# Crisis in the Cane Industry

## What is the issue?

\n\n

\n
- The union government’s has announced a financial assistance for sugarcane growers, but it is too little to beat the distress in the sector.
\n
- Also, the government is pushing aggressively to increase exports of refined sugar at a time when external demand is not conducive.
\n

\n\n

## How significant is the support that has been announced?

\n\n

\n
- Union government recently approved a financial assistance of Rs 5.50 per quintal (100 kg) of cane crushed by sugar mills for 2017-18.
\n
- The Centre’s FRP of cane for 2017-18 is around Rs 287 per quintal (average).
\n
- **The Stress -** Centre’s Sugarcane (Control) Order mandates mills to pay the FRP within 14 days of cane purchase from farmers.
\n
- If payments deadlines aren’t met, they’ll have to pay about 15% annual interest on the due amount for the period of delay.
\n
- But sugar mills have clearly stated that they cannot pay farmers beyond 75% of their realisations from sugar.
\n
- Hence, at the prevailing ex-factory sugar prices of about Rs 26 per kg, the net value would amount to merely Rs. 217 per quintal.
\n
- This leaves a shortfall of about than 70 rupees from the nationally mandated FRP, which will hardly be met with the Rs. 5.5 per quintal assistance.
\n

\n\n

\n

- **Implication -** The move to provide Rs 5.5 per quintal as subsidy is an admission that FRP requirements are very high.
\n
- This amount will get adjusted with FRP, thereby giving mills considerable leeway in paying even the amount mandated by law.
\n

\n\n

## How have things come to this?

\n\n

\n

- Overproduction has been a persistent problem with sugarcane, and it has often messed up the calculation of millers, traders and governments.
\n
- The country's sugar output in 2017-18 is expected at a record 31.7 million tonnes (mt), a 56% jump over the last season's level.
\n
- Even more spectacular is the production rebound in Maharashtra, from a 12-year-low of 4.2 mt in 2016-17 to an all-time-high of 10.7 mt this year.
\n
- These projects have led to the crash of ex-factory prices by Rs 9-10 per kg since the start of the season as immense surplus has been projected.
\n
- Notably, the availability is projected at 35.5 mt (3.8 mt previous stock added), but the estimated domestic demand is just 25 mt.
\n

\n\n

## How could the sugar subsidy influence markets?

\n\n

\n

- Cane arrears (to farmers) are currently Rs. 20,000 crores and the proposed Rs. 5.5 per quintal will account a pittance of just Rs. 1,630 crores.
\n
- But notably, this assistance is to be provided only to those mills which will fulfil the eligibility conditions as decided by the Government.
\n
- While there is no clarity on the "eligibility conditions", the expectation is that the payment would be linked to mills meeting export targets.
\n
- The Centre has already fixed mill-wise "minimum indicative export quotas"

totalling 2 mt for the current sugar season.
\n

- Forcing mills to export could be a part solution to the domestic glut, with the Rs 5.50/quintal assistance acting as a performance incentive.
\n

\n\n

## How does the export scenario look?

\n\n

\n

- At current international rates, white sugar will have to be shipped out from India at around Rs 20.50 per kg.
\n
- That translates into an ex-factory price of Rs 18, which is way below what mills are realising from domestic sales.
\n
- Also, internationally, there is limited demand for India sugar which usually has an ICUMSA value of over 100 (lower the ICUMSA, greater the purity).
\n
- Global markets require a better refinement with ICUMSA values around 45.
\n
- “National Federation of Cooperative Sugar Factories” has stated that exporting the mandated 2 mt of white sugar before September won’t be easy.
\n
- They’ve rather asked the centre to target raw sugar exports of 4 mt before December 2018, which the mills would be able to meet.
\n
- Indian raw brown sugar from fresh cane is said to be dextran-free and with very high polarisation of 800-1,200 ICUMSA.
\n
- There is a good international demand for raw sugar, including refineries in West Asia, which currently sources Brazilian raw sugar.
\n

\n\n

## What are the hopes for the future?

\n\n

\n

- Rising global oil prices may induce mills (particularly in Brazil) to divert cane juice for production of ethanol, as opposed to sugar.
\n
- **International Market -** Brazil’s ethanol output (as blend for fuel) might go

up from the currently 26.09 billion litres to 27.5 billion litres.
\n

- Consequently, its projected sugar production in 2017-18 (36.05 mt) might fall to 30.5 mt in the next crushing season.
\n
- This can open up the international market for Indian raw sugar.
\n
- **Fuel Blending -** It is also the right time for India to aggressively push domestic ethanol blending in fuel to reduce our crude import bills.
\n
- Notably, compared to Brazil's 26 billion-plus litres, India plans to blend just about 1.4 billion litres of ethanol to oil in 2017-18.
\n
- This is only 4.4% of the country's annual petrol consumption of 32 billion litres, while 10% ethanol-blending has already been mandated by law.
\n
- As petrol prices are touching Rs 75 per litre, there is headroom for enhancing the Rs 40.85/litre rate for ethanol.
\n
- Hence, there is a scenario in the fuel market which can enhance the profitability for sugar mills and also absorb the excess cane supply.
\n

\n\n

\n\n

**Source: Indian Express**

\n

SHANKAR IAS PARLIAMENT
Information is Empowering