Mills seek commensurate rise in sugar MSP as and when cane FRP is hiked

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THE SOONER THE government realises that only a sustainably profitable sugar industry will be in a position to discharge its primary responsibility to pay the official fair and remunerative price (FRP) to sugarcane growers in time, the better will it be for all stakeholders, including consumers of the sweetener.

Let this be said at the outset that since groups such as soft drink producers, confectioners and pharmaceutical industry account for around 75% of domestic demand of the commodity and sugar constitutes an insignificant portion of the common man's food budget, New Delhi should not have felt any compunction in revising the minimum selling price (MSP) of sugar in sync with the new higher FRP of ₹290 a quintal linked to a basic sucrose recovery rate of 10% fixed for the season to start in October.

Milling factories should not grudge shelling out more for sugarcane that alone constitutes around 75% of their production cost, provided of course they are able to dispose of sugar on cost plus basis at all times. Whenever the industry is compelled to sell sugar at ex-factory prices that do not pay for all costs, not to speak of margins for milling units, the capacity to settle cane bills in time gets automatically compromised. Commerce and industry minister Piyush Goyal had an occasion to complain about difficulties farmers in Uttar Pradesh were facing on account of factories failing to honour their cane payments obligation. He should, however, be aware that unless sugar factories have severe cash flow problem, the question of reneging on payments for sugarcane received will not arise.

As it would happen, Goyal instead of recognising the merits of global practices of perpetually establishing links between prices of sugarcane and sugar, says the government is doing enough to help the industry by way of supporting exports and increasingly higher levels of blending of ethanol, a sugar by-product, with petrol. Had the government accepted the formula of sharing revenues from sugar and its by-products in the ratio of 75:20 between farmers and factories, as was recommended by the Rangarajan committee, the industry's ills, as would surface from time to time would have been resolved. In any case, the industry is appreciative of government support to convert B heavy molasses into ethanol and also direct conversion of surplus sugarcane into green fuel, as is practised in Brazil on a very large scale.

Niraj Shirgaokar, president of Indian Sugar Mills Association (ISMA) says: "It is extremely important to note that around 80% (or even more in some cases) of the total revenue of a sugar mill or a company comes only from sugar, and that by-products like power and ethanol contribute 15-20% of the total revenue. Therefore, any understanding that the help of the government in other aspects, including ethanol, is enough to compensate for lower sugar price realisation is not correct."

It will be recalled that sugar MSP was last revised by ₹2 to ₹31 a kg in February 2019. FRP of sugarcane was revised upwards twice since. During this period, cost on other heads including conversion of sugarcane into sugar, salaries and inputs other than sugarcane too has risen. In the natural course of things, cost escalation in producing the sweetener should be reflected in stepped up sugar MSP. But didn't Goyal say at ISMA annual meeting that he was not in favour of "institutionalising consumer price increases" when urged for a higher sugar MSP?

Shirgaokar, therefore, asks "isn't it fair for the industry to expect that whenever there is an increase in sugarcane FRP along with other cost increases, there should be a commensurate rise in sugar MSP?" Based on the extra cost involved in processing sugarcane, ISMA and also factories in the cooperative sector have made a representation to the Prime Minister's Office (PMO) for revising sugar MSP by ₹4 a kg to ₹35 a kg. There is no arbitrariness in the industry demand since some leading sugar producing states, including UP, Maharashtra and Karnataka and also the committee of secretaries at the Centre, find logic in pegging the MSP at a higher level to compensate mills for cost rises since last MSP revision. Why should the government squirm about the revision when the ex-factory price of sugar, ahead of festive season, is already around ₹35 a kg?

Banks extend working capital to the industry based on valuation of sugar. In the event of sugar MSP being pegged higher by ₹4 a kg, sugar companies will have an access to an additional working capital of around ₹12,000 crore. The extra bank accommodation, according to Shirgaokar, will enable the industry to timely clear cane invoices of farmers and any unpaid cane bills from the past. What further will bring order to the industry's settling of cane dues if factories are allowed to pay FRP in three instalments, including first instalment disbursement of 60% within 14 days of cane delivered at mill gate. The present dispensation under the sugarcane (control) order, however, statutorily requires mills to clear cane bills within a fortnight.

But records over the past many sugar seasons will show factories will often not have enough funds to honour payment commitment to farmers in time, leading to frighteningly high accumulation of cane dues.

As in April 2019, sugar factories hammered by years of bumper production and resultant low prices ran up record cane payment arrears of around ₹28,000 crore, putting 50 million farmers in distress. Industry defaulting on cane payments is a recurring problem of the world's second-largest sugar economy, next only to Brazil, thanks to absence of globally honoured revenue sharing system here. The industry suggestion of payment of cane dues in three instalments has found endorsement of think tank Niti Aayog and Commission of Agricultural Cost and Price (CACP).

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