



## Mains Practice Question

**Q.** Discuss the reasons behind mounting arrears of sugar mills and distress of sugarcane farmers. Suggest possible steps that can be taken to resolve the same. (250 words)

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### Approach

- Briefly introduce the payment arrear crisis.
- Highlight the problem areas in sugar industry causing debt to mount.
- Suggest solutions

### Answer

#### Introduction

- Even though India is the second largest producer of sugar in the world and set to become largest, overtaking Brazil, the sugar sector is reeling under difficulties due to price mismatches.
- Sugarcane farmers are facing a payments crisis running into thousands of crores of rupees as sugar mills continue to accumulate arrears (payments to be made to sugarcane farmers) in face of losses due to low sugar prices in the market.

### Body

#### Reasons for mounting arrears

- **High Production cost and lower realizations:** High cost of sugarcane (due to high State advised price), inefficient technology, uneconomic process of production and heavy excise duty result in high cost of manufacturing. Lower prices of sugar than production cost causes mills to incur losses rendering them unable to pay farmer's dues.
- **Minimum distance criteria:** The central government has prescribed a minimum radial distance of 15 km between any two sugar mills, this criterion often causes virtual monopoly over a large area can give the mills power over farmers.
- **Uncertain Production Output:** Sugarcane has to compete with several other food and cash crops like cotton, oil seeds, rice, etc. This affects the supply of sugarcane to the mills and the production of sugar also varies from year to year causing fluctuations in prices leading to losses in times of excess production due to low prices.
- **Low Yield of Sugarcane:** India yield per hectare is extremely low as compared to some of the major sugarcane producing countries of the world. For example, India's yield is only 64.5 tonnes/hectare as compared to 90 tonnes in Java and 121 tonnes in Hawaii.
- **Short crushing season:** Sugar production is a seasonal industry with a short crushing season varying normally from 4 to 7 months in a year. It causes financial loss and seasonal employment for workers and lack of full utilization of sugar mills.
- **Low Sugar recovery rate:** The average rate of recovery of sugar from sugarcane in India is less than ten per cent which is quite low as compared to other major sugar producing countries.

### Solution

- State Advised Price (SAP) of sugarcane has to be linked to average realisations of mills, both from sugar and primary by-products (molasses and bagasse).
- Let farmers have the freedom to sell to any mill that may want to pay more. If the government wants cane farmers to be paid more, it should credit that amount directly to their bank accounts and not force losses on the industry.
- Farmers should be free to sell sugarcane to any mill they prefer, the minimum distance criteria between two mills should be removed.
- The sector needs infusion of capital, but also policy measures and structural changes. Technological upgradation in age old mills especially in Uttar Pradesh and Bihar to improve efficiency in production.
- States should migrate to the progressive revenue-sharing formula to ensure farmers receive a share in the profits.
- Production cost can also be reduced through proper utilisation of by- products of the industry.
- Government should encourage ethanol production. It will bring down the country's oil import bill and help in diversion of sucrose to ethanol and to balance out the excess production of sugar.

### **Conclusion:**

- A sugar industry is source of livelihood for 50 million farmers and their families. It provides direct employment to over 5 lakh skilled laborers but also to semi-skilled laborers in sugar mills and allied industries across the nation. Considering the importance of sugar industry the crisis faced by sugarcane farmers need to be resolved promptly through centre and state policy initiatives.

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