Stress in the Cane Industry

What is the issue?

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- The sugar industry is currently facing a serious financial crisis.
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- Improper government policies are what have caused this malice.
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What is the overall crisis about?

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- **Glut -** Sugar output is estimated to have surged by nearly 10 million tonnes in the 2017-18 sugar season (Oct 2017 to Sept 2018) to 32.2 million tonnes.
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- While this is already way above the demand of around 25 million tonnes, the estimated output for 2018-19 is slated to be even higher at 35 million tonnes.
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- Notably, this spike is largely because of the government's recent pro-cane grower's stance with an eye on the forthcoming general election in 2019.
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- **Stress -** Excess supplies have dragged ex-factory sugar prices below production cost, leading to cane price arrears of about Rs 180 billion.
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- The bulk of these are accounted for by sugar mills in Uttar Pradesh due to the relatively higher cost of state's mandated procurement price.
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- As the glut in the market is likely to depress prices further, banks have moved the sugar sector to the "caution list".
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- This would make it harder for them to borrow and resultantly only make the possibility of recovery grimmer.
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How did this come up?

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- The genesis of the sugar sector’s woes is rooted in the overproduction of both sugarcane and sugar, and the consequential meltdown of sugar prices.
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- But, instead of dis-incentivising additional cane production, the government is taking measures which would enhance more cane cultivation.
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- The recent sharp hike of Rs 20 a quintal in the “Fair and Remunerative Price” (FRP) for cane (floor price fixed by the centre), is an example.
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- Mandatory additional payment for sucrose recovery in excess of 10% and cash dole of Rs 5.50 per quintal of cane used by the mills, also further production.
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- Also, permitting direct conversion of cane juice into ethanol, instead of using only the by-products for this purpose, might encourage more cane production.
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- Fiscal incentives for setting up more distilleries, and creation of a 3 million-tonne sugar buffer are some other misguided policies.
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- This aside, the government has also doled out an elaborate package of sops to the sugar factories to continue their operations.
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What is the way ahead?

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- The solution lies in letting the production of both sugarcane and sugar move in tandem with overall market demand (including exports).
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- The way to achieve this objective is outlined explicitly in the report submitted by the Rangarajan Committee on sugar deregulation in 2013.
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- The revenue-sharing formula for cane pricing mooted by it can help strike the needed balance between supplies and demand and also establish a buffer.
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- This mechanism also seems fair to both cane growers and sugar producers as

it envisages sharing 70 to 75% of the revenue earned by the mills with farmers.
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- Nonetheless, the transparency in the assessment of the sugar factory revenues is vital to make this system a success, which could prove challenging.
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Source: Business Standard

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