The bitter truth

Sugar sector needs reforms, not band-aids

No sector has got as many bailout packages as the sugar industry. Yet, this sector's woes fail to cease. This is evident from recurring piling-up of unpaid cane price arrears, which have again mounted to over ₹20,000 crore. Clearly, either the official interventions are misdirected or the industry is unable to make the best use of the largesse to acquire adequate resilience against economic shocks. The government also, at times, makes ill-advised and mistimed policy interventions that prove baneful for the industry. A recent example of this was the large increase in the monthly sugar release quota for March, which depressed the already low sugar prices and worsened the mills' liquidity crunch to necessitate additional financial support. The most significant official moves to facilitate payment of cane growers' dues by the industry include fixing the floor price for the sale of sugar; cash assistance as part payment of cane price; creation of sugar buffer; concessional loans to sugar mills; and indirect subsidy on sugar exports by defraying handling, internal transport and freight costs.

The latest financial package approved last week involved another tranche of a soft loan of ₹15,500 crore with an interest subvention of ₹2,600 crore. Significantly, this loan is meant primarily for setting up new ethanol manufacturing plants, including standalone distilleries, to augment the overall ethanol production capacity. The objective is to encourage the use of B-heavy molasses (which still has some extractable sugar) and sugarcane juice to make ethanol, sacrificing the main product sugar. The National Biofuel policy has already been altered to allow ethanol production straight from cane juice and payment of higher prices for such alcohol. The long-term implications of direct conversion of cane juice into alcohol are truly worrisome. It would tend to encourage larger cultivation of this water-guzzling crop which can be ecologically disastrous. India, being short of both land and water, can ill-afford to devote its prime agricultural land with assured irrigation facilities for biofuel production. The only viable options for agri-based energy production are to use leftover agricultural biomass, most of which currently go waste, or raise energy plantations on degraded and wastelands, especially in the arid and semi-arid areas, which are unfit for regular farming. But the cultivation of a crop like sugarcane, especially for this purpose, is untenable.

The lasting solution to the sugar sector's persistent troubles lies, indeed, in carrying out basic reforms leading to total deregulation and decontrol of this industry. The ways and means to undertake these reforms have been spelt out by several expert committees that have gone into this issue from time to time. The latest in this league — the committee headed by noted economist C Rangarajan — made some prudent and pragmatic suggestions in its report in 2012. These included a revenue sharing-based pricing formula to link cane prices with those of sugar. This would let the production of both sugarcane and sugar to respond effectively to market demand, thus, moderating shortages and gluts without hurting the interests of any stakeholder in this sector, be it the cane grower, sugar producer or consumer. It is indeed still not too late to implement this panel's report to enable this vital agri-based industry to stand on its own feet.

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