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Bailout Package for Sugarcane Farmers

Why in news?

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The Cabinet has recently approved a Rs 7,000-crore bailout package for sugarcane farmers.

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What is the need?

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- There has been an excess production in the current sugar season.
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- This has depressed the market price of sugarcane.
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- It has dropped from an average of Rs.37 a kg in the previous season to Rs.26 now.
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- This in turn has adversely affected the liquidity position of sugar mills.
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- It has led to the accumulation of Rs 22,000-crore of cane price arrears by the sugar mills.
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- Sugar mills share 70 to 75% of the revenue generated from the sale of sugar and its by-products, with cane suppliers.
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- This is as per the revenue-sharing formula of C Rangarajan committee on sugar deregulation.
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What are the measures in this regard?

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- The Cabinet Committee on Economic Affairs (CCEA) has decided for a bail out package for the cane farmers.

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- It has also set the minimum selling price for sugar at Rs 29 per kg.
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- The government will procure sugar from mills at this fixed minimum price.
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- This is to remove the problem of liquidity of sugar mills and help them clear their dues.
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- The package comprises shares for creating a 30 lakh MT buffer stock.
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- Besides this, a portion would go as soft loan for mill owners.
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- This is to increase molasses and ethanol production capacity to divert surplus sugarcane.
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- Additionally, another share would be towards interest subvention for the loan.
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What are the concerns?

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- The plan promises an assured minimum pricing of Rs.29 a kg.
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- It may dissipate the sugar mills' immediate liquidity problems to an extent.
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- However, sugar mills say this is below their production cost of Rs.35 a kg.
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- It could help mitigate only about 40% of the outstanding arrears to sugarcane farmers.
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- The production will rise again in the coming season and the extent of arrears would also rise.
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- Besides, the loans and interest subsidies component will take time to materialise.
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- It will not be soon enough to address the present crisis.
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- The recent decision, thus, sticks to the old-style pricing and stock-holding

interventions.
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- It does little to address the structural flaws in the sugar sector.
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- The sops-driven solution could distort the agriculture sector further.
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What is the way forward?

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- Continuing the complex web of state controls in a politically-sensitive sector is no solution.
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- The best way is to address the problem of excess supply in the long run.
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- Ensuring some linkage, between the price paid for sugarcane and the end-products it is used for, would help.
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- Also, a shift to market-driven cropping decisions should seriously be considered.
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Source: Business Standard, The Hindu

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