Need for bitter prescription

The Artificial rise in cane prices is taking its toll on the country's sugar economy

PHOTOS: SANJAY BORADE

The sugar mill industry in the country's largest sugar producing state of Uttar Pradesh has said that it would have no option but to suspend all sugar value chain activities from the coming season starting October this year, if the state government doesn't come up with a concrete roadmap to address the issues faced by the industry. Sugar mills in the state are faced with mammoth cane arrears of about ₹11,000 crore to farmers. And the overall dues (already not manageable) are only expected to rise unabated going forward, even as the state is likely to produce a record sugar production of about 12 million tonnes in the current season of 2017-18.

In a letter to chief minister Yogi Adityanath, Uttar Pradesh Sugar Mills Association (UPSMA), a body that represents a majority of the 94 private sugar mills in the state, has said it is finding it virtually impossible to either take part in conducting the field survey to map the availability of cane for the next season or any other activity regarding running mills. "While we have no road map ahead, there is also no certainty on the cane price for the next season and, with sugar prices keeping low, we see no future," the letter states, adding that "circumstances suggest that we have no ability to run for the sugar season 2018-19...we are therefore unable to take part in the field survey and other activities regarding running for the next season".

The importance of the sugar industry in UP can be gauged from the fact that it engages almost 4.4 million farmer families and 200,000 mill workers. Stating that the industry has, time and again, represented the matter to the state government and made vehement appeals to save the industry, the letter says that with sugar prices hovering around ₹26 per kg and molasses prices reaching sub-zero levels, revenue sources for the industry have greatly diminished.

There is a glut of sugar in the market, resulting in a subdued price of sweetener. While the average cost of sugar production (about ₹35 per kg) for the sugar mills has increased, owing to a substantial increase in the price of sugarcane by the state, the average sugar price at about ₹26 per kg (ex- factory) is rendering the entire business model a loss-making proposition. In fact, sugar mills in the state are incurring a loss of, say, ₹8-9 for every kg of production of sugar. While the state-administered sugarcane prices (SAP) in the state has gone up to ₹315 per quintal in the current season, from ₹140 per quintal about seven years ago, sugar prices in the market continue to be depressed on account of production exceeding consumption. Banks and lending institutions have already shown reluctance in helping the industry due to their weak financial conditions.

Worst ever situation

In fact, the overall production of sugar in the country is estimated to be an all-time high of about 32 million tonnes in the current season (2017-18) – up from 20.2 million tonnes in 2016-17 and 25.1 tonnes in 2015-16. Production in UP is estimated at 12 million, as against 8.8 million 2016-17 and 6.8 million in 2015-16. Experts say that the government's arbitrary policy (politically motivated), wherein the state governs the sugar cane price at which the sugarcane from farmers needs to be bought by the mills, is solely responsible for distorting the entire sugar economy of the country. In other words, there is hardly any linkage between cane price and final sugar price.

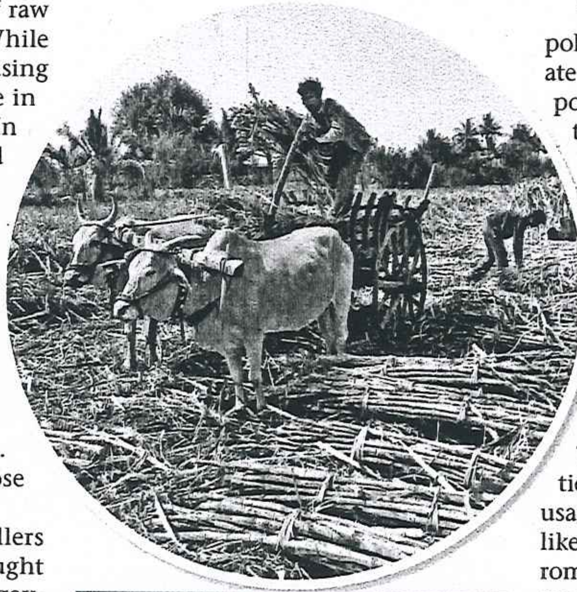
"How long can an industry survive such a difficult situation?" asks an official with UPSMA. "There is hardly any linkage between the prices of raw material and finished product. While sugarcane prices have been increasing artificially, the commensurate rise in sugar price has not happened. In fact, sugar prices have remained subdued for many years now. An increase in sugar production has put huge pressure on sugar prices and thus rendered the value chain completely unviable. The industry is almost on the verge of bankruptcy and any further negligence on the part of government will leave the entire scenario virtually out of control. We will have no option but to close down our operation," he adds.

Earlier this year, the private millers under the aegis of UPSMA had sought a bailout package from the state government to keep industry afloat in the wake of rising arrears. They had also demanded a bailout package in the form of staggered cane payment system, waiver in cane society commission of ₹5.10 per quintal and subsidy of ₹30 per quintal of cane crushed for sustenance.

"This is the worst-ever situation in the history of the Indian sugar sector," remarks Abinash Verma, director general, Indian Sugar Mills Association (ISMA). "The financial condition of the sugar industry is worsening day by day. Sugar prices have been an all-time low in the last few years, whereas the cost of sugarcane has almost doubled in the same period. The situation is so bad that many sugar mills may not be able to start their operations in the new season. There is an urgent need for some concerted intervention on the part of the government".

ISMA's latest estimates indicate that the sugar glut is likely to worsen in the coming months since India's annual consumption of the sweetener is estimated at 25 million tonnes. Due to a steep fall in wholesale prices, mills are unable to pay sugarcane farmers on time. Currently, these dues are estimated at around ₹21,000 crore and this is expected to end the season at about ₹22,000 crore.

To help mills clear the dues to farmers, the Centre recently announced ₹5.5 per quintal subsidy to farmers. The government had earlier imposed a 100 per cent duty on import of sugar, and also mandated that mills compulsorily export sugar. However, mills have not been able to export sugar due to depressed global prices.



Increase in sugar production has put huge pressure on sugar prices and thus rendered the value chain completely unviable. The industry is almost on the verge of bankruptcy

Experts are of the view that the surplus is solely due to the government's arbitrary policy which has always tried to keep the SAP for sugarcane higher for political reasons. Despite cane arrears hitting a record and amounting to almost one third of the total cane price payable, the area under sugarcane is estimated to remain at the same level and cane availability in the next year seems to be more than the requirement. According to ISMA, returns to farmers from sugarcane is almost 60 per cent more than the returns from the competing crops like wheat and paddy, cotton, soya, etc. Cane prices have gone up by over 50 per cent in the last three years, unmatched by any other crops in the country. This is something that has forced the farmers to stick to sugarcane despite alarming growth in cane arrears.

"This is a classic case of how bad politics can ruin a gold mine and create a crisis for all and worst part is no political leader had the guts to change the bad policies hurting all. Unfortunately, those who suffer the most are also not keen to learn the new ways of working," says Vijay Sardana, a global agri-business value chain expert, who is also of the opinion that sugarcane usage in the country is primarily restricted to production of sugar, the consumption of which has lately not grown in a commensurate manner. There is need to formulate a holistic policy which can help increase its usage in production of other products like ethanol, natural polymers or macromolecules, organic matter, and other compounds and materials.

Experts feel that there is a need to adopt a rationalised cane pricing policy across the country and check the huge mismatch between sugarcane price and sugar price, which is distorting the economics of sugarcane and sugar production. While Maharashtra and Karnataka have adopted the recommendations of the Rangarajan Committee, UP continues to shy away from rationalising sugar cane pricing. The committee, which submitted its report in October 2012, favouring phased decontrol of the domestic sugar industry, had suggested the scrapping of the levy obligation and release mechanism, as also putting in place uniform, revenue-linked sugarcane pricing. While the Union government took a historic decision in the following year to abolish the decades-old levy quota mechanism, as also dismantle the sugar release mechanism, it left the onus of rationalising the cane pricing to the states which have conveniently ignored bringing about the much needed rationalisation for reason best known to them.

♦ ARBIND GUPTA

feedback@businessindiagroup.com