Rationalising Cane Pricing Policy

What is the issue?

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The mismatch between price of sugarcane and that of sugar calls for implementing the suggestions of CACP.

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What is the anomaly in price support?

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- The Cabinet Committee on Economic Affairs approves the Fair and Remunerative price (FRP) for sugarcane.
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- FRP is the minimum price that the sugar mills have to pay to farmers.
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- FRP does protect the farmers by deciding the price of **sugarcane**.
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- But on the other hand, **sugar** prices are determined by market sentiments and market forces, causing unfavourable effects.
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How does it impact?

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- **Farmers** - The high FRP of sugarcane results in over-production of cane and ultimately surplus sugar.
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- This could, in turn, cause sugar prices to fall below cost levels.
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- The resultant burden of the loss falls on the sugar mills.
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- This eventually leads to delays or defaults in making payments to the farmers.
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- **Export** - Too high a price for cane makes Indian sugar uncompetitive globally.
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- E.g. Indian cane prices are 70-80% higher than that in Brazil.
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- Thus, exporting the surplus from India too becomes harder.
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What is desired?

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- The government's protection with a remunerative cane price and assured buyer is unquestionable.
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- However, the anomalies call for rationalisation of the cane-pricing policies in tune with global practices.
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- This is especially to facilitate Indian sugar industry to export the surplus favourably.
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- The governments (including states) should take roles beyond cane-price fixing.
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- The government will have to offer interest-free loans, subsidies and incentives, etc for production.
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- Special efforts would also be needed to dispose off the surplus sugar.
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- This is essential to keep sugar prices at adequate levels and ensure cane-price payments on time.
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What are the recommendations of the CACP?

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- Some of the suggestions made by the Commission for Agricultural Costs and Prices (CACP) in this regard include the following:

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- Farmers should be guaranteed a minimum cane price at the level of FRP.
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- In addition, the liability of sugar mills will be restricted as per a revenue sharing formula (RSF).
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- Accordingly, 75% of revenue realised from sugar will be the cane price payable by mills.
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- If the cane-price, as per RSF, is more than FRP, the farmers get a second instalment over and above the FRP.
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- When sugar prices are depressed, the price as per RSF may work out to below FRP.
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- The gap would then be paid directly to the farmers from a fund created by the government (government is yet to approve it).
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- **Benefits** - The sugar mills will pay farmers as per their revenue realisation and pay on time.
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- Farmers get cane price at least at the level of FRP, or more with better sugar prices, instead of the current system of giving farmers only FRP.
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- It will also keep cost of production reasonable, ensuring that Indian sugar is competitive globally to allow exporting the surplus.
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Source: Financial Express

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