rangarajan Committee submitted its report. The Committee on sugar deregulation argued for shifting to a revenue-sharing mechanism between farmers and millers and linked the fair and remunerative price for sugarcane to yearly realisations from sugar and its by-products, through a fixed formula. But only a few states have accepted this, while others continue to indulge in competitive populism with the Centre to steadily peg up cane prices, ignoring market realities.

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