

COMMISSION FOR AGRICULTURAL COSTS AND PRICES
(Department of Agriculture & Cooperation)
Ministry of Agriculture

Dated 29/08/2003

A SUPPLEMENTARY NOTE ON PRICE POLICY FOR SUGARCANE CROP FOR 2003-04

The Commission submitted its report on price policy for sugarcane for 2003-04 season on October 4, 2002, recommending the statutory minimum price of sugarcane payable to farmers by sugar factories at Rs.65.50 per quintal linked to a basic recovery of 8.5 percent, subject to a premium of Rs 0.77 for every 0.1 percentage point increase in the recovery above that level. The Government has not yet taken any decision on this. Meanwhile, the Commission is engaged in finalising the report on price policy of sugarcane for 2004-05. While analysing the relevant data, it has been observed that due to severe drought in most of the sugarcane growing areas, the production of sugarcane has declined from 300 million tonnes in 2001-02 to 278 million tonnes in 2002-03. Even though farmers applied increased number of irrigation, the loss of crop yield was reported. As a result, the per unit cost of production of sugarcane has gone up substantially. The Commission in its original report on price policy for sugarcane crop for 2003-04 season used some projected cost figures which turned out to be much less as compared to the actual costs incurred by farmers, as evident from the rise in input price index. In fact, the Commission submits its report on sugarcane price policy one year in advance, as sugarcane crop spans over 12 months to 18 months. The idea is to give a price signal to farmers well before the sowing season which begins in October. Since the SMP for 2003-04 has not yet been announced, it would be appropriate for the Government to take into account the changes that have taken place during the last one year after submission of the original report.

2. The weighted average per unit C_2 costs of production of sugarcane for 2003-04 (which does not include the anagerial cost) varied from Rs 62.22 in Karnataka to Rs 80.82 in Andhra Pradesh (Annexure-I). In the states of Uttar Pradesh, Maharashtra, and Tamil Nadu, it ranged between Rs 68.39 (Uttar Pradesh) and Rs.69.83 in (Maharashtra). It was as high as Rs.79.47 in Haryana. The weighted average C_2 cost of production for the country as a whole worked out to Rs 68.26 per quintal. At 8.5 percent recovery, the C_2 cost works out to Rs.60.60 per quintal. On adding Rs 12 of average transportation cost per quintal, the per unit cost turns out to be Rs. 72.60 per quintal.

3. The statutory minimum price of Rs 65.50 per quintal recommended by the Commission in its original report for 2003-04 was also based on the assumption that a state advised price or agreed price which is SMP plus, would continue to operate in one form or the other.. But this did not materialize. During 2002-03, farmers in some cases were not even paid the SMP of Rs.69.50, as fixed by the Government. Besides, the profitability of sugarcane farming in real term has declined in recent years, due to decline/stagnation in yield, rise in input prices and fall in realized

output prices. Therefore, farmers in general are in a depressed mood. In several places, there are newspaper reports of farmers committing suicide due to loss of crop income and growing indebtedness.

4. In view of the above mentioned facts, the Commission considers it necessary to submit for Government's consideration a supplementary note on price policy for sugarcane crop for 2003-04 season and recommends the following:

- i) The statutory minimum price (SMP) of sugarcane payable by sugar factories for 2003-04 be fixed at Rs 73 per quintal linked to a basic recovery of 8.5 percent subject to a premium of Rs 0.85 for every 0.1 percentage point above that level;
- ii) At all India average recovery of 10.29 percent, it turns out to be Rs 88 per quintal. Government, ICAR and sugar mills should strengthen their R & D system to reduce costs of production of both sugarcane and sugar.
- iii) In view of the fact that due to current excess stocks and low market prices of sugar, there is a threat to viability and sustainability of many sugar mills, Government should provide adequate technical and policy support to sugar mills to enable them to adopt economies of scale in production, technology upgradation and product diversification. In order to dispose off excess stocks and stabilize market prices, the sugar mills should be provided adequate incentive and infrastructure support. Also there should be adequate support for promotion of ethanol – gasoline blended fuel and co-generation. Even though Government has granted permission to produce ethanol in some states and many of them have established units with substantive investment, currently there is no mechanism to procure ethanol and consequently, sugar mills which went for such diversification have suffered immensely. Also the Government should not impose tax on production of ethanol, at least for five years, during which the mills could go for such diversification. In this connection, it is important to note that in Brazil, large proportion of sugarcane goes for production of ethanol;
- iv) Government should remove purchase tax on sugar. However, the sugar mills should be advised to transfer the amount thus saved, to the sugarcane growers as is being done in Andhra Pradesh.

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