

The curious case of sugar

The Rangarajan committee recommendations on sugar reforms have been put into cold storage. Yet, the industry has managed to break out from the infamous surplus-shortage cycle

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The president of Indian Sugar Mills Association (ISMA) Vivek M Pittie claims on the basis of empirical evidences of recent years that this country, which in the last two seasons overtook Brazil to emerge as the world's largest producer of the sweetener, has ceased to be visited by the "infamous cycle" in the commodity.

The phenomenon of the past when "three to four years of surplus production would be followed by two to three years of shortfall in output," as Pittie points out, would see India alternating as an exporter in times of abundance of supply and an importer during the "down cycle." Millions of farmers in the sugarcane growing states and crushing factories were periodically put to much distress as the wheels of "infamous cycle" rolled.

New Delhi was for long in a wilderness to find cures for the major agro-based industry where only a handful of large groups with value generating assets in the downstream based on sugarcane by-products were somewhat immune to the fluctuations in industry fortunes. In a move to put the whole industry on an even keel, the C Rangarajan committee suggested a number of corrective steps in 2012, the most important being the recommendation that total revenues from sale of sugar and sugarcane by-products such as electricity generated by way of burning bagasse, ethanol and press mud used as soil conditioner should ideally be shared between

farmers and sugar producers in the ratio of 70:30.

The committee also recommended that payment to farmers be made in two instalments. First, the disbursement of floor price, that is, the government determined fair and remunerative price (FRP) for the season. Second, the balance will be payable based on official half-yearly ex-mill sugar prices. The Rangarajan committee formula automatically assumes cane growing states will forego the much abused privilege of imposing a price premium on FRP to humour growers, irrespective of its negative impact on industry working. No stakeholder of the sugar economy, including

the central government, has questioned the logic of revenue apportionment between the constituents of farmers and factories in 70:30 ratio. But neither the Manmohan Singh government nor the present dispensation in Delhi could get the states on board to make a new beginning with the judiciously crafted revenue-sharing formula along with liberalisation of sugar export-import trade.

The question then is in spite of the government putting Rangarajan committee recommendations into cold storage, how did the sugar industry manage to breakout from the "infamous cycle" marked by years of high imports or exports depending on local production? Pittie says for the import and export opportunities that this country offered in the past and the way production here would move world raw and white sugar prices in the global market, India would remain under close watch of global trading houses. To give one example, major

INDIAN SUGARCANE PROFILE

Sugar season (Oct to Sep)	Acreage ('000 hectares)	Production (lakh tonnes)	Yield per hectare (tonnes)	Rate of recovery (%)
2000-01	4,316	2,960	68.6	10.48
2010-11	4,885	3,424	70.1	10.17
2018-19	5,502	4,142	75.3	11.01

Source: ISMA

production setbacks forced India to first import 2.4 million tonnes (mt) in 2008-09 followed by a much bigger amount of nearly 4.1 mt in the following year. Then, in 2007-08, the government allowed exports of around 5 mt as a rescue act for the industry deluged with overproduction and, therefore, unremunerative ex-factory prices.

According to Pittie, all that is in the past and based on the experience of past nine seasons, except for 2016-17 when some major sugarcane growing regions experienced severe drought. Now "I can comfortably say that not only have major fluctuations in sugarcane and sugar production between years minimised" but ISMA forecasts of the crop size and sweetener output are proving fairly accurate, he adds. Satellite imaging of sugarcane acreage and improved countrywide periodic monitoring of crop condition have lent credibility to ISMA forecasts. In the process of India emerging as a net surplus sugar producer on a sustainable basis, global trade speculation centring India is no longer of much relevance.

Explaining why India has become a "structural surplus producer and exporter of sugar," Pittie says while comparatively high returns that sugarcane growing fetches compared to other crops and the unique advantage of

assured disposal to the last stick standing on farmland at government fixed prices have over the years strengthened cultivators' interest in cane growing, reflected in rising acreage under this cash crop. They also have benefited from the introduction of high-yielding and early-maturing varieties. Credit for the latter goes as much to sugarcane research institutions as to progressive sugar companies such as Balmampur Chini, Dhampur Sugar, Dwarkesh and DCM Shriram.

"Pittie's thesis of farmers taking increasing interest in sugarcane cultivation is borne out by facts on the ground. Sugarcane acreage since the beginning of the millennium is up from 4.316 million hectares (mh) to 5.502 mh. Recovery of juice from sugarcane during this period rose from 10.48 per cent to 11.01 per cent. Delays in payment of cane bills haven't been a disincentive to raise sugarcane output," says former ISMA president Om Prakash Dhanuka. The all-India average sugarcane yield per hectare since the season beginning October 2010 moved up from 70.1 tonnes to 75.3 tonnes last season. Both in yield and juice recovery, Maharashtra, Karnataka, Punjab and parts of Uttar Pradesh are at the top of the table, while Andhra Pradesh and Bihar are found at the bottom, adds Dhanuka.

Many factors have combined for breakthroughs in farm productivity and juice recovery rate. But all that threw up the challenge of finding a supplementary use of sugarcane besides making sugar. The least that the industry wants is to be saddled with season's opening stock at an overwhelmingly large 14.6 mt as seen in October 2019. This big an inventory at season start is almost equal to the country's seven-month consumption. Though it is not said formally, the inspiration to use a growing portion of sugarcane juice and B-heavy and C-heavy molasses to produce ethanol for blending with motor fuel came from Brazil's long-standing policy to decide at the start of a season as to how much of the crop is to be used for making sugar and ethanol. The deciding factor for apportionment of sugarcane between sugar and ethanol is the global prices of sugar and petrol. Brazil has on its road "flex fuel vehicles," which can be run on 100 per cent ethanol or any combination of ethanol and gasoline.

Even while it dawned on New Delhi a long time ago that the country will do well with a high percentage of blending of ethanol with petrol, the programme in this respect had a somewhat meaningful beginning only in 2007. But as Pittie points out, ethanol use got a major lift in the last few years on the back of "fixed remunerative prices and guarantee of an assured market for all the ethanol that is produced... For the first time last season, we could divert some surplus sugar into ethanol. But our expectation for the current season is that around 800,000 tonnes less sugar will be made due to diversion of B-heavy molasses and sugarcane juice from sugar into ethanol." As we go forward, the diversion could be higher as more and more factories acquire capacity to produce ethanol from B-heavy molasses and sugarcane juice.

