

Problems in Sugar Industry

What is the issue?

- The sugar industry is supposed to commence its crushing activities for the 2020-21 season this month.
- But the industry appears to be hamstrung by problems - some familiar and some new.

What are the problems?

- After every season of surplus, the industry has run up **large arrears** with farmers for the supply of cane.
- This year, because of the lockdown, **millers' cash flows** have been hit.
- The hit is due to the sharp fall in the institutional off take of sugar from food and beverage makers and hotels — usually a stable revenue source.

What did the governments do?

- The industry's persistent **working capital crunch** has also been aggravated by the Centre.
- The Centre delayed its promised payouts towards transport subsidy on sugar exports, relying on which the industry has shipped out over 60 lakh tonnes of sugar this year.
- The Centre has been tardy in reimbursing mills for the carrying costs on the 40-lakh tonne buffer-stock created at its behest.
- State governments have been delaying payments on co-generated power.
- The Centre and State governments have persisted with **populist policy measures** that interfere in the active functioning of the market.
- This has aggravated the industry's structural problems.

What are the populist measures taken?

- Instead of desisting from hikes in the Fair and Remunerative Price (FRP) for cane, which would discourage farmers from planting excessive cane, the Centre has kept up FRP hikes.
- The Centre has begun announcing a 'minimum selling price' for sugar.
- States like Uttar Pradesh have worsened the over-capacity situation with unrealistic State Advised Prices and capital subsidy schemes.

What are the other problems?

- Industry's own efforts at de-risking the business through forward integration moves have come a cropper, too.
- These forward integration moves include the processing of molasses into ethanol and bagasse into power.
- Annual conflicts between the sugar industry and oil marketing companies on the quantum and pricing of ethanol have ensured that the ethanol blending programme is a non-starter.
- With revenues from co-generated power dependent on the finances of State discoms, this diversification gambit hasn't worked either.

What could be done?

- The obvious solution to the sugar industry's woes lies in **freeing prices** of both cane and sugar from the shackles of government control.
- **Free market forces** should be allowed to dictate the demand-supply equation for sugarcane and its end-products.
- Many **expert committees** have already put out policy prescriptions for untangling the mess that is the Indian sugar sector.
- This includes the recommendations of the Rangarajan committee (2012).
- The only thing required now is the **political will** to implement these recommendations.

Source: Business Line