



# Sugar Industry

## Why in News

- Sugarcane farmers are facing a payments crisis running into thousands of Crores of Rupees.
- In Maharashtra alone the state's sugar mills failed to disburse the entire amount of Rs 7,450.9 crore as payment for cane to farmers as the 'fair and remunerative price'(FRP), according to Maharashtra government's commissionerate of sugar.
- Similar situation regarding delays in Uttar Pradesh led to recent farmer protest bringing in light the crisis in sugar industry.

## Background

- A major player in the worldwide sugar trade, India produced 33 million metric tons in 2017/2018. The nation is seeing record levels of sugar production and is set to overtake Brazil as the highest sugar producer.
- India's sugar production rose 11.5% during the 2014 to 2015 season on bumper cane production. This increase in production led to an extensive surplus in Indian sugar with mills struggling to pay fair wages to workers.

## Sugar Industry's Location in India

- Sugar industry is broadly distributed over two major areas of production- Uttar Pradesh, Bihar, Haryana and Punjab in the north and Maharashtra, Karnataka, Tamil Nadu and Andhra Pradesh in the south.
- South India has tropical climate which is suitable for higher sucrose content giving higher yield per unit area as compared to north India.

## Significance

- **Multiple linkages:** Sugar is a labour-intensive industry, up the entire value-chain from cane-growing to sugar and alcohol production. Across multiple districts of Uttar Pradesh, Maharashtra, Tamil Nadu, Karnataka, and several other states, it is the main source of employment.
- **Source of employment:** 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.
- **Byproducts:** The various byproducts of sugar industry also contribute to the economic growth and promote a number of allied industries. Sugarcane has emerged as a multi-product crop used as a basic raw material for the production of sugar, ethanol, paper, electricity and besides a cogeneration of ancillary product.
- **For livestock feeding:** Molasses from sugar cane is used for alcohol production and livestock feeding since it is highly nutritious.
- **Biofuel:** In India, the vast majority of ethanol is produced from sugarcane molasses, a by-product of sugar. Ethanol blended fuel can help in reducing crude oil imports.
- **Bagasse:** Basic utilisation of baggase continues to be as a fuel. But it is also suitable raw material for paper industry. 30% of cellulose requirement comes from agricultural residues. However, since the mills are scattered all over the country, collection of surplus baggase poses a problem and makes paper units uneconomical.

## Problems of Sugar Industry

### ▪ 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.

### ▪ High Production cost

- High cost of sugarcane, inefficient technology, uneconomic process of production and heavy excise duty result in high cost of manufacturing.
- Most of the sugar mills in India are of small size with a capacity of 1,000 to 1,500 tonnes per day thus fail to take advantage of economies of scale.

### ▪ Government policy and control

- Government has been controlling sugar prices through various policy interventions like export duty, imposition of stock limit on sugar mills, change in meteorology rule etc., to balance supply demand mismatch.
- But these controls have resulted in unremunerative sugar prices, increasing arrears for sugar mills and dues to be paid to sugarcane farmers.

## Government Initiative

### ▪ Rangarajan committee (2012) was set up to give recommendations on regulation of sugar industry. Its major recommendations:

- Abolition of the quantitative controls on export and import of sugar, these should be replaced by appropriate tariffs.
- Committee recommended no more outright bans on sugar exports.
- 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. The Committee recommended that the distance norm be reviewed.
- There should be no restrictions on sale of by-products and prices should be market determined. States should also undertake policy reform to allow mills to harness power generated from bagasse.
- Remove the regulations on release of non-levy sugar. Removal of these controls will improve the financial health of the sugar mills. This, in turn, will lead to timely payments to farmers and a reduction in cane arrears.

### ▪ Based on the report, Commission for Agricultural Costs and Prices (CACP) recommended a hybrid approach of fixing sugarcane prices, which involved fair and remunerative price (FRP).

### ▪ The year 2013-14 was a water-shed for the sugar industry. The Central Government considered the recommendations of the committee headed by Dr. C. Rangarajan on de-regulation of sugar

sector and decided to discontinue the system of levy obligations on mills for sugar produced after September, 2012 and abolished the regulated release mechanism on open market sale of sugar.

- The de-regulation of the sugar sector was undertaken to improve the financial health of sugar mills, enhance cash flows, reduce inventory costs and also result in timely payments of cane price to sugarcane farmers.
- The recommendations of the Committee relating to Minimum Distance Criteria and adoption of the Cane Price Formula have been left to State Governments for adoption and implementation, as considered appropriate by them.
- With the aim of benefitting Sugar farmers and in order to clear their arrears/cane dues, the Union Government has decided to increase the Minimum Selling Price (MSP) of Sugar from Rs. 29 to Rs. 31 for the year 2019-20.

### **Fair and Renumerative Price**

- FRP is the minimum price that the sugar mills have to pay to farmers.
- It is determined on basis of recommendations of Commission for Agricultural Costs and Prices (CACP) and after consultation with State Governments and other stake-holders.

### **State Advised Price (SAP)**

- In other key growing states of Uttar Pradesh, Punjab, Haryana, Tamil Nadu and Uttarakhand, farmers get the State Advised Price (SAP) fixed by state governments which is usually higher than FRP.
- Apart from this, the government has also provided incentives on producing ethanol from B-heavy molasses and cane juice to divert the sugar surpluses towards biofuel, thus indirectly supporting sugar prices. The new Biofuel Policy 2018 has fixed a target of achieving 20 per cent ethanol blending with petrol by 2030.

### **Way Forward**

- 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.
- Major sugar producing States like Maharashtra and Karnataka have migrated to the progressive revenue-sharing formula other states should also introduce **revenue-sharing formula** to ensure farmers receive a share in the profits.
- When domestic production is likely to be in excess of domestic consumption government should encourage exports through policy changes.
- Mills should be allowed to produce more alcohol (a higher value product with massive industrial demand). Exports of sugar and alcohol should also be decontrolled. It will improve financial situation of mills and could afford to pay farmers a price based on the market prices of sugar.
- The production cost of sugar in India is one of the highest in the world. Intense research is required to increase the sugarcane production in the agricultural field and to introduce new technology of production efficiency in the sugar mills.
- 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.