Ethanol Production for sustaining the Sugar Sector

What is the issue?

- The Centre has announced export subsidies as well as compensation for the carrying cost of the sugar mills.
- This was announced in order to help sugar mills deal with the 145 lakh tonnes of sugar inventory (normal requirement is only 50 lakh tonnes).

What is the real problem?

- This move is aimed at soothing the sugar cooperative sector in Maharashtra which will go to polls soon.
- That said, there is a **real issue of excess**. With the new crop arrivals expected to pick up on October, the problem of excess will only worsen.
- This is despite the fact that cane crop for the 2019-20 season is expected to be 47 lakh tonnes less than last year's production of 329 lakh tonnes.
- With domestic consumption estimated at 260 lakh tonnes, the **surplus is threatening to depress prices**.
- In order to hold up cane prices and clear farmers' dues, **buffer stocks** have become an inexorable necessity.
- Meanwhile, a global surplus in sugar makes it difficult to export viably.
- Hence, the Centre has resorted to a short-term fix, in the time-honoured tradition of placating this politically powerful sugar sector.
- There can be no getting away from increases in the support price, or 'fair and remunerative price (FRP)'.
- Despite various efforts to reform the sector, **the sugar mills are able to extract concessions from the State** on the pretext that the FRP is too high for them to meet their costs and pay farmers.
- Cane arrears are now close to ₹16,000 crore, principally due to farmers in Uttar Pradesh.
- But in Maharashtra, where the arrears are far lower, there's a larger social cost of keeping the cooperative sector going.
- There is certainly a case for this region moving away from growing cane.
- This calls for a well-thought-out plan, given the number of sugarcane farmers and industry workers involved.

What is the option?

- One option, as has been promoted by the Centre, is to **actively encourage the conversion of cane to ethanol** by offering a high price for the latter.
- At present, ethanol is prepared **from C-grade molasses**, whereas efforts should be made to prepare it from sugarcane juice and B-grade molasses as well.
- This will take care of excess stocks, with positive balance of payments effects.
- Subsidies for sugar should be directed towards building ethanol capacities. However, sugar cooperatives are often run on less than commercial lines.
- Researchers have established how cooperatives are often milked to fund election campaigns of cooperative chiefs. **The system needs a clean-up.**

Source: Business Line

Quick Facts

Fair and Remunerative Price (FRP) of Sugarcane

- The FRP has been determined on the basis of recommendations of **Commission for Agricultural Costs and Prices (CACP)** and after consultation with State Governments and other stake-holders.
- It is used in **sugarcane industry** and is fixed by the government but is **paid by the mill owner**.
- Recommended FRP has been arrived at by taking into account various factors such as
    1. Cost of production,
    2. Overall demand-supply situation,
    3. Domestic and international prices,
    4. Inter-crop price parity,
    5. Terms of trade prices of primary by-products
    6. Likely impact of FRP on general price level and resource use efficiency.

Buffer Stock Policy

- The concept of buffer stock was first introduced during **the IV Five Year Plan** (1969-74).
- Buffer stock of food grains in the Central Pool is maintained by the Government of India (GOI) / Central Government for
    1. meeting the prescribed minimum buffer stock norms for food security,
    2. monthly release of food grains for supply through Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS),
    3. meeting emergency situations
    4. price stabilisation or market intervention to augment supply so as to

help moderate the open market prices.

- The **Cabinet Committee on Economic Affairs** fixes the minimum buffer norms on quarterly basis.