Commission for Agricultural Costs and Prices
Report on Price Policy for Sugarcane
for the 2005-06 sugar season

In this report, the Commission for Agricultural Costs and Prices presents its views on the price policy for sugarcane for 2005-06 sugar season. The Commission recommends that:-

(i) the statutory minimum price of sugarcane payable by sugar factories for 2005-06 sugar season be fixed at Rs. 79.50 per quintal linked to a basic recovery of 9 percent subject to a premium of Rs. 0.88 for every 0.1 percentage point increase in the recovery level above that level. At the average all India recovery rate of 10.4 percent achieved in 2002-03 sugar season, the SMP recommended is Rs. 91.87 per quintal; (Para 27)

(ii) the SMP of sugarcane should invariably be declared in the beginning of the sowing season rather than the beginning of the crushing season so as to give the right price signal to sugarcane growers; (Para 2)

(iii) a committee may be constituted with the participation of Ministry of Agriculture, Department of Food and Public Distribution and the representative of sugar industry to identify bottlenecks at the field level in increasing yield and devise remedial measures thereof; (Para 4)

(iv) the Government may review the conditions regarding the State Advised Price attached with the two packages announced in 2003 for clearing the cane price arrears of 2002-03 sugar season at the earliest; (Para 7)

(v) the Department of Food and Public Distribution may, in consultation with the Ministry of Finance, the Reserve Bank of India, the Indian Banks Association, the State Governments and the representatives of sugar industry examine the suggestion of earmarking a certain percentage of bank credit being extended by banks on production of sugar for making payment of cane price; (Para 8)

(vi) the Government should declare the L factor within three months of the close of sugar season. Also, the Government should take necessary steps to declare the L factors for 2001-02 and 2002-03 sugar seasons without any further delay; (Para 9)

(vii) the Government should provide fiscal incentives in the shape of differential excise duty on the production of raw and refined sugar to sugar factories so as to encourage them further for producing raw and refined sugar; (Para 11)

(viii) till the Expert Group on sugarcane pricing submits its report with recommendations to the Government and the Government takes decision on the recommendations of the Expert Group, the SMP of sugarcane may continue to be fixed by the Central Government as at present; (Para 13)

(ix) the Ministries of Power and Non-conventional Energy Sources should play a more proactive role and promote a consensus on sale and pricing of co-generated power through discussions with State Governments and industry; (Para 15)

(x) the Government may effectively intervene on ethanol pricing to resolve the dispute and effect a compromise without further delay so as to encourage sugar industry to produce adequate ethanol as a by-product; (Para 16)

(xi) the Department of Food and Public Distribution in consultation with the State Governments and the apex organizations of sugar factories should chalk out an appropriate strategy to encourage sugar factories to undertake modernization/rehabilitation and expansion of capacities for improving viability and competitiveness; (Para 19)

(xii) the family labour and managerial cost issues together with other issues are examined expeditiously by the Alagh Committee and a report submitted to the Government for an early decision.(Para 25)

2. The Commission submitted its report on price policy for sugarcane for 2004-05 sugar season on 8th September, 2003 recommending the SMP payable by sugar factories at Rs.74.50 per quintal linked to a basic recovery level of 8.5% subject to a premium of Rs.0.88 for every percentage point increase in the recovery above that level. The report, however, is still pending before the Government. The sowing season had passed long ago and the harvesting and crushing is due in another two months or so. The Commission urges the Government to decide and declare the SMP of sugarcane for 2004-05 sugar season at the earliest. Late announcement of SMP defeats the very purpose of SMP. The Commission recommends that the SMP of sugarcane should invariably be declared in the beginning of the sowing season rather than the beginning of the crushing season so as to give the right price signal to sugarcane growers.

3. The production of sugarcane, which was steadily rising since 1996-97, reached its peak in 1999-2000 when there was a record production of 299.32 million tonnes of sugarcane. But this level of production could not be sustained. It declined to 281.57 million tonnes i.e. by 17.75 million tonnes in 2002-03. It was disquieting to note that the decline in sugarcane production had taken place despite increase in the area under sugarcane. This was mainly due to decline in productivity. The area under sugarcane, which was 42.20 lakh hectares in 1999-2000, increased to 43.61 lakh hectares in 2002-03 i.e. by 1.41 lakh hectares. In the tropical region, Maharashtra is a major sugarcane growing state where the area under sugarcane crop increased marginally from 5.90 lakh hectares to 5.99 lakh hectares but the sugarcane production declined from 53.14 million tonnes in 1999-2000 to 37.01 million tonnes in 2002-03. The scenario was almost the same in respect of Andhra Pradesh and Karnataka where the area increased marginally from 2.31 and 3.73 lakh hectares in 1999-2000 to 2.34 and 3.85 lakh hectares respectively in 2002-03 but the production declined from 18.51 and 37.57 million tonnes to 15.39 and 32.48 million tonnes respectively. However, in Tamil Nadu, there had been a fall in the area as well as production. Taking the tropical region as a whole, the area under sugarcane declined marginally from 17.12 lakh hectares in 1999-2000 to 17.05 lakh hectares (0.41%) in 2002-03 but the production of sugarcane declined from 157.57 million tonnes to 129.23 million hectares (17.98%). The sub-tropical region comprising the states of Punjab, Haryana, U.P., Uttaranchal, and Bihar presented a completely

different picture, where the area and production of sugarcane increased almost in the same proportion. In this region, the area under sugarcane increased from 23.53 lakh hectares to 25.03 lakh hectares (6.37%) in 2002-03 while sugarcane production increased from 133.92 million tonnes in 1999-2000 to 145.92 million tonnes (8.96%) in 2002-03. Thus, the overall decline in sugarcane production was primarily due to fall in the productivity during these years. In 1999-2000, the all-India productivity of sugarcane was 70.93 tonnes per hectare which declined to 64.56 tonnes in 2002-03. In percentage terms, the decline in productivity came to 8.98 per cent which is a cause for concern. In fact, productivity of sugarcane has been declining since 1998-99. The reasons for decline in productivity must be identified and corrective action initiated at the earliest.

4. Technology generation on improved varieties, their dissemination among the farmers and adoption at the field level have not been upto the mark. Cases came to the notice of the Commission where central research institutions and state sugarcane development and extension agencies have no effective coordination. Improved seeds were made available by the research institutions but not lifted by the growers due to the lack of streamlined operational mechanisms. The Commission recommends that a committee may be constituted with the participation of Ministry of Agriculture, Department of Food and Public Distribution and the representative of sugar industry to identify bottlenecks at the field level in increasing yield and devise remedial measures thereof.(Table 1)

5. The fourth advanced estimates released by the Directorate of Economics & Statistics (DES) on 5th August, 2004 have placed the sugarcane production in 2003-04 at 236.18 million tonnes as compared to the estimated production of 281.57 million tonnes in 2002-03 sugar season. Thus, the sugarcane production is estimated to have declined by 45.39 million tonnes in 2003-04. This was the biggest decline witnessed in the past. The decline was mainly due to the drought conditions which prevailed in the southern India last year, severely hitting the major sugarcane producing states of Maharashtra, Karnataka, Andhra Pradesh and Tamil Nadu, although a generally observed declining trend in area and productivity also contributed to the overall decline in production. The decline in the sugarcane production had consequential effect on the sugar production in 2003-04 sugar season. The production of sugar in 2003-04 sugar season upto June, 2004 was placed at 134.70 lakh tonnes as compared to 198.44 lakh tonnes during the corresponding period in 2002-03 sugar season. The production of sugar in the last three months of the sugar season remains within the range of 2-3 lakh tonnes. The overall production of sugar may accordingly remain below 140 lakh tonnes in 2003-04 sugar season, much less than the production of 201.32 lakh tonnes registered in 2002-03 sugar season. In percentage terms, the fall in sugar production works out to 30.46%. The main shortfall has come from the state of Maharashtra, the largest sugar producing state in India, where sugar production declined by about 50% i.e. from 62 lakh tonnes in 2002-03 to 32.67 lakh

tonnes in 2003-04 (upto June, 2004). It may be recalled that although the overall sugarcane production in 2002-03 declined by 15.63 million tonnes, the production of sugar increased by 16.34 lakh tonnes i.e. from 184.98 lakh tonnes in 2001-02 sugar season to 201.32 lakh tonnes 2002-03 in sugar season which was a record. Apparently, it may look contradictory that a fall in sugarcane production should lead to increase in sugar production but this has happened. This might perhaps be due to an increased drawal of cane by sugar factories vis-à-vis gur and khandsari units. The discussions with the State Governments have revealed that the sugarcane production may decline further in 2004-05 resulting in fall in sugar production. (Table 2)

6. One of the reasons cited by the State Governments for the decline in the sugarcane production in 2003-04 sugar season was the high cane price arrears in 2002-03 sugar season. In 2002-03 sugar season, the cane price payable was Rs.12522 crores as on 15th June, 2004. The actual cane price paid was, however, Rs.9459 crores only leaving arrears of Rs.3063 crores. In percentage terms, the cane price arrears come to 24.46 percent. The arrears as on 15th June in 2000-01 and 2001-02 sugar seasons were much less at 15.74 percent and 9.77 percent respectively. The Commission sees merit in the argument of the State Governments that the fall in the sugarcane production in 2003-04 sugar season could be attributed to the high cane price arrears of 2002-03 sugar season. (Table 3)

7. It may be recalled that the Central Government, on the recommendation of the Commission for Agricultural Costs and Prices, had increased the Statutory Minimum Price of sugarcane for 2002-03 sugar season by Rs. 5 per quintal i.e. from Rs.64.50 to Rs.69.50 per quintal. The sugar factories expressed difficulties in paying the enhanced SMP in view of the low realization from the sale of free sale (levy-free) sugar. In order to help the sugar factories to clear the cane price arrears of 2002-03 sugar season, the Central Government announced two packages. In the first package, a budget provision of Rs.678.06 crores was made by the Department of Agriculture and Cooperation for a one-time assistance to the Governments of Bihar, Haryana, Punjab, Uttaranchal and Uttar Pradesh, where the practice of State Advised Price (SAP) was in vogue. The package was to cover the difference between the SAP and the SMP in respect of the sugar factories of the private sector only. The assistance was in the nature of a soft loan at a concessional rate of interest of 4 percent per annum with an initial moratorium of 3 years and repayable in 3 years thereafter. The second package was also a one time assistance in the form of permitting the State Governments to raise additional market borrowings to be used for liquidating the cane price arrears of the sugar factories in the cooperative and the public sector where the practice of announcing the State Advised Price existed and for all sugar mills in the states where no such practice existed. The

assistance, in both the packages, was contingent upon the State Governments undertaking not to declare the State Advised Price for sugarcane in future either formally or informally and on their withdrawing the pending writ/appeal/Special Leave Petition (SLP) if any, in the Supreme Court, in regard to the State Advised Price. This condition was not acceptable to some State Governments like Punjab and Uttar Pradesh and they did not avail of either of the packages. The Commission has been informed that only four states viz. Bihar, Uttaranchal, Tamil Nadu and Maharashtra have availed of the assistance. The states of Bihar and Uttaranchal were provided Rs. 19 crores and Rs. 45.54 crores respectively. The states of Tamil Nadu and Maharashtra were permitted to raise additional market borrowings of Rs.229.97 crores and Rs.300 crores respectively. The Supreme Court gave its judgement on 5th May, 2004 in the matter regarding fixation of cane price by the State Governments which has changed the scenario altogether. The Supreme Court has held that the State Governments, which regulate the supply of sugarcane through an Act of the State, have power to fix the cane price higher than the Statutory Minimum Price fixed by the Central Government. This sets at rest the controversy whether or not the State Governments have power to fix the cane price. Since this issue now stands settled by the Supreme Court, the Commission recommends that the Government may review the conditions regarding the State Advised Price attached with the two packages announced in 2003 for clearing the cane price arrears of 2002-03 sugar season at the earliest.

8. The relevant clauses of the Sugarcane (Control) Order, 1966 provide for the payment of cane price within 14 days of the sugarcane delivered at the factory gate or purchase center, failing which the sugar factories are liable to pay interest at the rate of 15 percent per annum. The Central Government had amended the Sugarcane (Control) Order, 1966 in November, 2000 providing for recovery of cane price arrears along with due interest thereon as arrears of land revenue. These powers have been delegated to the State Governments. Despite these powers, the problem of cane price arrears, especially in seasons having high sugar production, could not be resolved. There has been hardly any instance where a sugar factory has paid interest on delayed payment of cane price. It must be remembered that when farmers get disillusioned due to non-receipt or late receipt of cane price, they divert the cane area to other crops, leading to a fall in the sugarcane production with consequential fall in the sugar production. This situation has to be avoided and an arrangement made where the farmers are assured of cane price payment in time. One of the ways by which the cane price payment to farmers can be ensured is to earmark a certain percentage of the bank credit for making payment of cane price. The sugar factories avail of credit facilities from either the commercial or the cooperative banks. On the production of sugar, a certain percentage of the market price of non-levy sugar and ex-factory price of levy sugar, as the case may be, is extended as credit to meet the various needs of the sugar factories. If out of this bank credit, a certain percentage is transferred

to a dedicated account meant for making cane price payment, the problem of cane price arrears can be resolved to a large extent. However, this suggestion needs further examination in consultation with the Ministry of Finance, the Reserve Bank of India, the Indian Banks Association, the State Governments and the apex organizations of sugar industry. The Commission, therefore, recommends that the Department of Food and Public Distribution may, in consultation with the Ministry of Finance, the Reserve Bank of India, the Indian Banks Association, the State Governments and the representatives of sugar industry examine the suggestion of earmarking a certain percentage of bank credit being extended by banks on production of sugar for making payment of cane price.

9. Under the scheme of the Sugarcane (Control) Order, 1966, the farmers are not only entitled to receive the SMP of sugarcane but also the additional cane price (ACP) as provided in clause 5A. Under the said clause, the farmers are entitled to receive 50 percent of the extra realizations made by sugar factories in addition to the statutory minimum price and the formula in this regard, in simple term, is (R-L)/2 where R is realizations made by sugar factories from the sale of levy and free sale sugar and L is the unit cost of production. If a sugar factory has made no extra-realization or earned losses, that sugar factory is not liable to pay any additional cane price. The L factor, zone-wise, is to be announced by the Central Government. Thereafter, the State Governments issue factory-wise additional cane price orders determining the liability of each sugar factory to pay the additional cane price. The Commission has noted an inordinate delay in announcing the L factor. The L factors for four sugar seasons viz. 1997-98 to 2000-01 were communicated to the State Governments in 2003. The L factors for 2001-02 and 2002-03 sugar season are yet to be announced. The late announcement of L factor delays payment of additional cane price to cane growers which is their rightful claim. The Commission, therefore, recommends that the Government should declare the L factor within three months of the close of sugar season. Also, the Government should take necessary steps to declare the L factors for 2001-02 and 2002-03 sugar seasons without any further delay.

10. The sugar industry was saddled with excess stocks of sugar due to the high level of production achieved in 1998-99 to 2002-03 sugar seasons. The closing stocks in 2000-01, 2001-02 and 2002-03 were 107, 113 and 116 lakh tonnes respectively. The sugar season 2002-03 ended with carry over stocks of about 116 lakh tonnes. This compelled the Government to create a buffer stock of 20 lakh tonnes, initially for a period of one year which was later extended. Under the buffer stock scheme, the Government reimburses the interest, insurance and storage charges to sugar mills in the form of buffer subsidy. Before creating the buffer stock, the Government amended the SDF Rules, 1983 in December, 2002 to ensure that the buffer subsidy is used exclusively for payment of cane price to sugarcane growers. The creation of the buffer stock brought much needed relief to the

sugar industry. However, the buffer stock had to be terminated prematurely in view of a substantial fall in sugar production in 2003-04 sugar season. The decline in sugar production in 2003-04 sugar season by about 60 lakh tonnes brought down the stocks level substantially. The Directorate of Sugar has estimated the closing stocks for 2003-04 sugar season at about 74 lakh tonnes. The internal consumption has been estimated at 180 lakh tonnes i.e. 15 lakh tonnes per month. Considering that the closing stock should not exceed the consumption requirement for three to four months, the closing stock in the range of 45-60 lakh tonnes would be comfortable for the industry. (Table 4)

11. In order to liquidate the excess stocks of sugar, the Government also encouraged export of sugar by giving certain incentives viz., the sugar meant for export was exempted from the levy obligation and the quantity of sugar released for export was treated as advance free sale release which was adjusted in the free sale stocks of sugar after a period of eighteen months. Also, with effect from 21st June, 2002, the sugar factories were allowed to claim reimbursement of expenditure incurred on internal transport and freight charges @ Rs.1000 per tonne on export shipments of sugar; with effect from 14th February, 2003, neutralization of ocean freight disadvantage @ Rs.350 per tonne; and with effect from 3rd October, 2003, the handling and marketing charges @ Rs.500 per tonne. These efforts of the Government yielded result and the exports of sugar, which were merely 0.13 lakh tonnes in 1999-2000 financial year, increased to 14.56, 14.70 and 11.30 lakh tonnes valued at Rs.1728.04, Rs.1693.2 and Rs.1122.58 crores in 2001-02, 2002-03 and 2003-04 (upto February, 2004) respectively. However, the unit value of exports were Rs.11.87, Rs.11.51 and Rs.9.93 per kg. respectively indicating that the sugar factories earned low realization on exporting sugar. The international prices of sugar which remained depressed for a long time have shown improvement in the recent months. The world refined sugar price (FOB Europe Spot) which was as low as US $ 185 per tonne in October, 2003 improved to US $ 260 per tonne in July, 2004. But for the incentives given, the exports would have been totally unviable. However, because of the decline in the sugar production in 2003-04 sugar season, the Government has withdrawn these export incentives in May, 2004. Further, most of exports have been to Bangladesh, Sri Lanka and East Asian countries, as it is only in these countries where plantation white sugar produced by Indian sugar factories is acceptable whereas the demand in the international market is for raw or refined sugar. It was in this context that the Commission in its report on price policy for sugarcane for 2004-05 season recommended that the sugar mills should undertake production of raw and refined sugar and the Government should provide necessary technical and policy support to sugar factories for production of raw and refined sugar for exports to be sustainable in future. In addition to the policy and technical support to such sugar factories, the sugar factories may also be provided the fiscal incentives in the shape of differential excise duty on production of raw and refined sugar so as to encourage them further for producing

raw and refined sugar. As stated before, the major demand in the international market is for raw and refined sugar whereas demand for plantation white sugar is limited. The Commission, therefore, recommends that the Government should provide fiscal incentives in the shape of differential excise duty on the production of raw and refined sugar to sugar factories so as to encourage them further for producing raw and refined sugar. (Table 5)

12. The imports of sugar have been under Open General Licence (OGL) since 1994. There was a large scale import of sugar in the country in 1999 and 2000 calendar years because of the low import duty on imports of sugar. In February, 2001, the Government raised the import duty to 60 per cent alongwith the countervailing duty of Rs.850 per tonne. The revised import duty protected the domestic sugar producers against cheap imports. There is still a need to protect the domestic producers against imports of sugar as cheap imports of sugar depress the domestic prices of sugar. Hence, the existing import duty of 60 percent should continue.

13. In support of the continuance of the regulated release mechanism, the Indian Sugar Mills Association, the apex organization of the public and the private sugar factories, had submitted that so long as the Government continues with the fixation of the SMP of sugarcane, the regulated release mechanism should also continue to ensure realization of at least that minimum market price of sugar to sugar factories which would enable them to pay SMP to cane growers. The Commission takes into account the realizations made by sugar factories before recommending SMP for a sugar season. It may be recalled that the Department of Food and Public Distribution has constituted an Expert Group headed by the Chairman, CACP to suggest a new sugarcane pricing policy taking into account the recommendations of the Mahajan Committee on sugarcane pricing and decisions of the Government thereon. The Group has already circulated a questionnaire and views of the stakeholders concerned have been sought. As the Government is to take a decision on whether or not the SMP should continue after decontrol of sugar, the Commission recommends that till the Expert Group on sugarcane pricing submits its report with recommendations to the Government and the Government takes decision on the recommendations of the Expert Group, the SMP of sugarcane may continue to be fixed by the Central Government as at present.

14. The setting up of future/forward market in sugar is a step necessary before full decontrol of sugar. Three companies viz., e-Sugar India Ltd., Mumbai, National Commodity Exchange of India Ltd., Ahmedabad and e-Commodities Ltd., Delhi were given recognition for forward trading in sugar. Subsequently, National Commodity and Derivative Exchange Ltd., Mumbai was also given recognition. Although four exchanges have been given recognition, the trading is mainly taking place in the National Commodity and Derivative Exchange Ltd., Mumbai. However, the average monthly

volume of trading in sugar has remained very small. The Commission was informed that the small volume of trading was mainly due to restrictive policy regime on sugar sector. The liberalized and stable policies are pre-requisites for the success of forward/future trading in any commodity. Although the Government has taken several measures in the past to liberalize the sugar sector e.g. the levy obligation has been brought down to 10 percent, the restrictions on stock and turn over limit have been lifted etc., the uncertainty remains in the matter of sugar releases. It may be recalled that in January, 2002, the Government decided to make free sale releases of sugar for each sugar factory on quarterly basis but had to retract the decision in view of the fall in prices. At present, the old system of making releases of sugar on monthly basis is in force. Further, a firm quantity of free sale sugar is not released and often additional quantities are also released under special circumstances. The sugar factories are also given advance releases. Under such a situation, the volumes of trading in sugar cannot increase. The Commission believes that the volume of trading would substantially improve if the Government rationalizes the sugar release mechanism.

15. It is important to improve the viability of sugar factories. Their viability can be improved by way of better realizations from sale of sugar as also by value addition to by-products. The bagasse and molasses are the most important by-products of sugar. With a view to improving the viability of sugar factories, the Government in May, 2002 amended the Sugar Development Fund Act, 1982 to provide for grant of loans from Sugar Development Fund (SDF) at concessional rates of interest to sugar factories for undertaking bagasse based cogeneration of power and for production of anhydrous alcohol/ethanol from alcohol. Necessary amendment to Sugar Development Fund Rules, 1983 was notified in January, 2003. However, so far, very few sugar factories have come forward to seek financial assistance from the SDF for setting up of cogeneration and ethanol projects. In 2003-04, only 9 sugar factories – 8 in the private sector and 1 in the cooperative sector- have been sanctioned financial assistance from SDF for cogeneration projects. No proposal for production of ethanol was approved in 2003-04 due to lack of complete information in the applications in terms of the SDF rules. During the course of discussions, representatives of the sugar industry associations stated that they faced a number of problems with the State Electricity Boards especially on selling and pricing of generated power. Given the overall acute shortage of power in the country, the Commission recommends that the Ministries of Power and Non-conventional Energy Sources should play a more proactive role and promote a consensus on sale and pricing of cogenerated power through discussions with State Governments and industry.

16. As regards ethanol, the Ministry of Petroleum and Natural Gas has introduced phased blending of ethanol with petrol. In the first phase, blending of ethanol with petrol to the extent of 5 percent has been taken up in nine states. In the second phase, blending is to be

extended to all the remaining states. As in the case of cogeneration, the pricing of ethanol has become a major issue between the oil companies and the sugar industry. While the oil companies want supply of ethanol at import parity price, the sugar industry pleads for a higher price, as they are required to purchase sugarcane, the basic raw material for production of sugar and its by-products, at a statutorily price fixed by the Central Government. There is force in the argument of the sugar industry. As such, the Central Government should intervene to settle the ethanol price. The Commission, therefore, recommends that the Government may effectively intervene on ethanol pricing to resolve the dispute and effect a compromise without further delay so as to encourage sugar industry to produce adequate ethanol as a by-product.

17. The price of sugar, which has remained sluggish for the past many years, has shown improvement in recent months. The average wholesale price index for sugar (base: 1993-94=100) was 141.2 in 1999-2000 but declined to 138.9, 131.7 and 119 in 2000-01, 2001-02 and 2002-03 sugar seasons respectively. Now, it has shown some improvement. The wholesale price index averaged at 132.9 in 2003-04 (Upto June 2004). The wholesale price index of gur and khandsari demonstrated a similar trend. It is during the recent months that prices of gur & khandsari firmed up. The wholesale price index of gur, which averaged at 130.8 in 1999-2000, declined to 120.1 in 2002-03. In the months of May, June and July, 2004, the index was placed at 153.3, 167.2 and 176.5 respectively. Similarly, the wholesale price index of khandsari which averaged at 137.3 in 1999-2000 declined to 126.3 in 2002-03 but firmed up to 150.4, 152.8 and 156.9 in the months of May, June and July, 2004 respectively. With the improvement in the wholesale price index, the retail prices of sugar, which have remained at the same level for all these years, have also improved. With the decline in the sugarcane production and consequent decline in the sugar production, the sugar prices may go up in future. (Table 6)

18. The Government has been fixing the minimum price of sugarcane since 1952-53, but the minimum price so fixed was at a flat rate in the beginning. In 1962-63, the minimum price was linked to the recovery percentage with the base recovery rate at 9.8 percent. The base recovery rate was raised to 10.4 percent in 1964-65 season but lowered to 9.4 percent in 1966-67 sugar season and further to 8.5 percent in 1972-73 sugar season. Since then, the same base recovery rate has been continuing. The data on recovery rates indicates that the recovery rate of southern states of Gujarat, Karnataka and Maharashtra since 1990-91 and that of Andhra Pradesh since 1999-2000 has been more than 10%. The recovery rates of the northern states of Punjab, Haryana, Uttar Pradesh and Bihar have been generally more than 9 percent since 1990-91. The average all-India recovery rate has been constantly higher than 10 percent since 1999-2000 sugar season. Keeping in view the recent trend in recovery rate, it has been recommended by the Expert Group on sugarcane pricing

that the Government should raise the base recovery rate from 8.5 percent to 9 percent. Presuming that this recommendation would be accepted, the Commission is going ahead in recommending the SMP linked to 9 percent recovery rate for 2005-06 sugar season. The recovery rate is mainly a function of three parameters viz. the cane supply arrangement, sucrose content in the cane and the technology employed by the sugar factory. Of course, the agro-climatic conditions of area do affect the recovery rate. A higher recovery rate improves the overall financial position of the sugar factory, which, in turn, improves its viability to pay cane price to sugarcane growers. The higher sucrose varieties of sugarcane would give poor recovery if the plant and machinery of a sugar factory are outdated. It is, therefore, important that sugar factories modernize their plants and machinery so that the recovery rate gets improved. (Table 7)

19. The Government launched a Sugar Technology Mission in 1993 to modernize and upgrade the Indian sugar industry. The Mission conducted a study in 1999 to find out the status and performance level of sugar factories. The factories were classified broadly into four categories viz. (i) healthy, (ii) near healthy, (iii) weak and (iv) obsolete. The technical status of 394 operating sugar factories was studied. The study revealed that about 40 percent sugar factories had a satisfactory technical status, 30 percent factories were weak and required technical upgradation and the remaining 30 percent factories were obsolete. Another feature of the Indian sugar industry is the small size of sugar factories. The report of the Task Force on Sugar Industry for 10th Five Year Plan mentioned that out of 506 installed sugar factories as on 30th September, 2001, 214 sugar factories were below 2500 TCD (42.3 %) and 209 factories were of 2500 TCD (41.3%). Thus, only 83 factories (16.4%) were above 2500 TCD. The average annual installed capacity was indicated at 2355 TCD as compared to 10,307 TCD in Thailand, 9216 TCD in Australia and 9168 TCD in Brazil. In order to modernize/rehabilitate sugar factories, the Government has set up Sugar Development Fund (SDF) and loan assistance at concessional rate of interest is extended to sugar factories. Despite availability of liberal assistance from SDF, sugar factories have not come forward in a big way to avail of the assistance. It is not understood why the sugar factories are not seeking assistance for undertaking modernization/rehabilitation of plant & machinery and expansion of capacities. It is needless to say that the sugar factories having higher capacities enjoy economies of scale which lowers their cost of production, thus improving their viability and international competitiveness. As such, it is imperative that sugar factories undertake modernization/rehabilitation and expansion of capacities. The Commission, therefore, recommends that the Department of Food and Public Distribution in consultation with the State Governments and the apex organizations of sugar factories should chalk out an appropriate strategy to encourage sugar factories to undertake modernization/rehabilitation and expansion of capacities for improving viability and competitiveness. In this context, it may be mentioned that as a result of ongoing negotiation on WTO

agreement on agriculture, the exporting developed countries may reduce their production and export subsidies which will provide a better level playing field for developing countries. Therefore, Indian sugar industry should take advantage of this opportunity by giving priority to efficiency improvement and competitiveness.

20. After the submission of the Commission's last report on price policy for sugarcane for 2004-05 season, the prices of high speed diesel (HSD) have increased by 20 per cent during June 2003 and July 2004.The prices of other petro-based inputs like LDO and lubricants also moved up by 27 per cent and 20 per cent respectively. The prices of other inputs as indicated by WPI are observed to have increased by 2 per cent for tractors, 3 per cent for non-electrical machinery, 2.55 per cent for cattle feed. The cost of human labour constitutes a major part of the total variable input cost in the case of sugarcane. As per information available from Labour Bureau, between April 2003 and May 2004 the actual wage rates for agricultural labour have increased by 6.4 per cent in Uttar Pradesh, 3.8 per cent in Karnataka, 2.6 per cent in Andhra Pradesh and by about 3 per cent in Maharashtra & Haryana. (Tables 8 & 9)

21. Fresh estimates of cost of cultivation/production of sugarcane, generated under the Comprehensive Scheme (CS) by the Directorate of Economics & Statistics pertaining to the year 2002-03 are available for the major growing states of Andhra Pradesh, Haryana, Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh. In addition, the cost estimates for Uttaranchal are available for the first time for the year 2002-03. Between 2001-02 and 2002-03, the estimates of cost of cultivation of sugarcane as measured by A_2+FL have increased by 29.5 per cent in Haryana, 31 per cent in Karnataka, 34.6 per cent in Maharashtra and 3.4 per cent in Uttar Pradesh while the same has decreased by 2.3 per cent for both Andhra Pradesh and Tamil Nadu respectively. The estimated C_2 costs of cultivation have increased by 5 per cent in Haryana, 32 per cent in Karnataka, 32 per cent in Maharashtra and 6 per cent in Uttar Pradesh, while a decline of one per cent in Andhra Pradesh and 9 per cent in Tamil Nadu was observed for the same period. The average yield of sugarcane per hectare in respect of sampled units of CS has increased by 2.7 per cent in Andhra Pradesh, 26 per cent in Karnataka, 24.5 per cent in Maharashtra and 9 per cent in Uttar Pradesh. However, the average yield has decreased by 18 per cent in Haryana and 21 per cent in Tamil Nadu in the corresponding period. (Tables 10 and 11)

22. The estimates of cost of production of sugarcane of various states have been projected for the ensuing season on the basis of the latest methodology adopted by the Commission in the past few years. 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 6 per cent. Based on this index, the variable input cost between 2002-03 and 2005-06 is estimated to be higher by 16, 18, 16, 16, 13 and 15 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 C_2 cost of production of sugarcane for 2005-06 is projected to an average of Rs.83.40, Rs.83.69, Rs.63.82, Rs.72.85, Rs.67.05 and Rs.73.50 per quintal respectively for Andhra Pradesh, Haryana, Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh. The weighted C_2 average cost of production then works out to Rs.72.24 per quintal for 2005-06.(Tables 12 and 13)

23. The above projections are based on the average yields of sample holdings for the years 2001-02 and 2002-03 for the concerned states. When adjusted to 9 per cent recovery rate using state specific average recovery rates for the years 2001-02 and 2002-03, the C_2 costs of production for 2005-06 work out to Rs. 76.63, Rs. 77.53, Rs. 55.42, Rs. 58.49, Rs. 62.15, Rs. 72.97 per quintal respectively for these states. On this basis, the weighted average C_2 cost of production adjusted for 9 per cent recovery is projected at Rs. 67.02 per quintal.

24. Some state governments also provide estimates of cost of production/cultivation based on their own surveys. These data are examined at length and compared with the corresponding (CS) data and also with the subsequent projection made on the basis of this data by the Commission for the ensuing season. Despite certain conceptual and methodological differences between the data supplied by the states and those provided by the DES to which may not be strictly comparable, the data that become available from the states are found to be useful in many ways. Andhra Pradesh and Tamil Nadu have provided estimates of cost of production of sugarcane for 2003-04. The cost of production provided by Andhra Pradesh at Rs.90.20 per quintal for the year 2003-4 is inclusive of the transportation charges. After adjusting, the estimate works out to Rs. 80 per quintal approximately. This estimate is on the higher side as compared to that supplied by DES mainly due to high costs on account of manure, plant protection and irrigation considered by the State Government as compared to CS. Tamil Nadu has estimated the cost of production at Rs.53.61 per quintal. This is also inclusive of the transportation cost. After making necessary adjustments for conceptual and methodological differences, the cost of production works out to Rs.49.74 which is lower than the corresponding CS estimate. Haryana, Punjab and Karnataka have provided cost projections for 2005-06. The cost projected at Rs. 103.04 per quintal by Haryana and at Rs.122.85 per quintal by Karnataka are higher than those projected by CACP. Haryana has included additional costs on account of management, weather risk and transportation. After making necessary adjustment the cost projection works out to be Rs. 89.95 per quintal for the state. This adjusted cost

is higher than CACP's projection on account of lower yield considered by the state than the yield projected by the Commission on the basis of DES data. The state of Karnataka has included management cost and transportation charges in their projected cost. After discounting for these additional heads the costs work out to Rs. 96 per quintal approximately. The higher projected costs in the state even after making necessary adjustments may be attributed to a very high expenditure on human labour in particular and the other remaining variable inputs in general. The state of Punjab has given an estimate of Rs. 113 per quintal. This is inclusive of the management and risk charges and also transportation cost. After adjustment, this works out to Rs. 83.87, which is comparable with the projection made by CACP for Haryana. No comparison can be made as the state is not covered under the Comprehensive Scheme. States have generally reported higher costs on account of seed as compared to CS. This may possibly be due to the cost provided by the State Governments not adjusted for the ratoon crop. (Table 14)

25. While the Commission has, so far, been relying on the data provided by Comprehensive Scheme, sugarcane growers have been repeatedly questioning these figures. They have been arguing that their cost of cultivation has been much higher than that provided by Comprehensive Scheme. Family labour under the Comprehensive Scheme is costed on casual labour rates which farmers contest. Farming operations do not follow fixed hours and farmers generally have to work during odd hours. The other complaint of the farmers relates to the exclusion of the management charges although such charges were recommended by Hanumantha Rao Committee in 1990. While the Commission is following the existing practice and relying on Comprehensive Scheme data for the purpose of this report, the points raised by the farmers need detailed examination and analysis. The Commission, therefore, recommends that the family labour and managerial cost issues together with other issues are examined expeditiously by the Alagh Committee and a report submitted to the Government for an early decision.

26. Cost of transportation must be added to the total cost of production. After examining the transportation charges for sugarcane by various modes of transportation received from states, the all India average transportation cost for the year 2005-2006 works out to Rs. 12.50 per quintal approximately.

27. Keeping in view the factors mentioned in clause 3(1) of the Sugarcane (Control) Order, 1966 viz. cost of production of sugarcane, return to the growers from alternative crops and the general trend of prices of agricultural commodities, availability of sugar to consumers at a fair price, price at which sugar produced from sugar is sold by producers and recovery of sugar from sugarcane and other relevant economic considerations like domestic and international prices of sugar, the

demand and supply situation and the realizations made from sugar sale and the need for maintaining stability in sugar production, the Commission recommends that the statutory minimum price of sugarcane payable by sugar factories for 2005-06 sugar season be fixed at Rs. 79.50 per quintal linked to a basic recovery of 9 percent subject to a premium of Rs. 0.88 for every 0.1 percentage point increase in the recovery level above that level. At the average all India recovery rate of 10.4 percent achieved in 2002-03 sugar season, the SMP recommended is Rs. 91.87 per quintal.

Sd/-
(T. HAQUE)
(CHAIRMAN)

Sd/-
(RAMADHAR)
(MEMBER)

Sd/-
(RAJIV MEHTA)
(MEMBER SECRETARY)

September 5, 2004