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Political interference in fixation of sugarcane prices and its implication

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ABSTRACT

Sugar industry is an important agro –based industry. In India, sugar industry is the second largest industry after textiles and also the second largest sugar producer in the world after Brazil. Indian sugar industry occupies an important place among organized industries. In India, the sugar industry is one of the world's major agro-based industries that impacts rural livelihoods of about fifty million sugarcane farmers with large number of agricultural labour are involved in sugarcane cultivation, harvesting and ancillary activities and around five Lakh workers are directly employed in sugar mills. Due to large number of stakeholders, sugar remains a commodity that is politically sensitive and related issues of sugar industry are on the interest of the policy makers. As a result, the sugar industry itself has been highly regularized over the years, including production, distribution, exports and imports etc. Uncertainty in sugarcane pricing for the season 2013-14 has hit the sugarcane crushing activities in the country. Therefore, this paper is an attempt as to review the interference of political activities and implications in the context of the procedure of fixation of sugarcane prices in country, where the "state advisory price" is being used as a political tool and sugarcane prices have been a political issue rather than economical issue.

INTRODUCTION

Sugar industry occupies an important place among organized industries and the second largest industry after textiles industry in India. India has also gained second position followed by Brazil, the largest sugar producer in the world. The Indian sugar industry uses sugarcane in the production of sugar and hence maximum number of the companies are likely to be found in the sugarcane growing states of India including Uttar Pradesh, Maharashtra, Gujarat, Tamil Nadu, Karnataka, and Andhra Pradesh.

In India the sugar industry is one of the major agro-based industries that impacts rural livelihoods of about 50 million. Sugar industry, has been instrumental in resource mobilization, employment generation, income generation and creating social infrastructure in rural areas, in other words sugar industry has facilitated and accelerated pace of rural industrialization. For sugar industry, price policy of India have major role regarding prices of sugar and sugarcane. Because of millions of affected parties are involved with their different interest, the mechanism of fixation of these prices has greater importance for different stakeholders of industry as well as economy of country.

MATERIAL AND METHODS

This research is based on the knowledge accumulated by the review of the secondary data sources and literature, reports, books and many other publications that are related with the study.

OBSERVATIONS AND ANALYSIS

Sugar is a controlled commodity in India under essential commodities act, 1955.Government of India initiated de-licensing policy in sugar industry on 11th September, 1998 in view of globalization process, and since then industry has experienced significant changes. De-licensing of sugar industry has led to mushrooming growth of sugar mills.

In 2013, Indian sugar industry's annual output was worth approximately Rs.80,000 crore and total number of installed sugar mills are 694. Out of total, operational units are 526, with total sugarcane crushing capacity – 2.3 million ton crush per day. Total sugar production capacity is over 30 million ton per annum.

Both area and production of sugarcane fluctuate considerably from year to year (Table 1). This is due to variations in climatic conditions, the vulnerability of areas cultivated under rain fed conditions, fluctuations, in prices of gur and Khandsari, and changes in returns from competing crops. Despite this instability, both area and production of sugarcane have increased considerably over the past three decades. The chief raw material for sugar production in India is sugarcane. Fluctuations in sugarcane prices also led to under or over production of sugarcane.

Prices of sugarcane are fixed on the basis of FRP (Fair and Remunerative Price), which is provided by the central government and it is the minimum price that sugarcane farmers are legally guaranteed. The FRP is fixed after taking into consideration the margins for sugarcane farmers, based on the cost of production of sugarcane, including the cost of transportation. However, State governments are free to fix their own state advised price (SAP) and millers can offer any price above the FRP.

From The last four sugar season (2010-14), SAP (state advised price) increased by every year, Haryana, Panjab and Uttarakhand have higher SAP(state advised price) growth rate from the sugar season 2010-11 (Table 2). The continuously increasing sugarcane price across the country, largely influenced or directly fixed by the State Governments, has led to high costs of production of sugar. It has made Indian sugar totally uncompetitive in the international market also.

For 2013-14 sugar season, the Central has announced a 24 per cent rise in the minimum price for sugarcane (FRP), while the increase in sugar prices is likely to be only eight to nine per cent. The financial performance of sugar mills would, therefore, deteriorate. The Commission for Agriculture Cost and Price (CACP) projects that for the 2013-14 sugar season the cost of production of sugarcane (including transportation and premium on insurance) has been Rs.197/Qtl. and the sugar prices are likely to come within a range of Rs 3000- 3700/ Qtl. The Commission (CACP) also recommends a fair and remunerative

Table 1 : Area, production and productivity of sugarcane in India

Sugar season	No. of mills operated	Sugarcane production area (lac ha.)	Sugarcane production (lac MT)	Sugar production (In lac MT)	Sugarcane yield (MT/ha.)	Per cent sugar recovery
2009-10	490	41.70	2923.0	188.0	70.02	10.20
2010-11	507	48.80	3423.8	292.3	70.09	10.17
2011-12	529	50.40	3610.4	342.4	71.67	10.27
2012-13	526	50.38	3412.0	316.0	68.25	9.99
2013-14*	526	50.64	3459.23	339.0	68.74	NA

Source : NCAER (National Council of Applied Economic Research) & ISMA (Indian Sugar Mills Association) (for sugar production) and Agricultural Statistics (for production and area of sugarcane*as per 2nd Advance Estimate (2013-14) of Department of Agriculture and Co-operation (DAC).

Table 2 : State wise cane prices (State advisory price)

State	2013-14 rates (Rs. /Qtl.)	2012-13 rates (Rs. /Qtl.)	2011-12 rate (Rs. /Qtl.)	2010-11 rate (Rs. /Qtl.)	Remark
Punjab	290/280/275	235/ 240/ 250	220 / 225/ 230	190	Late / General / Early
Haryana	301/295/290	266 / 271/276	221 / 226 / 231	210	Late / Mid / Early
Uttar Pradesh	280	275 / 280/290	235 / 240/ 250	205	Rejected/ General/ Early
Maharashtra	NA	250 / 230/210	180/ 185/ 205	200	South / Central / North Maharastra
Tamil Nadu	265	225	220	190	Rs. 10/qtl T.C (linked to 9.5% recovery)
Karnataka	265	220 / 240	200	180	North West Karnataka / SI Karnataka
Bihar	255 / 265/245	255 / 265/245	225 / 235 / 210	205	General / Premium / Rejected
Uttarakhand	285	280 / 285/295	250 / 255	210 / 215	Rejected/ General/ Early
Andhra Pradesh	NA	260 / 240/240	200	180 / 200	Telangana / Rayalaseema / Coastal Andhra+Rs.200 subsidy

Source: Web sits of each state
T.C. : Transportation charge, Qtl.: Quintal

price (FRP) for sugarcane for the sugar season 2013-14 to be Rs.210/Qtl. at 9.5 per cent recovery level. With every increase in recovery by 0.1 percentage points, the FRP increases by Rs.2.21/Qtl (Table 3).

The financial reports of Indian sugar industry across the country has suffered substantial losses during 2012-13 sugar season. The main reasons for the losses are the unreasonably high sugarcane prices fixed or influenced by respective State Governments, low sugar prices, prevailing below the cost of production. October-December 2013 was one of the worst quarters for the Indian sugar industry. The many listed sugar companies that declared their results for the December 2013 quarter incurred an aggregate net loss of Rs.14 billion. These included leading players such as Bajaj Hindustan, E I D-Parry, Dhampur Sugar Mills and Shree Renuka Sugars Ltd., Balrampur Chini Mills, Triveni Engineering and Dalmia Bharat Sugar Industries (Table 4).

The figures of Table 4 show that the losses of all leading companies has increased by the year 2012. Out of these all eight companies, only four show losses in December 2012 (Quarter ended) but in December 2013 (Quarter ended), all these eight companies are suffering losses.

The fixation of price at state level is largely affected by the political interference and resulted the delay in price fixation of season 2013-2014, Only 485 sugar mills are operational across the country on 15th Feb. 2014 as against 500 mills last year during same corresponding period. The total sugar production up to 15th Feb, 2014 is 143.7 Lac ton. It was 165.88 Lac ton. during 2012-13 season, same time. The gap in sugar production over last year (2012-13), during same corresponding period, has narrowed down to 13 per cent on 15th Feb. from about 16 per cent a fortnight back.

In 2011-12 sugar season, these arrears amounted to 11.56 per cent of the price payable. Similar situation has earlier developed in 2009-10 and 2010-11 when these cane arrears were 3.97 per cent and 6.25 per cent of price payable, respectively and the position of cane price payment and arrears 45.13 per cent for 2012 -13. That shows increment in arrears year by year and leads to burden on mill owners'. In season 2013-14, shortage of working capital forced mills to delay crushing of sugarcane (Table 5).

Sugarcane arrears higher to be in the first half of the sugar season 2013-14, due to the factors like the relatively lower prices of sugar, through the last three seasons (2010-11 to 2012-13), the average cane price paid by mills rose at a 14 per cent compounded annual growth rate, while sugar prices have risen only three per cent annually. The impact of this inconsistency between the increase in the prices of raw materials and end-products is reflected in the balance sheets of sugar mills and the high inventory of sugar. One of the highest opening balance as on 1st October, 2013 was around 88 lac ton, about 30 lac tons more than the normative opening balance for a season, surplus sugar production in the last three sugar seasons and as against this, there were no exports in sugar season 2012-13 which led to significant amount of opening inventory at the beginning of 2013-14, expected surplus production again in 2013-14 making it the fourth surplus year in continuation. With high opening balance in Oct, 2013, and another expected surplus production of about 15 lac tons in 2013-14 season, the country will end up increasing its carry forward sugar stocks to over 103 lac tons by

Table 3 : Fair and remunerative price for last four years in U.P.

Sugar season	FRP	Minimum recovery (%)	Premium for every 0.1%increase
2010-11	139.12 (FRP	9.50	1.46
2011-12	145.00 (FRP)	9.50	1.53
2012-13	170.00 (FRP)	9.50	1.79
2013-14	210.00 (FRP)	9.50	2.21

Source: Reports of Commission for Agriculture Cost & Price (CACP)

Table 4 : Financial detail of leading Indian sugar companies (September-December 2012-2013)

Sugar companies	Quarter ended profit/loss in crore		Quarter ended profit/loss in crore	
	Sep.2013	Sep. 2012	Dec. 2013	Dec. 2012
Oudh Sugar Mills, Birla Group	-50.07	1.45	-31.08	-2.07
EID Parry (India) Ltd.	25.95	325.80	-12.50	-21.98
Shree Renuka Sugars Ltd.	-120.3	-7.70	-193.90	-17.50
Balrampur Chini Mills	-122.11	48.88	-50.76	60.22
Bajaj Hindusthan Ltd.	-509.49	-122.41	-389.5	-55.14
Triveni Engg. and Industries Ltd.	-16.91	-26.95	-32.29	1.25
Dalmia Bharat Sugar & Industries Ltd.	-51.01	-3.66	-32.12	4.53
Dhampur Sugar Mills	-33.50	10.79	-74.02	5.33

Source: Financial reports of each company end of September, 2014.This will block cash flows worth Rs.30,000 crore during 2013-14 sugar season, affecting the capacity of sugar industry to pay to farmers. This has resulted in higher working capital requirements in the first four months of SS 2013-14 for millers. The mill owners are already the defaulter of non-payment of season 2012-13, dues are around Rs. 2,300 crore to the cane growers.

With the price fixation issue for season 2013-14, farmers are on demand to fix increased sugarcane price to compensate cost of cultivation including fuel and fertilizers. With rise in arrears, farmers are likely to shift to alternate crops, will make result in lower acreage under sugarcane cultivation resulting in a decline in sugar production in sugar season 2014-15. Farmers as well as mill owners are not in a healthy state of affairs, as it leads to increasing legal processes, wherein farmers ask for immediate payment of arrears and mills owners request, that given the low realization from sugar and by-products, SAP (State Advisory Price) is too high and they cannot pay the SAP (State Advisory Price) without going in losses.

This is a clear sign that the pricing mechanism for sugarcane, as it exists today, has serious shortcomings. FRP (Fair and Remunerative Price) seems to be much on the lower side than what farmers consider fair and remunerative, while SAP (State Advisory Price), at times, becomes too high resulting in mounting arrears and widening gap between the main stakeholders, farmers and millers, in the cane-sugar value chain procedure. Therefore, this is necessary to rationalize sugarcane pricing formula that ensures a fair sharing of the value created in the cane-sugar value chain, and where farmers and millers both feel comfortable rather taking as a issue to utilize for political party promotion.

Committees on cane prices :

The committee appointed by government under chairmanship of S.K. Tuteja recommended decontrol of free sale sugar by October, 2005. Central government announced statutory minimum prices SMP/FRP (Fair and Remunerative Price) of sugarcane and on this basis state governments fix State Advised Prices (SAP). Unfortunately, SAP is being used as a political tool and has been main concern of sugar mills as it results in growth of production costs. After some period, in 2012 Rangarajan Committee has given some recommendations for the developing sugar industry as well as farmers. The committee recommended that states should not declare an SAP (State Advisory Price). It suggested determining cane prices according to scientifically sound and economically fair principles. The committee agreed that sharing of the revenues/ value created in the sugarcane production chain should be in a ratio of 70:30 between farmers and millers. This ratio should also apply to the revenue generated from sale of primary by-products of sugar. Thus, actual payment for cane dues would happen in two steps. The first would be a payment of a floor price SMP/FRP (Fair and Remunerative Price) from mills to farmers. Balance payment of cane dues will depend on the final sugar price that mills sell at. As suggested by the Rangarajan Committee, cane prices have to be directly linked to sugar price realizations, this type of practice followed by major sugar-producing nation like Brazil, Australia, Thailand, Mauritius, even Kenya and Tanzania have such a direct linkage. This would not only ensure fair, stable and timely returns to farmers, but also assure mills reasonable returns on their investments and the sugar industry to survive and grow, the politics in sugarcane pricing had to be done away with.

Political interference :

Sugarcane has dominated the Indian farm sector for decades and cover those states where, 543 seats in the lower house of Indian Parliament including politically important states, Uttar Pradesh (80 seats), Maharashtra (48 seats), Tamil Nadu (39 seats), Karnataka (28 seats) and Andhra Pradesh (42 seats). Collectively, these five states account for more than 43 per cent of the elected seats in parliament. In the season 2013-14, year of general election so all the political parties are active and try to how to increase their vote bank and get the issue of State Advisory Price of Sugarcane where large number of affecting parties likewise farmers and mill owners with their workers in different aspects. Sugar prices have been a political issue rather than economical issue. Many a times it worsens economy of sugar factories.

With the huge stakes involved in the cane crop and in the sweet commodity, government policies relating to the sector have always been arbitrary, with politicians formulating rules not on the basis of sound economic principles, but under the pressure of different interest and then resulted policies could provide benefit to different stakeholders only for short term period. And all these facts are showing clearly that the sugar

Table 5 : Cane price arrears during 2009-2013

Sugar season	Cane price payable (In crore)	Cane price paid (In crore)	Cane price arrears (In crore)	Cane price arrears on cane price payable (%)
2009-10	36786.00	35324.74	1461.26	3.97
2010-11	41481.58	38889.79	2591.79	6.25
2011-12	49280.05	43581.45	5698.60	11.56
2012-13	17371.09	9531.26	7839.83	45.13%

Source: Price policy for sugarcane, The 2013-14 sugar season, Department of Agriculture, August 2012 policy of the Government has been seriously lacking a long-term perspective. Controls, decontrols, partial controls, etc. have been used in past in an adhoc manner.

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