Reforming the Sugar Industry

What is the issue?

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- The sugar sector is faring well in terms of production, prices and other factors in recent years.
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- It thus calls for taking forward the reforms based on recommendations of the Rangarajan committee on sugar deregulation.
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What are the problems and recommendations?

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- **Sugarcane Price** - The Centre fixes a minimum price, the FRP (fair and remunerative price) paid by mills to farmers.
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- States can also intervene in sugarcane pricing with an SAP (state advised prices) to strengthen farmer’s interests.
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- Notably, some States such as UP and TN have set SAPs higher than FRPs.
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- The Committee thus recommended that states should not declare an SAP as it imposes an additional cost on mills.
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- It thus suggested a uniform FRP for farmers.
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- And also suggested determining cane prices according to scientifically sound and economically fair principles.
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- **Levy sugar** - Levy sugar is the 10% of production that every sugar mill mandatorily surrenders to the centre, at a price lower than the market price.
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- This enables the central government to get access to low cost sugar stocks for distribution through the Public Distribution System.
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- The centre saves a huge sum on account of this policy, the burden of which is borne by the sugar sector.
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- The Committee recommended doing away with levy sugar.
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- States wanting to provide sugar under PDS would have to procure it directly from the market.
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- **Regulated release of non-levy sugar** - Sugar is produced over the four-six-month sugar season.
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- The Centre allows the release of non-levy sugar into the market on a quarterly basis, to ensure distribution evenly across the year.
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- Mills can neither take advantage of high prices to sell the maximum possible stock, nor dispose it to raise cash in need.
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- It also impacts the ability of mills to pay farmers and thus regulated release imposes costs on both mills and farmers.
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- The Committee recommended removing the regulations on release of non-levy sugar to address these problems.
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- **Trade policy** - The government has set controls on both export and import of sugar in line with availability, demand and price.
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- Even though India contributes 17% to global sugar production (second largest), its share in the world trade of sugar is meagre.
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- It is thus recommended to removing the existing restrictions on trade in sugar and converting them into tariffs.
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- **Revenue Sharing Mechanism** - It stipulates 70-75% of the total revenue earned by sugar mills to be shared with farmers.
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- The revenue may accrue from the sale of sugar and its by-products such as molasses, bagasse and co-generated power.
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- Being fair to both cane growers and sugar producers, this can also balance sugarcane and sugar output with demand.
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- As returns depend on the sugar recovery from cane, it spurs farmers to grow better varieties and improve efficiency of cane cultivation.
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- However, a fair and transparent assessment of sugar recovery and revenues of sugar mills is essential.
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- **Cane area reservation** - It mandates cane farmers to supply their sugarcane to the specific sugar mill.
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- It is recommended that cane area reservation be phased out.
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- Contracting between farmers and mills should be allowed for enabling a competitive market for assured supply of cane.
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- On discontinuing area reservation, the Centre should remove the stipulation of minimum distance criteria between two mills.
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What lies ahead?

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- Barring a few financially distressed mills, most sugar companies have been in profit.
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- More than 99% of the cane price dues based on FRP have been cleared by the Centre.
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- There is, therefore, little reason for delaying the completion of the reforms process recommended by the Rangarajan panel.
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- In particular, some proposals that were left to the states to carry out have not made much headway.
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- The other pending or partially done reforms need to be executed.
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Source: PRS India, Business Standard

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