DATE - 16th July 2021

Sugarcane Industry

GS PAPR-3, INFRASTRUCTURE

SOURCE- THE HINDU

Context –

Payment arrears from sugar mills to cane farmers went up to Rs 23,000 crore. Historical Background India has a long tradition of manufacturing sugar. References of sugar making by the Indians are found even in the Atharva Veda. India is rightly called the homeland of sugar. But in ancient times, gur and Khansari were made. Also, Cane was cut in pieces – crushed under heavy weight – juice thus obtained was boiled and stirred, till it turned solids. Solids of uneven shape and size were called Sankaran, a Sanskrit term of 'gravel'. The modern word 'sugar' is derived from the word Sarkara. Thus, India has been the original home for sugarcane as well as sugar manufacture. The Modern sugar industry came on the Indian scene only in the middle of the 19th century, when it was introduced by the Dutch in North Bihar in about 1840.

Legislations –

"Sugar Industry Protection Act" was passed by the Indian Legislature in 1932. Under this act, protection was granted to the indigenous sugar industry. With enforcement of the Sugar Protection Act, within a period of four years the country became self-sufficient in sugar by 1935.

Geographical Distribution of Sugar Industry in India

Uttar Pradesh: It is the leading producer of sugar in India and one of the largest sugar industries in the Indian economy.

Bihar, Punjab, Haryana, Maharashtra, Karnataka Tamil Nadu: This state is responsible for 10% of the total sugar production in India.

Andhra Pradesh: Along with Sugar Production it is regarded as the „granary of the south‟ and once it was called the"Rice Bowl of India'.

North India vs. South India

Sugar Industry (Why sugar industry is shifting from North to South) A brief description of differences between the sugar industry of the northern and peninsular India is given below:

1.Peninsular India has a tropical climate which gives higher yield per unit area as compared to north India.

2.The sucrose content is also higher in tropical varieties of sugarcane in the south.

3.The crushing season is also much longer in the south than in the north.

4. For example, the crushing season is of nearly four months only in the north from November to February, whereas it is of nearly 7-8 months in the south where it starts in October and continues till May and June.

5.The co-operative sugar mills are better managed in the south than in the north.

6.Most of the mills in the south are new and are equipped with modern machinery.

Problems of Sugar Industry

Sugar industry in India is plagued with several serious and complicated problems which call for immediate attention and rational solutions. Some of the burning problems are briefly described as under:

1. Low Yield of Sugarcane – Although India has the largest area under sugarcane cultivation, the 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. This leads to low overall production compared to capacity or potential.
2. Short crushing season – Manufacturing of sugar is a seasonal phenomenon with a short crushing season varying normally from 4 to 7 months in a year. The mills and its workers remain idle during the

remaining period of the year, thus creating financial problems for the industry as a whole.

3. Fluctuating Production –Trends Sugarcane has to compete with several other food and cash crops like cotton, oil seeds, rice, etc. Consequently, the land available to sugarcane cultivation is not the same and the total production of sugarcane fluctuates. This affects the supply of sugarcane to the mills and the production of sugar also varies from year to year
4. Low rate of recovery: The average rate of recovery in India is less than ten per cent which is quite low as compared to other major sugar-producing countries. For example, recovery rate is as high as 14-16 per cent in Java, Hawaii, and Australia.
5. High cost of Production – High cost of sugarcane, inefficient technology, uneconomic process of production and heavy excise duty result in high cost of manufacturing. The production cost of sugar in India is one of the highest in the world.
6. Small and uneconomic size of mills-   Most of the sugar mills in India are of small size with a capacity of 1,000 to 1,500 tonnes per day. This makes large scale production uneconomic. Many of the mills are economically not viable.
7. Tools- Most of the machinery used in Indian sugar mills, particularly those of Uttar Pradesh and Bihar is old and obsolete, being 50-60 years old and needs rehabilitation. But a low margin of profit prevents several mill owners from replacing the old machinery by the new one.
8. Competition with Khandsari and Gur- Khandsari and gur have been manufactured in rural India much before the advent of the sugar industry in the organised sector. Since the khandsari industry is free from excise duty, it can offer higher prices of cane to the cane growers. Further, cane growers themselves use cane for manufacturing gur and save on labour cost which is not possible in the sugar industry. It is estimated that about 60 per cent of the cane grown in India is used for making khandsari and gur and the organised sugar industry is deprived of sufficient supply of this basic raw material.

9. Regional imbalances in distribution – Over half of sugar mills are located in Maharashtra and Uttar Pradesh and about 60 percent of the production comes from these two states. On the other hand, there are several states in the northeast, Jammu and Kashmir and Orissa where there is no appreciable growth of this industry. This leads to regional imbalances which have their own implications.
10. Low per capita consumption – The per capita annual consumption of sugar in India is only 16.3 kg as against 48.8 kg in the USA., 53.6 kg in the U.K., 57.1 kg in Australia and 78.2 kg in Cuba. The world average is about 21.1 kg. This results in low market demand and creates problems with the sale of sugar.
11. FRP vs SAP – The central government declares a min price of sugarcane that is called Fair Remunerative Price (FRP) and state Governments have the right to declare their own price which is called State Advisory Price (SAP). Generally, SAP is more than FRP which poses the conflict that which is a fair price for both farmers and mills.
12. Falling Sugar Prices – According to the Indian Sugar Mills Association, the FRP of sugarcane rose 50.9% from Rs 139.12 per quintal in 2010-11 to Rs 210 per quintal in 2013-14. However, sugar prices fell 21% from Rs 3,765 per quintal in January 2010 to Rs 2,962 per quintal in August 2014. Lower margins have made companies heavily dependent on debt.
13. Minimum Distance Criterion – To ensure decent supply of sugarcane to each sugar mill, the central government has prescribed a minimum radial distance of 15 km between any two sugar mills. But this criterion helped to create the monopoly of mill owners over a large area as 15 km radial distance is large in number and ultimately led to exploitation of farmers especially where landholding is smaller. Also, this regulation prohibits innovation and investment by entrepreneurs.

Measures to resolve the issues

Implementing Rangarajan Committee Recommendations

Removing Distance Norm: In order to increase competition and ensure a better price for farmers, the Committee recommended that the distance norm be reviewed. Removing the regulation will ensure better prices for farmers and force existing mills to pay them the cane price.

Reviewing Revenue Sharing Policy: States should not declare their own SAP. The pricing shall be done on the basis of scientific and economically viable principles. The committee suggested that sharing of revenue generated under the sugarcane supply chain shall be divided on the basis of 70:30 to farmers and mill owners respectively. This method will be applicable for by-products as well. The payment shall be paid to farmers in two installments: First Floor or FRP should be paid to farmers at the time of purchase of sugarcane, Second, the balance should be paid after the final price of sugar is decided and sold by the mill.

Duties: Import and export duty should not be more than 10%. Long-term agreements: States should encourage the development of market-based long-term contractual arrangements, and phase out cane reservation areas.

Exports and Byproducts: No more outright bans on sugar exports. No restrictions on the sale of by-products and prices should be market-determined.

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