

General Studies – 3; Topic – Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth.

Sugar Industry Crisis

1) Introduction

- The Union cabinet announced Rs 70 billion bailout package to 'deal with the current crisis in the sugar sector'.
- Of the Rs 70 billion package, only Rs 11.75 billion has been allocated to pay the pending dues of sugarcane farmers.
- The rest, Rs 57.32 billion, is aimed towards providing financial assistance to sugar mills for investing in infrastructure.
- The cabinet decision also included the setting of a minimum selling price of Rs 29 per kilogram for sugar.

2) Present Crisis

- The crisis that the sugar industry is facing is the result of excess production of sugar.
- This has lowered prices resulting in a liquidity crunch for sugar mills.
- This has in turn led to pending sugarcane dues for farmers.
- Mills have delayed payments for cane of more than 200 billion rupees.
- India's estimated annual consumption of sugar is 25 million tonnes, production in 2017-18 touched 31.6 million tonnes.
- Mills have failed to export large quantities due to lower prices overseas.
- Brazil and Australia initiated a legal investigation into whether India's support for its sugar sector has violated WTO restrictions.

3) Concerns / Challenges

- The sugar industry and farmers are likely to be in a similar crisis next year too as domestic production is likely to be in excess of domestic consumption.
- The government's package has focused heavily on long-term investments in sugar industry, the benefits of which will not accrue to sugarcane farmers.
- Measures also fail to address the issue of low sugar prices and high cane costs.
- Minimum price of Rs 29 per kilogram fails to address the problem as the cost of producing sugar is around Rs 36 per kilogram.
- The government providing aid to the sugar industry for upgrading the infrastructure would benefit the industry in the long-run, but fail to deal with the current crisis.
- The global prices have fallen 17 percent in 2018.
- Without increasing sugar prices, many companies will become non-performing assets.
- Reduced banking support to the sugar industry for the past four years.

4) Way Forward

- The sector needs not just an immediate infusion of capital, but also policy measures and structural changes.
- Linking sugarcane pricing to a revenue sharing formula to address the regular boom-bust cycle the industry goes through.

- The sugarcane prices (input costs) to be linked to the price of the final product, sugar, and other by-products like molasses.
- Implementation of the C Rangarajan committee suggestion of rationalisation of sugarcane prices with sugar prices.
- **Encourage ethanol production**
 - a. It will bring down the country's oil import bill.
 - b. It will fulfil the government's mandate to have 5% ethanol blending of petrol.
 - c. Put in place a long-term ethanol policy on pricing, and enable higher pricing of better quality ethanol.
 - d. This will encourage new investments and help in diversion of sucrose to ethanol and to balance out the excess production of sugar.

5) Facts for Prelims

- India is the world's second largest sugarcane producing country. (First - Brazil)
- Sugarcane is cultivated in tropical and subtropical regions.
- Uttar Pradesh is the largest sugarcane producing state in India. (Second - Maharashtra).
- Its cultivation started around 327 BC in the Indian subcontinent.
- Unlike rice and wheat, where the government procures the crop at MSP, sugar cane farmers sell their produce to sugar mills at government-notified Fair and Remunerative Prices (FRP).
- The four main by-products of the sugarcane industry are cane tops, bagasse, filter muds and molasses.
- Sugarcane is usually distributed on Makar Sankranti or Pongal festival.
- **Ratoon cropping**
 - a. Ratoon cropping is growing a fresh crop from the stubbles or suckers of the plant crop without replanting.
 - b. It is also referred to as stubble cropping, re-harvesting, second crop, etc.
 - c. This practice is widely used in the cultivation of crops such as rice, sugarcane, banana, and pineapple.
- **Difference between the Sugar Industry of North and Peninsular India**
 - a. Peninsular India has tropical climate which gives higher yield per unit area as compared to north India.
 - b. The sucrose content is also higher in tropical variety of sugarcane in the south.
 - c. The crushing season is also much longer in the south than in the north.
 - d. The co-operative sugar mills are better managed in the south than in the north.
 - e. Most of the mills in the south are new which are equipped with modern machinery.