A bitter harvest

Correct the mismatch in pricing and save the sugar industry

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It is a super industry, and we need to look at it from An advantageous point of view:

◆ Millions Of farmers grow cane in large areas of the country

◆ Cane is among the most remunerative crops for them (if policy is good), and also hardy (it can withstand drought and flood better than many).

◆ India is the largest consumer of sugar in the world.

◆ From cane, a variety of by-products such as ethanol and power can be produced.

The problem that the sugar industry faces is one of oversupply of cane. This is primarily due to high announced prices (fair and remunerative *price* or FRP) and returns. Any farmer faced with a good price pronouncement of cane will plant more. This then leads to an oversupply of sugar, which will automatically depress the price of sugar. Prices need to be based on economics, and only then will this mismatch be corrected.

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Thus, sugar prices are low, and cane prices are high, making the payment of cane price, the FRP impossible. And this will not change, unless this mismatch is corrected.

In recommending the FRP, the CACP (Commission for Agricultural Costs and Prices) had suggested the cane price, with the proviso, that if the FRP was higher than the economically linked Rangarajan formula (this price links the price of cane to the price of sugar, molasses and bagasse), then the difference should be met by the government, through some stabilisation fund. The government announced the FRP by only looking at FRP number, and overlooked the suggestion of the price difference. So, one option is for the government to pay this difference.

The other approach is to create demand. This can be done by:

◆ Buying sugar for a 'strategic reserve'. This can work once or twice, but a long-term natural demand must be created.

◆ The government should give a subsidy for exporting sugar (raw, white or refined). A subsidy for raw sugar was announced, but at the end of the season, so by the time the price was announced, the season was almost over, and the raw price had fallen.

◆ Creating a programme that encourages the use of sugarcane for production of ethanol, biochemicals, or even electricity, so that mills have alternate revenue streams, as well as options to put their surplus sugar. The government has just announced an excise exemption for ethanol used in fuel, this is good. Policies can be examined for examining the same for bio-refineries, and also giving good prices for power through the implementation of RECs (many states such as Karnataka, are not following the recommendations of CERC for RECs).

Further, since sugarcane pricing will always be politically sensitive sugar prices will always have to be protected by high import duty. Not because the industry needs protection, but because the cane price, and therefore the farmer, needs protection. The recent policy measures raising import duty, etc, are good in the long run, as an insurance against Brazilian or international low prices.

It is best to follow the Rangarajan formula – linking the price of sugarcane to sugar, molasses and bagasse – the primary by-products. This is done in Brazil, Thailand, and almost everywhere else.

The high prices of cane, those too high to pay, result in some farmers getting a very high price, and some get nothing. This leads to poverty and a crisis.

This is industry provides employment to lakhs of people and even many more million farmers. ◆

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