CHAPTER II

CONTEMPORARY ISSUES RELATED TO COST AND PRICING OF SUGAR
2.1 INTRODUCTION

Sugar, being a sensitive commodity, is included in the list of Essential Commodity Act. Indian sugar industry has witnessed a kaleidoscopic scenario in the form of ups and downs, rosy and gloomy atmosphere since its inception. India is the biggest sugar consuming and second largest sugar producing country in the world. It is a herculean task for the government to keep the supply of sugar to its demand level. Especially to control inflammatory price level and efficient sugar distribution all over the country, the government undertakes a major scheme popularly known as Public Distribution System (PDS). Out of the total production of sugar in the country (whether produced by private or co-operative factories), 40% is supplied and distributed to the people via PDS and rest 60% is allowed to be sold by the manufacturers in the open market (From 1-1-2000 it is 70% for open market and 30% for PDS purpose.) Because of government controls, the price of sugar in PDS has been kept low as compared to free supply available in the open market.

It is observed from the long history of sugar industry as discussed in the earlier paragraph and stated in the Table no. 1.9 that there has always been observed wide fluctuations in sugar production. The prima-facie reason is that it is highly dependent on the supply of perishable crop viz; sugarcane which is dependent on the vagary nature of weather. As it has been seen that during a four-year period, there would be a particular year in which sugar production would usually be low, providing an opportunity to rise speculation, hoarding which resulted into sharp rising in the price of the most sensitive commodity. In addition to the above stated reason, there are some other factors, which are augmenting the problem of sugar industry. Many reasons and factors which have direct or indirect influence on the industry provide
opportunities and threats and strengths and weaknesses and because of these, sugar industry as a whole has always been a subject matter of many criticisms. Hence, so many contemporary issues are also attached to it. Certain issues are listed below have been discussed in depth in the following chapter, which provide better understanding about the problems, policies and issues of sugar industry. Hence, in this chapter the contemporary issues are divided into two aspects general issues and issues related to cost.

Firstly the general issues are discussed in the following paragraphs:

2.2 GENERAL ISSUES

2.2.1 Area under sugarcane:

Sugar factories need sugarcane to manufacture white sugar. As sugar production depends upon the sugarcane crop, sugar factories are keenly interested to see that area under sugarcane is increased every time. To study the dependability and interrelatedness between production and sugarcane area, it is essential to look at the area under sugarcane. Through, sugarcane is a cash crop; it is not that much cultivated as other cash crops are. From Table no. 1.7 it becomes clear that during last decade, after every fourth year, the area under sugarcane has been declined, and even rest years it could increase at very negligible rate. The main reasons for lesser area are moderate remunerative prices of cane to growers, non-availability of seeds and fertilizers, delay in payment from sugar mills, unfavourable climatic conditions, scarcity of irrigation water etc. Out of total 1850 lacks hectors agricultural land in India, 485 lacks hectors are irrigated and 41.39 lacks hectors are under sugarcane. Thus, the area under sugarcane is 2.23% of the total area and 9.5% of irrigated area.
Sub-tropical India has nearly 25 lacks hectors i.e. 60% of the total area under sugarcane as compared to 38%, nearly 16 lacks hector, in Tropical India. There is a larger variation in area under sugarcane in different states. Considering agro-climatic situations, the country is divided into five distinct regions, namely: North Western zone, North-Central zone, North-Eastern zone, East-Central zone and Prime sugar zone. The country is also divided into 5 ripening zones.

- North, Good Natural Ripening
- East, High Rainfall
- Coastal, Poor Ripening, High Rainfall, High Temperature at incline phase,
- Central, Fair ripening, High Temperature and
- Poor Ripening due to very low temperature.

With a view to motivate sugarcane growers to cultivate sugarcane in more areas of land and thereby to increase the area under sugarcane, the Central as well as State Governments both offer various facilities like cash subsidy, availability of seeds, fertilizers at cheaper rates, educational programme, prizes to farmers etc. From time to time, the government also increases the Statutory Minimum Price (SMP) paid to sugarcane growers. Table 2.1 reveals the fact that how much government supports the farmers by offering attractive SMP:
Table 2.1
The minimum statutory price of sugarcane and actual cane price paid

<table>
<thead>
<tr>
<th>Years</th>
<th>Minimum Statutory Price (Rs. Per Qtl)</th>
<th>Licensed linked to basic recovery</th>
<th>Premium on every 0.1% increase in recovery (Rs. Per Qtl)</th>
<th>Range of Minimum Cane Price on the basic of col 1,2 &amp; 3 (Rs. Per Qtl)</th>
<th>Range of Actual Cane Price paid by factories (Rs. Per Qtl)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>22.00</td>
<td>8.5</td>
<td>0.2588</td>
<td>22 to 32.09</td>
<td>22 to 56</td>
</tr>
<tr>
<td>1990-91</td>
<td>23.00</td>
<td>8.5</td>
<td>0.270588</td>
<td>23 to 34.36</td>
<td>30 to 60.10</td>
</tr>
<tr>
<td>1991-92</td>
<td>26.00</td>
<td>8.5</td>
<td>0.305882</td>
<td>26 to 38.54</td>
<td>26 to 60</td>
</tr>
<tr>
<td>1992-93</td>
<td>31.00</td>
<td>8.5</td>
<td>0.364706</td>
<td>31 to 47.41</td>
<td>31 to 31.79</td>
</tr>
<tr>
<td>1993-94</td>
<td>34.50</td>
<td>8.5</td>
<td>0.405882</td>
<td>34.50 to 53.17</td>
<td>34.50 to 65.00</td>
</tr>
<tr>
<td>1994-95</td>
<td>39.10</td>
<td>8.5</td>
<td>0.46 upto 10%</td>
<td>39.10 to 66.40</td>
<td>39.10 to 72.00</td>
</tr>
<tr>
<td>1995-96</td>
<td>42.50</td>
<td>8.5</td>
<td>0.54</td>
<td>42.50 to 68.96</td>
<td>45.50 to 77.00</td>
</tr>
<tr>
<td>1996-97</td>
<td>45.90</td>
<td>8.5</td>
<td>0.57</td>
<td>45.90 to 72.69</td>
<td>N.A.</td>
</tr>
<tr>
<td>1997-98</td>
<td>48.45</td>
<td>8.5</td>
<td>0.60</td>
<td>48.45 to 79.05</td>
<td>N.A.</td>
</tr>
<tr>
<td>1998-99</td>
<td>52.70</td>
<td>8.5</td>
<td>0.62</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>


Every year, the Commission for Agriculture Costs and Prices (CACP) recommends a SMP to the government. Because of delayed SMP announcement by the government, as has been in the case in the last two years, means as additional subsidy burden to the tune of Rs. 25 crore for the exchequer. The SMP usually is announced in the normal course in February before the sowing season begins to give cane growers a fair idea of the value of their crops.

Again looking at the above table, it can be said that the government has favourably announced an increasing SMP every year, and this would serve as a motivating factor to cultivate more sugarcane instead of other cash crops.
2.2.2 Yield of sugarcane:

The agriculture sector ensures that larger the area under sugarcane cultivation more is the produce of sugarcane. In fact, sugarcane produce depends on so many factors. In India because of favourable climatic conditions and monsoon, yield of sugarcane has registered an increasing trend every year. Looking at the Table no. 1.7, during last decade i.e. from 1989-90 to 1998-99, both production of sugarcane and yield per hectar have gone up (though every four year, one year has registered lower attainment).

An increase in production and yield are attributed to the development of new planting system called “Ring Method” which has helped raising the productivity. Besides, a sugarcane variety (OLK 8001) developed at Sugar Institute, Pune; is also higher yielding. Further, the institute has also developed healthy seed of sugarcane viz; Moist Hot Air Therapy (MHAT) which is perfected to control important diseases of sugarcane.

At present, nearly 36.18 lacks hectors area is under sugarcane both in the tropical and sub-tropical regions. The productivity level however is more in tropical than sub-tropical region due to suitable agro climatic conditions. There has been yield improvement in various states during the past years. However, because of the following constraints faced by the farmers in cultivating sugarcane, the productivity could not be improved as it has been expected:

1. Inadequate availability of disease free seed.
2. Poor water management and flooding particularly in eastern India.
3. Poor ratoon management.
5. Being vegetatively propagated crops specific requirement for transfer of technology including training are highly inadequate.

To support the farmers for growing and cultivating sugarcane, the government has launched several schemes. A Centrally sponsored scheme on Sustainable Development of Sugarcane based cropping system for implementation by the Government of India for increasing productivity for sugarcane has now been initiated. The Department of Food is also providing loans for the cane development viz; setting up of heat treatment plants, rearing of nurseries; pest control measures; incentive to switch over to improved varieties, irrigation facilities etc. Recently the Center has selected nine districts of Gujarat under Centrally Sponsored Scheme entitled Sustainable Development of Sugarcane Cropping System(1). Though the scheme does not intend to increase the area under sugarcane but aims at enhancing the productivity of sugarcane, inter crops and sequence crop, so that a farmer’s income per unit is increased both in mill and non-mill sugarcane areas. The nine districts selected in the state are Surat, Vadodara, Baruch, Kheda, Sabarkantha, Rajkot, Amereli and Junagadh district. The Center under the scheme had sanctioned Rs. 1.71 crores during 1998-99 to be especially utilised to check the production limiting factor like pest and disease, draining problems, salinity etc. and providing full facilities to cane growers.

2.2.3 Sugarcane crushed for sugar production, actual sugar production and sugar recovery:

Ample sugarcane crop does not ensure a higher production of sugar. The sugarcane is not only utilised by sugar factories, but certain quantity of crops also go to Gur and Knandsari industries and certain quantity is also used for seed, feed and chewing purposes. Hence, it is better to know now much sugarcane is cursed by the sugar
factories. More the quantity of sugarcane goes to sugar factories, more it is likely to increase the production of sugar.

As it has been stated in Table no. 1.9 that every year more than 50% of the total sugarcane produce goes to the production of Gur and Khandsari and seed, feed and chewing purposes. In fact during the period of shortages, a large quantity of cane was diverted towards the Gur / Jaggery and Khandsari manufactures who are "the fair weather friends" of sugarcane growers. As sugar factories do not receive enough sugarcane, the sugar factories are unable to function at full operational capacities. The main reasons behind not receiving sufficient crop are that farmers do not get much prices for their produce, inefficient distribution and collection system, delay in payments from sugar mills etc. According to the President of ISMA that this menace of undue diversion can only be dealt effectively by allowing equal freedom to sugar sector as permitted to the alternative sweeteners.

2.2.4 The length of crushing period, production of sugar and sugar recovery:

Sugar production is also dependent on the length of crushing period. More the days of crushing the sugarcane, more is the quantity of raw material in form of juice available to sugar production. Here, it is interesting to study from the table 2.2 given below indicating crushing days, production and recovery and sugar.
Table 2.2
Showing the length of crushing period, production of sugar and recovery of sugar.

<table>
<thead>
<tr>
<th>Year</th>
<th>Duration Days</th>
<th>Sugarcane crushed (in 000 tones)</th>
<th>Production of Sugar (in 000 tones)</th>
<th>Recovery of sugar %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>158</td>
<td>111149</td>
<td>10988</td>
<td>9.89</td>
</tr>
<tr>
<td>1990-91</td>
<td>166</td>
<td>122319</td>
<td>12047</td>
<td>9.85</td>
</tr>
<tr>
<td>1991-92</td>
<td>173</td>
<td>133987</td>
<td>13404</td>
<td>10.02</td>
</tr>
<tr>
<td>1992-93</td>
<td>123</td>
<td>103002</td>
<td>10609</td>
<td>10.31</td>
</tr>
<tr>
<td>1993-94</td>
<td>111</td>
<td>98346</td>
<td>9833</td>
<td>10.00</td>
</tr>
<tr>
<td>1994-95</td>
<td>161</td>
<td>147643</td>
<td>14643</td>
<td>9.92</td>
</tr>
<tr>
<td>1995-96</td>
<td>181</td>
<td>174761</td>
<td>16451</td>
<td>9.42</td>
</tr>
<tr>
<td>1996-97</td>
<td>130</td>
<td>130379</td>
<td>12905</td>
<td>9.90</td>
</tr>
<tr>
<td>1997-98</td>
<td>N.A.</td>
<td>N.A.</td>
<td>12852</td>
<td>N.A.</td>
</tr>
<tr>
<td>1998-99</td>
<td>N.A.</td>
<td>N.A.</td>
<td>15539</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

Source: Handbook of sugar statistics, June'98 P.1

Looking at the table, it is cleared that the no of days on which crushing is done has been between 130 days to 180 days, and after comparing sugarcane crushed and production of sugar, the sugar recovery percentage of cane has been between 9% to 10%, In fact, both are at very low rate. Efforts should be put to increase the no of days for crushing so that more sugarcane can be crushed and efforts should also be made to recover more sugar from sugarcane crushed.

2.2.5 Non-availability of sugarcane:

Prerequisite for better sugar production is availability of sugarcane for processing purposes.

In India, supply of sugarcane, as discussed earlier, majority does not go to sugar factories and the available supply is much lower and untimely as well. Perishable nature of sugarcane compels the millers to collect supply quickly. Hence, sugarcane
crops to be available to sugar factories needs two aspects to be considered: one is it should be adequately available and second it should be timely available. Both these aspects affect the recovery rate / yield which results into low productivity and thus low profitability.

2.2.6 Increase in per capita consumption of sugar:

Sugar which accounts for about 10% of the available food calories in the world, is one of the most important food. In developed countries like USA, UK, Australia etc., sugar contributes nearly 20% of an individuals total energy needs. Sugar is mainly used in beverages and sweet meals. Over the years sugar consumption has been rising steadily in our country. The sugar consumption has increased from 10057 tones in 1989-90 to 11225 tones in 1991-92, while the world per capita consumption of sugar has declined during corresponding period. On the average if the per capita sugar consumption to be 20 kg by 2000 A.D. the need for sugar is to be at least 155 lacks tones in India. Being the second largest sugar producing country in the world, our country can not afford to resort to import for fulfilling the deficiency gap. Hence, there is an urgent need to make proper planning to meet the requirements of 21st century. In this endeavour, the government has decided to issue licences to new factories, so that sugar production can be increased.

2.2.7 Public Distribution System (PDS):

Sugar is one of the agricultural controlled commodities like wheat, rice etc., which is not treated at par like other controlled commodities by the Central Government. Unlike other commodities routed through the PDS, levy sugar is procured by the government directly from the sugar factories at the notified prices way below the
acknowledged higher cost of production and sugar mills are required to recover the loss so suffered from the sale of free sugar sale. Even the free sale market prices are regulated by the government through the mechanism of monthly quota releases with innumerable restrictions on its sales and despatches. On the other hand, the other commodities channelised through PDS are being directly subsidised by the government and suppliers are assured of full of cost of production. The discriminatory system followed for sugar has resulted in several anomalies and, therefore the present system of partial decontrol of sugar has outlived its utility in the present day context.\(^{(3)}\)

The government is harping on the fact that the sugar is essential commodity and it has to be supplied through PDS. Granted the PDS has to continue but dual pricing does not have to do. Also PDS sugar should be supplied only to the poorer section rather than the entire population. If the supply of PDS sugar is restricted to the poorer sections, off take would come down drastically from 4.7 million tones to 1.5 million tones annually. On the current year's production estimate of sugar, this would amount to hardly 12 percent of the total production against 40 percentage sugar supplied through PDS today. (from 1-1-2000 it is 30%) At present, sugar is being subsidised to the tune of Rs. 700 crore annually and same subsidy needs to be continued.

Unfortunately, for the past several years, India has all along been a fair water exporter of sugar.\(^{(4)}\)

The sugar industry, probably the most highly politicised agro-based industry in the country, continues to be in the news regardless of whether indigenous production is high or low. Now in addition to the impasse over the import duty on sugar, an another controversy has come up on the government's proposal to import 7 lacks tones of sugar to meet the shortfall in supply under PDS. One hearting development for the
industry has been that its representations have finally worked out the Cabinet Committee on Economic Affairs, in its meeting has approved the Union Food Ministry’s proposal to buy 12 lacks tones of free sale sugar from the domestic industry to bridge the gap in the PDS supply. The quantity comprises 5 lacks tones that loan the government has taken and the 7 lacks tones the government has procured to meet the shortfall till the new season’s supply becomes available.

Now that this issue of PDS supply is settled, the industry is now focussing on the implementation of the Mahajan Committee Report. The high powered Committee was appointed in March 1997, following an order passed by the Allahabad High Court in December 1996 to study the functioning of the sugar industry in the country and suggest the measures to improve its working.

The major recommendations by the Mahajan Committee are to discontinue the sugar supply under PDS when complete decontrol becomes effective. The Committee has expressed the view that the subsidy at present allowed in supply of sugar through PDS can be distributed among the beneficiaries by adding to the subsidy at present allowed on food grains. It has, however suggested that it the government wants to continue sugar supply under PDS, the required quantity may be purchased from the industry or trade by tendering or at fixed prices from the mills as adopted by banks for valuation of sugar for working capital loans. It has expressed the view that the additional subsidy would be offset to some extent by higher realisation from excise duty on larger quantum of free sale sugar, on which excise is higher than on levy sugar. If there is still a deficiency, the balance may be met by a suitable increase in excise duty on sugar, suggest the committee. Really speaking, it is a difficult task to handle the sugar supply operation through PDS, especially meeting the ever increasing demand of sugar. The government has to plan to workout the functioning of PDS in view of
sugar supply. Recently, the government has increased the levy sale sugar price, which is slightly lower to free sale price. The government, by increasing levy price and thus by reducing subsidy burden, should ensure to the people that free sale sugar price remains under control with adequate availability of sugar in the country.

2.2.8 Licensing Policy:

The lucrative incentive scheme for new sugar mills by way of substantial additional entitlement of free sale sugar up to a period of ten years is the basic reason for the rush of demand for licences to set up new sugar mills. It is said that the licensing of additional capacity will only aggravate the present problem. Installed capacity in the industry and licences already issued totalling about 185 lakh tonnes would be more than adequate to cover the country’s internal demand up to 2000 AD i.e. 155 lakh tonnes approximately.

Sugar industry firmly believes that licensing of new mills in close proximity to existing factories will not only cause irreparable damage to the existing mills but at the same time harm the interests of new sugar units who may be faced with under utilisation of capacity due to paucity of sugarcane.

In a significant development, the Cabinet Committee on Economic Affairs (CCEA) has decided to de-license the sugar industry. The notification issued on 31st August, 1988 categorically stated that the government has further reviewed the list of industries retained under compulsory licensing and has decided to delete sugar industry from the list of the industries requiring compulsory licensing under the provisions of Industries (Development and Regulation) Act 1951.
However, in order to avoid unhealthy competition among sugar factories to procure sugarcane; a minimum distance of 15 kms would continue to be observed between an existing sugar mill and a new mill by exercise of powers under the Sugar Control Order 1996. Now as per new guidelines, the entrepreneurs who wish to avail themselves of the de-licensing of sugar industry would be required to file an Industrial Entrepreneur Memoranda (IEM) with the Secretariat of Industrial Assistance in the Ministry of Industry.\(^6\)

However, especially the co-operative sector of sugar industry viewed the decision to de-licence the industry as catastrophe. The co-operative sector viewed this as not interest of existing factories, most of which were currently sick, and the cane growers as well, who would not get remunerative prices. In fact sugar industry as a whole was pressing for the implementation of the Mahajan Committee report, which has not recommended de-licensing, rather it has recommended continuation of the previously adopted policy. The chairman of National Federation of Co-operative Sugar Factories (NFCSF) has demanded a freeze on new licences\(^7\) saying 465 of the 700 sugar factories crushed 130 lacks tones sugarcane. These, and the 235 new units to be commissioned soon, were in a position to produce 284 lacks tone sugar and meet the country’s demand at the end of the next decade. The NFCSF has appealed to the Center that it should not issue new licences and the licences pending with it should be kept in abeyance for the period of five years.

Despite of severe criticism around, the government has de-licensed the sugar industries aiming at reducing the pre-launching period, increasing production of sugar by encouraging new entrants. The decision to de-licence will be put on test in the coming decade.
2.3 ISSUES CONCERNED TO COST AND PRICING ASPECT

2.3.1 Dual sugar Policy:

In India, sugar is being made available to the people by two ways: one is via PDS and another way via open market operation. Because of this system, two different prices are charged for the same commodity. The PDS sugar is sold at price below the open market price, and it is known as levy price or controlled price, and open market price is known as free sale price. Because of lower PDS price, government bears additional burden in the form of subsidy. In fact most of the major sugar producing countries also offer hefty subsidies to their local sugar industry. The European Union provides a subsidy of Rs. 2300 per tonne to their manufactures while Mexico offers Rs. 8000 per tone; Brazil and Pakistan both offer a subsidy of Rs. 4000 per tone while Thailand gives Rs. 3000.\(^{(8)}\)

The situation in India is quite the reverse. Of the total sugar produced by the 465 sugar mills private and co-operative sector combined in the country. 40 per cent is earmarked as "levy sugar" for distribution under PDS at a current rate of Rs. 11.40 per kg. This levy sugar has to be provided to the government at a cost, which is 20 per cent lower than actual production cost. The remaining 60 percentage of sugar is sold in the open markets at the rate of Rs. 15 to Rs. 16 per kg. So the average price of sugar in India works out to Rs. 13.80 per kg as compared to Rs. 60 in the European Nations, Rs. 20 in Mexico and Pakistan Rs. 25 and Brazil and Thailand Rs. 19 per kg.

According to President of ISMA, the dual pricing policy for sugar has emerged as a fall out of the policy for of the dual pricing for sugar. Also the present price of Rs. 11.40 (almost Rs. 12 per kg) of PDS sugar is not far below the market price (i.e. free sale price) of Rs. 15 to Rs. 16, and government farther plans to increase the PDS
price, the price is likely to be at par soon. Hence, the PDS operation through which sugar is also distributed will become ineffective and meaningless. During the last 10 years, the levy price has increased simultaneously with free sale price. Table 2.3 shows a comparative study between levy price and free sale price during last 10 years.

Table 2.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Levy price (Rs. per kg.)</th>
<th>Free sale price (Rs. per kg.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>5.25</td>
<td>N.A.</td>
</tr>
<tr>
<td>1990-91</td>
<td>6.10</td>
<td>N.A.</td>
</tr>
<tr>
<td>1991-92</td>
<td>6.90</td>
<td>N.A.</td>
</tr>
<tr>
<td>1992-93</td>
<td>8.30</td>
<td>N.A.</td>
</tr>
<tr>
<td>1993-94</td>
<td>9.05</td>
<td>13.00</td>
</tr>
<tr>
<td>1994-95</td>
<td>10.50</td>
<td>12.00</td>
</tr>
<tr>
<td>1995-96</td>
<td>11.40</td>
<td>12.00</td>
</tr>
<tr>
<td>1996-97</td>
<td>11.40</td>
<td>12.50</td>
</tr>
<tr>
<td>1997-98</td>
<td>11.40</td>
<td>14.00</td>
</tr>
<tr>
<td>1998-99</td>
<td>11.40</td>
<td>14.50</td>
</tr>
</tbody>
</table>

Source: Co-operative sugar, Sept. 98 vol. 30 p. 62 & 63

From the table no. 2.3 it is obvious that except during previous four years, the levy price has been increasing which has been not far below the open market price. In fact, this gap has come closer during the last four previous years.

It is also obvious that the government wants to reduce subsidy burden on PDS sugar by increasing levy price and a time will come, as mentioned earlier, distribution of sugar through PDS will become meaningless. The main idea behind is that full production can be made available directly to the manufacturers. As manufacturers are free from supply sugar to the government, the sugar mills can sell entire sugar production in open market, and they can be saved from loss being suffered due to 40% supply at below cost. This will reduce the price level of sugar even though...
operated 100 percent in open market. If this is the main reason behind government
decision to gradually decontrol sugar, the governmental has to control the open
market operation by adopting some new measures so that the price level of free sale
sugar remains under control and possibly at the price at which presently sugar is being
distributed through PDS.

2.3.2 Multiple sugarcane pricing policy:

There are mainly two prices of sugarcane prevalent in the country. One is “SMP”
which is determined by the CACP and another is called “SAP” which is declared by
the state governments. There are sub-SAP also found in our country which are based
on recovery of sugar from the sugarcane and also based on the zones. Thus, two
prices are seen for one commodity which is used as basic raw material of the
commonly used by the masses and who pays two prices of its product, i.e. sugar. This
is very strange of its kind.

In fact SMP should be adhered to. Because it is announced by the CCEA and it would
be a uniform policy to adopt CCEA’s SMP for all the states. Going through the
recommendation of the Mahajan Committee, it is clearly mentioned for the
continuation of the SMP mechanism as a guarantee for a minimum price to growers.\(^{9}\)

However, it should be based mainly on the cost of production of sugarcane and return
to the growers from alternative crops and it should be delinked from market price of
sugar. It is also advisable that instead of linking SMP to percentage of recovery of
sugar, which is also influenced by the state of machinery and the operational
efficiency of the mills, it can be linked to the sugar content of cane supplied by
growers to the mills and a premium may be allowed on the varieties with higher sugar
content.
2.3.3 Discriminatory sugar import policy:

Being the highest sugar consuming nations in the world, sugar supply in abundance is required. Country feels deficit especially in the case of low production in a particular year. Looking to the wide fluctuation in sugar production in country, India needs and has to resort to import of sugar form other nations. In earlier years, in case of imports of sugar, government undertook the operation by introducing licensing system, and only license holder firms were allowed to import sugar to India. On importing sugar, an important duty was also charged. However, it is beyond comprehension that India has thought it fit to allow import of sugar at zero duty when even under World Trade Organisation (WTO) agreement, India could change a duty up to 150 percent. Import at zero duty could only benefit foreign farmers and foreign countries at the expense of the Indian farmers and Indian sugar industry. Some other countries, by contrast have imposed an import duty at rates varying between 40 to 80 percent. Sugar power like the US, Japan and European Union used to levy import duties varying between 140 to 200 percentage to protect their local sugar industries. It should be noted that European Union, which was the principle exporter of white sugar, sold sugar at about US $800 per tonne in its domestic market and dumped in into the Indian market at CIF price varying between US $325 and US $350 per tonnes.

Because of this low import duty or tariff, more than 450 sugar manufacturing units in India today are facing closure because low import tariffs on sugar are leading to large scale dumping of sugar into India. This will further affect the livelihood of the 45 million sugar cane farmers and who are directly and indirectly employed in the sugar sector. This policy will also affect the interests of the 950 million sugar consumers of India in the long term.
The Indian sugar industry is statutorily required to contribute 40% of its production as levy sugar for sale through PDS at prices which are admittedly 20 percent below the cost of production. The remaining 60 percent sugar which sells in the open market is accordingly priced about 15% above the cost of production to offset the subsidy on levy sugar. The government regulates monthly releases of sugar to maintain stable supply and prices because of the seasonal production of sugar. This necessitates shortage of large stocks by the industry.

The Indian sugar industry is currently holding 5 lakh tonnes of stocks which is sufficient for the next few months. The output in the current crushing season is expected to be much higher than it was in the previous. The sugar situation continues to be comfortable with stable prices. There is no justification for the low import tariffs which have caused large scale import of about 10 lakh tonnes of sugar by private traders involving a foreign exchange outgo of Rs. 1300 crores. Registration of import contract with Agricultural and Processed Food Export Development Authority has already 15.10 lakh tonnes including 8.46 lakh tonnes from Pakistan alone and this figure goes up rapidly.

Such large scale imports from countries producing sugar at a much higher cost than the cost effective Indian sugar industry in comparison, is a clear indication of ill conceived government policy which is prompting the interest of sugar producers and farmers in countries such as Pakistan, European Union etc; by sacrificing the interests of Indian farmers and producers of sugar. Foreign exporters of sugar to India benefit from the high subsidies given to them and protection by way of high imports tariffs which are as follows.
Table 2.4
Tariffs on sugar import in different countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports to India (in lakh tonnes)</th>
<th>Value (in Rs. Crores)</th>
<th>Maximum permissible import duty under WTO (Bound Rate %)</th>
<th>Existing Import duty (%)</th>
<th>Internal price (equivalent Rs./kg.)</th>
<th>Export subsidy Rs./ tonnes*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>3.3</td>
<td>435</td>
<td>150</td>
<td>36</td>
<td>20</td>
<td>4000</td>
</tr>
<tr>
<td>European Uni.</td>
<td>2.2</td>
<td>304</td>
<td>160</td>
<td>300</td>
<td>60</td>
<td>23000</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.2</td>
<td>3.3</td>
<td>35</td>
<td>55</td>
<td>19</td>
<td>3000</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.8</td>
<td>101</td>
<td>94</td>
<td>104</td>
<td>18</td>
<td>4000</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.3</td>
<td>166</td>
<td>156</td>
<td>173</td>
<td>20</td>
<td>6000</td>
</tr>
<tr>
<td>India</td>
<td>9.8</td>
<td>1309</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

* Direct subsidy in Pakistan & in other countries it is through crores subsidisation

** Rs. 1140 per kg. for 40% levy sugar and Rs. 15/- to Rs. 16/- per kg. for 60% free sale sugar- Average price Rs. 13.80 per kg.

Source: Economic Times, Date 17/10/98 P. 5

The international market for sugar is currently in the doldrums because of the currency crisis in Asia and Russia, the major importers of sugar. The resultant sugar surplus is being dumped by exporters because of rapidly falling market which has already declined by 50% in less than a year. No country in the world produces sugar at such low prices, nor any country sells sugar in domestic market at prices corresponding to low international prices; sugar sells to consumers at much higher prices all over.

The Indian sugar industry which is the world’s largest producer of sugar will not be able to survive if the present unfair onslaught is allowed to continue. Current policy will turn India, the largest producer of sugar into the biggest importer of sugar. It will also eventually lead to a manifold increase in the price of sugar because of large volume of purchases to be made by India once our sugar output declines under pressure from current imports. This will cause untold suffering to millions of our consumers. In view of this, the sugar industry as a whole, should urge the government to act expeditiously to ward off the crisis looming over the industry by increasing the
import duty to 150% in conformity with WTO norms. Countries around the world have resorted to a hike in import tariffs to protect their domestic industry.

Also the Mahajan Committee has recommended continuation of OGL, however, with at least 40 per cent import duty. The government justification for allowing duty free imports is based on the fallacy that the country is facing a shortage of sugar. This is completely incorrect the industry in totality is carrying high stocks of free sugar in which it is incurring heavy storage charges and heavy interest burden.

2.3.4 Mill Quota Sale

Prior to the announcement of new policy on mill quota sale recently, sugar mills were compelled to sell even free quota of sugar according to the guidelines issued by the government. So far the mills were required to sell at least 47.5 percent of the quota in the first and second half of the month and freedom was only for the remaining 5 percent. Earlier restriction was 20 percent.

The Union Government has decided to remove restriction on sales and deliveries of monthly free sale sugar quota of mills. The more enables mills to have the freedom to sell their free sale quota at any time during the month. This would ensure the manufacturer to sell and collect money promptly. However, without simultaneous removal of restrictions on stock holding, turn round and wholesaler to wholesaler transactions, the present lift on restrictions on mill quota sale cannot but create periods and pockets of scarcity and speculative spurts in prices.

2.3.5 Uneconomical Installed capacity

This is the amongst the one of the factors stated as earlier that the uneconomic installed capacity of sugar plant has hindered in the growth of the industry. For e.g., minimum size of the plant should be 2500 TCD can become economic only when the plant operates at full capacity. Because of non availability of sugarcane, most sugar
factories do not function at its capacity resulting into increase in cost of production and over all cost of sugar. This would also reduce profitability.

2.3.6 Age of Sugar Plant

It is an urgent need of rejuvenating of the age old sugar plants as it is one of the important determinants of the profitability of sugar mills. For this purpose, the government has introduced incentive scheme. The government should allow an exception from levy to the sick units and units who want to make expansion of existing plants.

2.3.7 Location of Sugar Plant

While evaluating the performance of sugar factory, the location of the plant becomes crucial factor within the industry. As sugarcane is a perishable raw material and cannot be transported over long distances. Therefore, location of sugar factories has to be correctly chosen. In avoiding under competition, the government has also decided to issue licenses to new factories not in the radius of 15 km of the existing factory.

2.3.8 Decontrol Policy of Sugar

The ISMA and NFCSFL have great concern that policy of sugar decontrolled announced. It is argued by the Association that the decontrol of sugar was in the tune with the government policy of liberalisation. Decontrol sugar has not only benefited millions of cane growers but consumers were / will also be benefited because of the computation of levy sugar price. And, therefore, the Associations urge the government that policy of sugar decontrol be effectively implemented by prevailing upon the state government to withdraw the regulation imposed by them.\(^{(12)}\)
2.4 SUMMING UP

The production of sugar depends upon the co-operation between cane growers and sugar mill and the government both central and states as well. Before the announcement of the recent sugar policy, the attitude of the government towards the sugar industry was negative. The issues mentioned above have compelled government to bring about changes in sugar policy from time to time. The Central Government has set up a sugar Board which provides a low rate of interest loan, marginally at a 6% rate for the purpose of expansion and renovation of sugar mills. The revised scheme of incentives, frequently revised prices of cane and sugar, decontrol of molasses policy, subsidy have given a big thrust to the sugar industry owing to there sincere endeavours, India has become the biggest sugar producing country in the world. If the government considers the above mentioned issues seriously, as still some areas are to be reconsidered, India will be in a position to export sugar and sugar based products in the world by satisfying domestic needs also.

2.5 REFERENCES:

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