

## **COMMISSION FOR AGRICULTURAL COSTS AND PRICES**

### **REPORT ON PRICE POLICY FOR SUGARCANE**

### **FOR THE 2004-05 SEASON**

In this report, the Commission for Agricultural Costs and Prices presents its views on Price Policy for Sugarcane for the 2004-2005 season. The Commission recommends that:

- i) the statutory minimum price (SMP) for sugarcane payable by sugar factories for the 2004-2005 season be fixed at Rs 74.50 per quintal linked to a basic recovery of 8.5 per cent subject to a premium of Rs 0.88 for every 0.1 percentage point increase in the recovery above that level. At all-India average recovery rate of 10.29 per cent, the SMP recommended is Rs 90.25 per quintal;  
(Para 30)
- ii) the SMP of sugarcane should be announced by the Government in future at least one year in advance to give the right price signal, as late announcement of SMP defeats the very purpose;  
(Para 2)
- iii) the Government should formulate a clear plan of action to dispose of excess stocks of sugar lying with mills by carrying out rationalization of sugar release mechanism, increasing utilization through PDS and other schemes at further subsidized rates and adopting a robust export promotion strategy;  
(Para 6)
- iv) the sugar mills should undertake production of raw and refined sugar and the Government should provide necessary technical and policy support to sugar mills to switch over to the production of raw and refined sugar for exports to be sustainable in future; (Para 10)
- v) the suggestions for zonal pricing system for sugarcane and higher recovery rate for fixation of SMP should be considered by the Expert Committee to be set up by the Government, as a follow up to the Mahajan Committee Report; (Para 19)
- vi) the Government should initiate appropriate measures to encourage the public private partnership in research and extension programmes with particular emphasis on ratoon management, propagation of the disease and pest resistant varieties, integrated plant nutrient management and judicious water management assigning the lead role and responsibility to the sugar mills, for raising the productivity level of sugarcane. The Government must also pay particular attention to raising yields in sub-tropical regions; (Para 20)

- vii) both the Central and the State Governments, through a package of incentives and policy support, should ensure availability of liberal loans from the banking sector for wider use of drip irrigation technology by sugarcane farmers. The Excise duty and other taxes should also be waived for drip irrigation, machinery, equipment and pipes; (Para 21)
- viii) Central and State Governments should undertake a thorough review of taxes and levies on sugarcane, sugar and by products with a view to rationalise the whole system of taxes and levies; ( Para 22)
- ix) the Ministry of Petroleum and Natural Gas should effectively intervene in the matter of ethanol pricing, get the dispute settled between the ethanol suppliers and oil companies and issue clear and time bound guidelines in this regard. The varying and high levels of taxes by the State Governments that have acted as a deterrent to ethanol production should be rationalized and brought down. Restrictions on inter-state movement imposed by states should be removed ; (Para 24)
- x) the Government should bring out appropriate policy changes to ensure that the banks and financial institutions grant liberal loans to the sugar mills for setting up co-generation projects and such lending should come under priority sector lending. Also, the State Government should have a mandatory policy to purchase power from sugar mills and ensure payments to them in time; (Para 25)
- xi) the State Governments should ensure the payments of arrears by the mills and the mills should clear the arrears without further delay; (Para 27)
- xii) on the lines of the package announced earlier for sugarcane arrears of 5 States practicing SAP, the Central Government should, in the interest of fairness and equity, approve another package for those States which did not practice SAP, with the condition that no beneficiary state of the package should practice SAP in future; and (Para 28)
- xiii) an Inter-Ministerial Committee be immediately established to look into the problems of sugarcane and sugar industry in an integrated and holistic way. This should be composed of Ministry of Agriculture, Ministry of Consumer Affairs, Food and Public Distribution, Ministry of Petroleum and Natural Gas, Ministry of Non Conventional Energy Sources and Ministry of Finance. (Para 29)

2. The Commission submitted its report on Price Policy for Sugarcane for the 2003-2004 season on October 4, 2002, recommending the Statutory Minimum Price (SMP) of Sugarcane payable to farmers by

sugar factories at Rs.65.50 per quintal, linked to a basic recovery of 8.5 per cent and 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 taken any decision on this till date. Meanwhile, in view of certain changes in cost, production and overall sugarcane economy during the past one year after submission of report by the Commission, it was felt necessary to review the situation and submit a supplementary note to Government for consideration. The Commission accordingly submitted a supplementary note on Price Policy of Sugarcane for 2003-04 on August 29, 2003. The sugar year begins from October through September. The sowing of sugarcane starts well in advance of at least one year to one and a half year before the crushing season in October. SMP of sugarcane therefore needs to be announced at least one year in advance, so that it gives the right price signal. The Commission feels concerned about the inordinate delay in announcing the SMP of sugarcane for 2003-04 season and urges the Government to expedite the matter in the interest of sugarcane growing farmers and recommends that SMP of sugarcane should be announced in future at least one year in advance to give the right price signal, as late announcement of SMP defeats the very purpose.

3. The all-India sugarcane production reached a peak level of 300.1 million tonnes in 2001-02 – an all time high during the past one decade. The record production was only on account of continuous expansion of area which increased from 39.30 lakh hectares in 1997-98 to 44.0 lakh hectares in 2001-02. But the all-India average yield rate has shown somewhat a declining trend since 1994-95. The advance estimate of sugarcane production for 2002-03 released by the Directorate of Economics and Statistics shows that production of sugarcane declined from 300 million tonnes in 2001-02 to 279 million tonnes in 2002-03. The Commission had exhaustively discussed in its report for 2003-04 season the likelihood of a drop in cane production due to drought. The low cane production during 2002-03 was primarily due to water stress caused by drought in several parts of the country. (Table 1)

4. Sugar production primarily depends upon cane utilisation by sugar factories and the average rate of sugar recovery from cane. The past data on utilisation of sugarcane for the last 10 years indicate that the percentage of cane utilisation for sugar production varies from the lowest level of 42.69 per cent in 1993-94 to the peak level of 61.99 per cent in 1995-96. The percentage of cane utilised for seed, feed and chewing has remained more or less static around 11-12 per cent since 1995-96 to 2001-02. Leaving this small amount of cane, the balance is utilised for sugar, gur and khandsari production. Since sugar production has been on a rising trend since 1997-98, consistently, the percentage of cane utilized for sugar has also been growing and proportionately less percentage of cane is being utilized for Gur and Khandsari production. In the meantime the all-India average recovery of sugar has improved from the level of 9.43 per cent in 1995-96 to 9.95 per cent in 1997-98, followed by a marginal drop in recovery to 9.85 per cent in 1998-99. However, the average recovery rate improved to 10.20 per cent in 1999-2000

and further to 10.48 per cent in 2000-01. The provisional figure of rate of recovery, supplied by Directorate of Sugar for 2001-02 has been placed at 10.29 per cent. (Tables 2 and 3)

5. The latest data on sugar production till July 15, 2003 indicate that the sugar production during 2002-2003 has been of the order of 198.9 lakh tonnes i.e. a record production during the past one decade. Full year production, by all estimates, could be more than 200 lakh tonnes. On the assumption that the all-India average recovery rate, is 10.3 per cent, to achieve the level of 200 lakh tonnes of sugar production, the cane crushing works out to be about 70 per cent as against average level of cane utilisation for sugar production of about 60 - 61 per cent in the past few years. The point, that needs to be emphasized here, is that during the current season 2002-03, a record level of cane has been utilized for sugar production. The sugar mills have high stock of sugar. Based upon the trend, the Commission estimates that the sugar production during 2003-04 and 2004-05 may be about 21 and 22 million tonnes respectively. (Table 4)

6. The balance sheet of sugar prepared by the Directorate of Sugar, Department of Food and Public Distribution indicates that the opening stock of sugar in each sugar year has been rising since 1998-99. For instance, the sugar year 1998-99 began with a stock of 5.4 million tonnes and subsequently its magnitude increased to 6.7 million in 1999-2000, 9.3 million in 2000-01, 10.7 million in 2001-02 and finally 10 million in 2002-03. Keeping in view the fact that the festival season in India synchronizes with the beginning of the sugar year when the demand for sugar consumption remains relatively high, a stock catering to 3 - 4 months of sugar consumption (i.e. about 4 million tonnes of sugar) is considered to be an ideal opening stock. The Commission is of the view that the opening stock beyond 4 million tonnes directly affects the financial position of the industry as a whole. With the production outstripping domestic consumption for the last 8 years, there is a need for an appropriate strategy to dispose of excess stocks which has, inter-alia, created storage problem as well. The Commission recommends that the Government should formulate a clear plan of action to dispose of excess stocks of sugar lying with mills by carrying out rationalization of sugar release mechanism, increasing utilization of sugar through PDS and other schemes at further subsidized rates and adopting a robust export promotion strategy. (Table 5)

7. India remained a net importer of sugar till 1999-2000. The Central Government imposed a basic custom duty of 5 percent and counter-veiling duty of Rs.850/- per tonne on imported sugar with effect from April 28, 1998. The basic custom duty was raised from 5 per cent to 20 percent with effect from January 14, 1999 and again to 27.5 per cent with effect from February 28, 1999. It was further raised to 40 per cent in December, 1999 and subsequently to 60 per cent w.e.f. February, 2000. Presently, the import of sugar is almost negligible. The high custom duty with counter-veiling duty seems to have prevented imports of sugar from other countries.

8. Consumption of sugar broadly is a function of price, income, the taste and preference. With the rising urbanization and growth of the income, sugar consumption is bound to rise. However, gur occupies a prominent place as a form of sweetener in traditional dishes of India. Gur production and consumption, on average, has remained more or less static around 10 million tonnes per annum for the past several years. As against it, consumption of sugar has been rising at 3.8 per cent per annum. Presently the market price of sugar is ruling at Rs.14 - Rs.15 per kg in various retail markets of the country which is marginally higher than Rs.13.50 per kg sold under Public Distribution System. The Commission feels that in years to come when sugar industry is completely deregulated, there is likelihood of domestic price to fall further which will certainly boost further domestic consumption. Based on current trends, it is estimated that the domestic consumption level for sugar may be around 18.9 million tonnes for 2002-03 and 19.5 million tonnes for 2003-04, and 20.3 million tonnes for 2004-05.

9. With the rising sugar production and stock, India has entered into the selective group of net sugar exporting countries from 2000-01 onwards, although the export of sugar has been on a modest scale varying between 0.34 million tonnes in 2000-01 to 1.5 million tonnes in 2001-02. However, India is not a regular player in the international sugar market. It mostly produces plantation white sugar, for which there is very limited demand in the world market of the order of 4 million tonnes per annum. India along with many other countries like Pakistan, Thailand, Brazil compete for the same. Since India is not a regular exporter, it has not captured the regular white sugar market in the world. Apart from plantation white sugar, the world demand for refined sugar is estimated at 15 million tonnes. Though it fetches better price, the cost of production is higher. Besides, the third category of sugar which has a high demand in the international market is the raw sugar, for which the world demand is estimated at 27 million tonnes. The countries, which are producing raw and refined sugar are recognised as regular exporter of sugar in the international market. India presently does not come under the category of regular exporter of sugar, as our production is mostly plantation white sugar. It is time, Indian sugar mills switch over to the production of raw and refined sugar and compete for sale in international market. (Table 6)

10. Various concessions granted by the Government such as (a) utilisation of funds for defraying expenditure on internal transport and freight charges to the sugar factories on export of shipments of sugar through SDF (b) subsidy of US \$ 8 (Rs.350/-) per tonne on account of shipment of sugar undertaken with effect from February 14, 2003 and (c) the subsidy of Rs.1000/- per tonne granted by the Government of Maharashtra to its sugar factories for encouraging export, have produced the positive result boosting export during the year 2002-03. The Commission feels that it is high time that sugar industry is oriented towards export. In that direction, we must have both short term and long term policy support. In the short run, keeping in view the typical international demand and our production structure and operational constraints, the industry must target to capture a sizeable market for export of plantation white sugar, may be, of the order of 2 – 3 million tonnes per annum particularly to reduce the existing stock of sugar. This could be possible only when export is pushed through regularly as a matter of policy. The long term policy must focus, on the earmarking of the existing capacity for production of raw and refined sugar exclusively for export. Such a policy has been adopted by Thailand where the production is divided into 3 quotas : Quota A for domestic consumption, Quota B for long term contract of export of raw sugar and the remaining surplus sugar as Quota C, also for export. Currently the sugar industry in India is a victim of a continuing glut of sugar without any viable outlet to reduce stock. The Commission feels that the sustainability of sugar economy in India depends on export of sugar as the growth of consumption of sugar is not sufficient to match the rising production of sugar. Ideally, for sustainable export, 40 per cent of the existing capacity must be devoted for production of raw or refined sugar and balance 60 per cent for domestic consumption. By doing so, the sugar industry will be able to meet adequately the domestic demand as well as long term export commitment on sustainable basis. The Government should accordingly initiate action to earmark capacity for production of raw/refined sugar, for export. The Commission recommends that the sugar mills should undertake production of raw and refined sugar and the Government should provide necessary technical and policy support to sugar mills to switch over to the production of raw and refined sugar for exports to be sustainable in future.

11. The prices of sugar, gur and khandsari continue to remain depressed for the past few years. The average index of wholesale prices of sugar (base year 1993-94) which remained at 141.2 during 1999-2000 declined to 138.9 during 2000-01 and further to 131.7 during 2001-02. The price index during the current sugar year works out to be 117.1 till June 2003. The prices of gur has also been falling for the last three years. The average price index at 134.4 during 2000-01 decreased to 132.7 during 2001-02 and further to 119.5 during the current sugar year till June, 2003. Similarly, the average price index of khandsari at 142.6 during 2000-01 marginally declined to 141.7 during 2001-02, but fell sharply to 124.5 during the current sugar year till June, 2003. The average retail price of sugar during the current sugar year till June 2003, at various retail markets of the country, is marginally higher by a rupee or so than the PDS price at Rs.13.50 per quintal in most of the states. Primarily on this account, the lifting of levy sugar from the mill has been

extremely slow, which has further added to the woes of the sugar mill owners, who are already plagued with high stock. The Commission, keeping in view the high stock of sugar, the production profile and domestic consumption pattern of sugar and other sweeteners, believes that the low price scenario is likely to continue for sometime in future. (Table 7)

12. According to Food & Agriculture Organization's (FAO) estimate, world sugar production for 2000-01 is placed at 130.4 million tonnes as against world consumption of 130.7 million tonnes. The production for 2001-02 is estimated at 134.1 million tonnes with the consumption level at 132.7 million tonnes. For 2002-03, the estimate of world sugar production is now placed at 145 million tonnes (revised by FAO) due to better than expected late season output in some large sugar producing nations like Brazil, China, India and Thailand. Record production in Thailand is likely to go up by 20 per cent over previous years production. The reports of record production in major sugar producing countries contributed to downward pressure on the International Sugar Agreement (ISA) daily prices, which declined from a monthly average of US cents 9 per lb for February 2003 to US 7.75 cents per lb for April 2003. On a point to point basis, the ISA daily price came down to US 7.14 cents per lb by 30.5.2003 as compared to US 7.44 cent per lb a month ago. FAO predicts the world sugar consumption to reach a level of 138 million tonnes in 2002-03, with an annual growth of 1.5 per cent, in line with the past growth rates. It also predicts that consumption of sugar will continue to rise in Far-East, despite economic slow-down, driven by population growth, and increasing consumer preference for sugar contained processed food. Apart from China, Russia's demand for sugar is also the key consumption factor in the international sugar market. Russia has introduced a sugar quota system allowing import of 3.65 million tonnes at a tariff rate of 5 per cent of customs value of the sugar in 2002-03. Sugar import outside the quota is subject to 45 per cent tariff to protect domestic beet growers. World trade on sugar however, remains unaffected by India's record production and stock as Indian sugar is not generally traded extensively due to quality and price considerations. For 2003-04, the outlook for global sugar production seems to be rather grim. The world production of sugar is estimated to be around 139 million tonnes, with the world consumption remaining almost at the same level. The world closing stock of sugar for 2003-04 is estimated at 27 million tonnes as against 32 million tonnes in the previous year. Though, there is a possibility of decline in the stock of sugar, the existing stock is itself of a high magnitude to push price downward in future. (Table 8)

13. After the submission of the Commission's latest report on price policy for sugarcane for 2003-04 season, fresh estimates of cost of cultivation/production of sugarcane, generated under the Comprehensive Scheme (CS) by the Directorate of Economics and Statistics (DES) have become available. The estimates pertaining to the year 2001-02 are now available for the major growing states of Uttar Pradesh, Tamil Nadu, Maharashtra, Andhra Pradesh and Haryana. In addition, the cost estimates for Karnataka are now available for the years 2000-01 and 2001-02. Together, these states account for about 86 per cent of the total

sugarcane production in the country. Between 2000-01 and 2001-02, the estimates of cost of cultivation of sugarcane have increased in Uttar Pradesh, Maharashtra, Haryana and Andhra Pradesh while the same have declined in Karnataka and Tamil Nadu. The estimated costs of production have increased with respect to Uttar Pradesh, Maharashtra, Tamil Nadu and Andhra Pradesh while for Karnataka and Haryana, the same has decreased. The average yield of sugarcane per hectare has increased for Uttar Pradesh, Maharashtra and Tamil Nadu. (Table 9 and 10)

14. The cost of human labour constitutes a major part of the total variable input cost in the case of sugarcane. The statutory minimum wage rates have been revised or are likely to be soon revised upward for Haryana, Punjab, Uttar Pradesh, Karnataka, Gujarat and Uttaranchal. As per information available from Labour Bureau, between August, 2002 and June, 2003 the actual wage rates for agricultural labour have increased by 6.8 per cent in Punjab, 5.2 per cent in Maharashtra, 4 per cent in Tamil Nadu and 1.7 per cent in Gujarat while a very marginal increase is observed in case of Uttar Pradesh. (Table 11)

15 The electricity tariffs for irrigation purposes have reportedly been increased in Punjab w.e.f. May 2003. The revised rates are Rs.205/BHP/month without government subsidy and Rs.60/BHP/month with government subsidy. Electricity was free in Punjab before May 2003. In Punjab, Maharashtra and Karnataka, the canal irrigation rates have been revised upwards. Between June 2002 and July 2003, the prices of other farm inputs as indicated by the Wholesale Price Index (WPI), have increased by 2.73 per cent for lubricants, 5.08 per cent for non-electrical machinery, 6.51 per cent for HSD and 14.77 per cent for LSD. The price of fodder has, however increased steeply by 59.5 per cent while for cattle feed the increase is 8.51 per cent for the same period. (Table 12)

16. On the basis of the latest methodology adopted by the Commission in the past few years, the estimates of cost of production of sugarcane of various states have been projected for the ensuing season. A variable input price index has been constructed for each state covered by the Comprehensive Scheme on the basis of the actual input price movements observed so far and assuming an expected inflation rate of 4 to 5 per cent. Based on this index the variable input cost between 2001-02 and 2004-05 is estimated to be higher by 17, 20, 15, 27, 22 and 13 per cent respectively in Andhra Pradesh, Haryana, Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh. As per the present practice, each of the cost estimates pertaining to the latest three years is projected and then the averages of the projected costs are considered. Thus, the C2 cost of production of sugarcane for 2004-05 is projected to an average of Rs.80.81, Rs.82.18, Rs.63.65, Rs.71.08, Rs.65.77 and Rs.70.90 per quintal respectively for Andhra Pradesh, Haryana, Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh. The weighted C2 average cost of production then works out to Rs.70.24 per quintal for 2004-05. The C3 costs of production which includes cost on account of managerial input, work out to Rs.88.89, Rs.90.40, Rs.70.02, Rs.78.19, Rs.72.35 and

Rs.77.99 per quintal respectively for these states. The weighted average C3 cost thus works to Rs.77.26 per quintal.(Tables 13 and 14)

17. The above projections are based on the average yields of sample holdings for the years 2000-01 and 2001-02 for the concerned states. When adjusted to 8.5 per cent recovery rate using state specific average recovery rates for the years 2000-01 and 2001-02, the C2 costs of production for 2004-05 work out to Rs.69, 70, 50, 52, 58 and Rs.70 per quintal respectively for these states. The weighted average C2 cost of production adjusted for 8.5 per cent recovery is projected at Rs.61.90. Some state governments also provide estimates of cost of production/cultivation based on their own surveys. Despite certain conceptual and methodological differences between the data supplied by the states and that supplied by the DES due to which they may not be strictly comparable, the data that become available from the states are found to be useful in more ways than one. The cost projected by Haryana for the year 2004-05 at Rs 98 per quintal by Punjab at Rs.108 per quintal, by Maharashtra at Rs.95 per quintal, by Karnataka at Rs.122.55 per quintal and by Uttar Pradesh at Rs.117.75 per quintal appear to be higher than the one projected by CACP. This is because of all the States have included an additional cost of management, risk element etc. Besides, most of these states have over estimated expenditure on human labour. After making necessary adjustment these cost estimates work out to be Rs.85.10, Rs.79.26, Rs.69.23, Rs.93.13 and Rs.96.55 respectively for these states. The adjusted cost projected for Haryana and Maharashtra is very near the cost projected by CACP. No comparison can be made for Punjab as the state is not covered under the Comprehensive Scheme. The high cost for Karnataka even after adjustment may be attributed to a very high expenditure on human labour in particular and the other remaining variable inputs in general. Projected cost of UP as reported by the state is higher due to the higher input costs mainly for irrigation, seed and rental value of owned land.(Table 15)

18. Cost of transportation must be added to the total cost of production. For this purpose the Commission has examined data of transportation charges of sugarcane by various modes of transport and for different distances involved, received from different states. The transportation cost varies between Rs.4.88 per quintal in Bihar to Rs.15.20 per quintal in Punjab for a radius of 16 – 25 km from the factory gate. The average transportation cost works out to Rs.12 per quintal in the current year. Assuming an annual increase of 5 per cent the likely transport cost per quintal works out to approximate Rs.12.60 per quintal.

19. The Commission, during its interaction with all concerned stake holders noted the suggestion that zonal prices system for sugarcane, as recommended by the Mahajan Committee, may be a solution to the problem of differential cost of cultivation of sugarcane in various states. The Commission recognises the importance of the zonal pricing system for sugarcane in the Indian context and feels that an appropriate

view should be taken by the Government. Suggestions have also been made before the Commission to peg the SMP at a recovery rate higher than 8.5 per cent. It is understood that the Ministry of Food and Consumer Affairs is in the process of setting up an Expert Committee to go into the details of pricing of sugarcane. The Commission, therefore, recommends that the suggestions for zonal pricing system for sugarcane and higher recovery rate for fixation of SMP should be considered by the Expert Committee to be set up by the Government, as a follow up to the Mahajan Committee Report.

20. The primary concern before the Commission is that the cost of production of sugarcane is rising consistently over the years. There is limited possibility to arrest the rising cost of cultivation. At the same time, increasing price for sugarcane affects the financial viability of the sugar mills. A balance has to be struck between the rising cost of sugar production and declining sugar prices nationally and internationally. The rising cost can be partially compensated through increasing the productivity. There is, therefore, an urgent need to increase the productivity of sugarcane so that the sugarcane cultivation becomes remunerative. Presently, there is a wide gap in productivity of sugarcane between tropical and sub-tropical regions of the country, the productivity of sub-tropical region being much less than the national average. The southern States, over a period of time, have increased the productivity through appropriate adoption of new varieties replacing the traditional ones. Such initiative is critically lacking in sub-tropical regions. The Commission emphasizes that the Government must do all that is needed to enhance the productivity of sugarcane in sub-tropical states. For adoption of new varieties and new technology in sugarcane production, agricultural extension plays a key role which is lacking in many states. The sugarcane mills in southern India, where productivity has gone up substantially over the years, have taken lead role in extension programme. Going by the success story, the Commission recommends that the Government should initiate appropriate measures to encourage the public private partnership in research and extension programmes with particular emphasis on ratoon management, propagation of the disease and pest resistant varieties, integrated plant nutrient management and judicious water management assigning the lead role and responsibility to the sugar mills, for raising the productivity level of sugarcane. The Government must also pay particular attention to raising yields in sub-tropical regions. The sugar mills must realise that their responsibility in this regard is much greater than that of the Government agencies.

21. The demand for irrigation water by the sugarcane growers continues to rise in various part of country, in view of increasing crop intensity of improved varieties. In this context, the importance of water conservation and management needs be underlined. Currently, traditional method of irrigation is mostly used for sugarcane cultivation in the country. In order to give a push to sugarcane productivity, there is a need for encouraging the farmers to adopt modern method of irrigation such as drip irrigation to optimize the use of water availability. The Commission commends the initiative of Andhra Pradesh Government by

providing 50 per cent subsidy with a maximum ceiling of Rs 50,000 per farmer and calls upon other States Government to undertake similar programmes. The Commission further recommends that both the Central and the State Governments, through a package of incentives and policy support, should ensure availability of liberal loans from the banking sector for wider use of drip irrigation technology by sugarcane farmers. The Excise duty and other taxes should also be waived for drip irrigation, machinery, equipment and pipes.

22. Taxes and excise duty duties levied on sugarcane, sugar and by products need to be reviewed in the interest of farmers and sugar industry. The passing on of the cane purchase tax to the growers during 2002-03 season is yet another commendable initiative of the Andhra Pradesh Government. There may be many more avenues of providing relief to the cane growers and mills through reduction and rationalization of tax structure. The Commission recommends that Central and State Governments should undertake a thorough review of taxes and levies on sugarcane, sugar and by products with a view to rationalise the whole system of taxes and levies.

23. Quite often, the sugar industry is subjected to a serious criticism that the cost of production of sugar is unsustainably high, that makes Indian sugar less competitive in the international market. The analysis of data on all-India average cost of production of sugar for 2000-01 and 2001-02 reveals that (i) the cane cost as percentage of the total cost comes to about 60 - 61 per cent and the local taxes (purchase tax, commission and cess) about 3 per cent; (ii) Similarly, conversion cost, as per cent of the total cost, is about 25 per cent. However, there is need for reducing the conversion cost to be at par with Thailand and Brazil, if export is to be competitive.

24. It is evident that the sugar mills cannot be viable on the basis of sugar production alone. They have to diversify. Production of ethanol and co-generation can go a long way to help the sugar mills to improve their viability. However, unless mills adopt economies of scale and also there is effective demand for these products in the economy, it would not be easy for the mills to invest and diversify in favour of ethanol and co-generation. Some sugar mills which made attempts in this direction in recent years had to suffer because there was no established and generally agreed marketing and procurement mechanism. Even though the Government has granted permission to produce ethanol in a number of states and allowed the ethanol mix in petrol upto 5 per cent, there has been no significant break-through so far, due to lack of clear policy perspective and disagreement between ethanol suppliers and oil companies over the price being charged by the suppliers. The Commission recommends that the Ministry of Petroleum and Natural Gas should effectively intervene in the matter of ethanol pricing, get the dispute settled between the ethanol suppliers and oil companies and issue clear and time bound guidelines in this regard. The varying and high levels of taxes by the State Governments that have acted as a deterrent to ethanol production should

be rationalized and brought down. Restrictions on inter-state movement imposed by states should be removed.

25. Tremendous potential exists for baggasse based co-generation in India, which, if fully exploited, could reduce the cost of sugar production substantially to make it internationally competitive. An estimate given by the Ministry of Non-Conventional Energy Sources places co-generation potential at 3500 mw by the sugar mills with Maharashtra and Uttar Pradesh with the highest potential of about 1000 mw each. As against this, only 46 co-generation projects totaling 348.23 mw capacity have been commissioned in 6 states (Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Punjab and Uttar Pradesh) and 32 projects with an aggregate of 280.57 mw capacity are under different stages of commissioning in 7 states (Andhra Pradesh, Karnataka, Tamil Nadu, Gujarat, Maharashtra, Haryana and Uttar Pradesh). While a large number of private sugar mills have taken steps to install co-generation projects, the initiative is critically lacking in the case of cooperative sugar mills. Presently the cost of commissioning a co-generation project with 87 ata boiler pressure comes to about Rs.40 crores, which is more or less equal to setting up of a modern sugar mill. Though the capital cost of setting up of a cogeneration unit is high for sugar mills, the cost of generation ranges from Rs.1.50 to Rs.2.75 per unit which compares favourably with new conventional power project where the cost of generation, on average, ranges from Rs.2.25 to Rs.3.5 per unit. Presently the high interest cost of capital from both banking and non-banking financial institutions makes the co-generation less attractive for sugar mills. With the questionable financial viability of many of the sugar mills, the lending institutions are reluctant and unwilling to finance cogeneration proposals. As a result, not much progress has been made so far in this direction. The Commission therefore recommends that the Government should bring out appropriate policy changes to ensure that the banks and financial institutions grant liberal loans to the sugar mills for setting up co-generation projects and such lending should come under priority sector lending. Also, the State Government should have a mandatory policy to purchase power from sugar mills and ensure payments to them in time.

26. Sugarcane pricing has historically been a very complex issue. The Central Government has been announcing SMP for the country as a whole but many of the State Governments on their own resorted to State Advised Prices (SAP) substantially higher than SMP. The cane growers naturally have become used to this and this phenomenon has raised their hopes for a price higher than SMP in those States. With the declining sugar prices, accumulation of sugar stocks and poor financial viability, the sugar mills of late have refused to pay SAP leading to agitation by the farmers in many parts of the country. SAP mechanism has also led to a series of litigations and courts have struck it down as something having no legal or statutory sanction.

27. Sugarcane arrears amounting to Rs.3182 crores (upto 30<sup>th</sup> June, 2003) have been causing acute hardship and distress to the farmers. There are reports of farmers in some States having committed suicide as they had taken loan, could not receive sugarcane price payments, became defaulters and could not get loans from banks. Given the unsatisfactory working of National Agricultural Insurance Scheme (NAIS), the farmers had no risk coverage. Unless the problem is addressed by the Government urgently, the farmers will fall further into debt-trap and their hardship will get accentuated. The Commission is concerned at the plight of the farmers and recommends that the State Governments should ensure the payments of arrears by the mills and the mills should clear the arrears without further delay.

28. The Commission welcomes the decision of the Government of India on a special package of Rs 650 crores for 5 States to clear the cane price arrears with the proviso that henceforth there would be no SAP. Other States which had adhered to SMP and exercised discipline and restraint are demanding a similar package to provide benefit to their own farmers on par with the benefits extended to the States covered by the package already announced. The Commission recommends that on the lines of the package announced earlier for sugarcane arrears of 5 States practicing SAP, the Central Government should, in the interest of fairness and equity, approve another package for those States which did not practice SAP, with the condition that no beneficiary state of the package should practice SAP in future.

29. Sugarcane plays an important part in the economy of the country. In many parts of the country, there are areas where no other crop can be grown, particularly in those regions which are prone to annual visitation of floods resulting in stagnant water for weeks together. This is the only crop which can stand the rigours of the flood water. Sugar mills are located in the rural areas and it would not be an exaggeration to say that this traditional industry is virtually the only rural industry in many parts of the country. The employment generation potential of the sugarcane farming and sugar industry has been considerable. Despite this importance the sugarcane production and sugar industry sector has lacked an integrated and holistic approach at national and State levels. The Commission has not come across any established institutional mechanism for looking at the sector from the perspective of income of the farmers, viability of the sugar mills and exploring the further potential of the sector as a whole as a contributor to general economic well-being. The whole sector is torn between conflicting interests, some pleading the interest of the farmers and clamouring for higher sugarcane prices and others calling for restraint on the sugarcane prices with a view to ensure health and viability of the sugar industry. Different organs of the Central Government too are not immune to this and have been endeavouring to promote their own goal dictated by their mandated functions. The Commission, therefore, recommends that an Inter-Ministerial Committee be immediately established to look into the problems of sugarcane and sugar industry in an integrated and holistic way. This should be composed of Ministry of Agriculture, Ministry of

Consumer Affairs, Food and Public Distribution, Ministry of Petroleum and Natural Gas, Ministry of Non Conventional Energy Sources and Ministry of Finance.

30. In arriving at the Statutory Minimum Price of Sugarcane for 2004-05 season, the Commission had wide ranging consultations with State Government officials, representatives of sugar mills, farmers and farmers' associations. After considering all the relevant factors namely, rise in costs of production, demand supply situation, market prices (both domestic and international) and overall health of both sugarcane and sugar economy, the Commission recommends that the statutory minimum price (SMP) for sugarcane payable by sugar factories for the 2004-2005 season be fixed at Rs 74.50 per quintal linked to a basic recovery of 8.5 per cent subject to a premium of Rs 0.88 for every 0.1 percentage point increase in the recovery above that level. At all-India average recovery rate of 10.29 per cent, the SMP recommended is Rs 90.25 per quintal;

Sd/-

( T. HAQUE )

Sd/-

( RAMADHAR )

Sd/-

( M. RAGHUPATHY )

September 8, 2003