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Maharashtra Sugar Mills' Agreement with Farmers

What is the issue?

- Maharashtra sugar mills have an unusual agreement with farmers for this sugarcane crushing season.
- It enables the former to pay the government-declared Fair and Remunerative Price (FRP) for cane purchased in three instalments.

What is FRP?

- **Definition** - FRP is the minimum price at which sugarcane is to be purchased by sugar mills from farmers.
- On basis of recommendations of Commission for Agricultural Costs and Prices (CACP), the FRP is fixed by Union government.
- The season's FRP is declared before the start of the crushing season**.**
- **Factors** - The cost of production, demand-supply situation, domestic & international prices etc are the factors that are taken into account while recommending FRP.
- Sugarcane's FRP is determined under Sugarcane (Control) Order, 1966 which will be uniformly applicable all over country.
- **FRP is linked to recovery** - the amount of sugar produced by crushing 1 tonne cane, expressed as a percentage.
- The higher the recovery, the higher be the sugar produced, and thus the higher the FRP too.

What does the 1966 Order mandate?

- It mandates that mills pay the basic FRP within 14 days of purchase.
- If the mill fails to do so, they are to pay 15% per year interest.
- Sugar commissioners are empowered to recover pending dues by attaching properties of errant mills.
- The assured scheme of payment had over the years made cane a preferred crop among growers across the country.
- While the law mandates payment within 14 days, the payment schedule has not been rigorously followed generally.

What happens generally?

- At the start of crushing season, the farmers' union in its Cane Conclave used

to make demands for payment, which was above FRP.
- Mills had to accede to the demand to prevent disruption in transportation of cane.
- The first instalment was always the full FRP, while later instalments covered demands made by the farmers.

How do mills generate capital to pay their growers?

- Sugar mills pledge their stock of sugar and avail of working capital from banks to pay their growers as well as to fund their operations.
- Based on the valuation of sugar, banks issue loans to the tune of 75% of the current valuation.

Why did mills feel the need to get into agreements?

- **Case** - During the 2014-15's season, some mills in Maharashtra had defaulted on payment of basic FRP.
- A farmer leader approached the Bombay High Court with demands including payment of 15% interest on late payment of FRP.
- The court eventually asked the sugar commissioner to start the process of calculation of interest.
- The then sugar commissioner started the process in 2019 and appointed government auditors to calculate the interest.
- Given the financial implications, mills took the cue from the 1966 order and started making formal agreements with farmers for part-payment.
- **The cue** - The order mandates payment of FRP within 14 days of cane delivery if there is no agreement otherwise.
- This cue is being used by mills to get their farmers to sign agreements that would allow mills to pay 75% of the FRP as the first instalment and the rest in subsequent instalments.
- Of the 136 mills that have entered the crushing season in Maharashtra, 76 have got into such agreements.
- The payment clause was put in the cane registration forms that farmers sign and submit to the mills.

What are the ramifications of such an agreement?

- Many farmers' leaders claim the agreement would not stand the test of law as it leaves a farmer without the necessary standing to argue for a fair agreement.
- In this case, many have said the agreement clause was put in the forms farmers have not read properly.
- But mills have denied this and said it was only a small section of farmers who

were insisting on full payment of FRP.

- Mills claim that the financial constrains make it is impossible for them to pay the full FRP at one go.
- Until these agreements are challenged in any court of law, mills in Maharashtra will continue to pay their growers as per these agreements.

Source: The Indian Express

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