

Supplementary Note on recommendation of sugarcane price for the year 2009-10

The Commission had submitted the price policy report for sugarcane for 2009-10 sugar season on August 13, 2008 recommending Statutory Minimum Price at Rs125/- per quintal for a basic recovery rate of 9 percent subject a premium of rupee 1.39 for every 0.1 percentage point increase in the recovery above 9 per cent. The Commission at the time of submitting its price policy report could not foresee the high increase in sugar prices due to supply constraints. It has been observed that there has been a decline in sugarcane area cultivated in recent years, as a result of which sugarcane production has also gone down considerably. It is reported that farmers are shifting to other competing crops like paddy and wheat which assure comparatively better returns.

Of late, the Government has issued an ordinance, The Essential Commodities (Amendment and Validation) Ordinance, 2009, which, among many other things, stipulates the fixation of fair and remunerative price for sugarcane by the Government. This “fair and remunerative price “ takes into consideration broadly some reasonable return to the farmers. The Government also issued the Sugarcane (Control) Amendment Order, 2009 that, inter alia, provides for reasonable margins for sugarcane growers on account of risk and profit. In view of this the Commission made a relook at the entire scenario of sugarcane and sugar production in relation to their respective prices for upward revision of erstwhile SMP to adjust it to the new concept of fair and remunerative price.

The Commission based on the currently approved recovery rate of 9.5 per cent arrived at the all India weighted average C2 cost inclusive of transportation cost for 2009-10 sugar season of Rs 90.32 per quintal. After including profit margin of 15 per cent, which more or less should remain the same in different years, the total cost of production is estimated at Rs 103.87 per quintal. Now

since both the sugar industry and sugarcane cultivation are experiencing problems related to both increase in prices of sugar coupled with declining levels of production of sugarcane, it is imperative that at least some margins on account of risk to the extent of 25 per cent to be made on Rs 103.87 per quintal. This amounts to Rs 129.84 per quintal at the basic recovery rate of 9.5 per cent. And this margin of risk would be allowed to vary depending upon stocks and prices of sugar, production of sugarcane and sugar every year.

Having considered all the relevant factors on the current status of sugarcane and sugar economy of the country, the Commission recommends that the fair and remunerative price of sugarcane for 2009-10 be revised as Rs 129.84 per quintal, to be paid by sugar mills at 9.5 per cent recovery, subject to a premium of Rs 1.37 for every 0.1 per cent increase in the recovery above 9.5 per cent. At all India average recovery rate of 10.16 per cent achieved in 2007, the fair and remunerative price recommended comes to Rs 138.86.

Sd/-
(S. MAHENDRA DEV)
CHAIRMAN

Sd/-
(RAJ VIR SINGH)
MEMBER

Sd/-
(R. VISHWANATHAN)
MEMBER

Sd/-
(K.G. RADHAKRISHNAN)
MEMBER SECRETARY

October 23, 2009