



Ethanol Production for sustaining the Sugar Sector

What is the issue?

- The Centre has announced export subsidies as well as compensation for the carrying cost of the sugar mills.
- This was announced in order to help sugar mills deal with the 145 lakh tonnes of sugar inventory (normal requirement is only 50 lakh tonnes).

What is the real problem?

- This move is aimed at soothing the sugar cooperative sector in Maharashtra which will go to polls soon.
- That said, there is a **real issue of excess**. With the new crop arrivals expected to pick up on October, the problem of excess will only worsen.
- This is despite the fact that cane crop for the 2019-20 season is expected to be 47 lakh tonnes less than last year's production of 329 lakh tonnes.
- With domestic consumption estimated at 260 lakh tonnes, the **surplus is threatening to depress prices**.
- In order to hold up cane prices and clear farmers' dues, **buffer stocks** have become an inexorable necessity.
- Meanwhile, a global surplus in sugar makes it difficult to export viably.
- Hence, the Centre has resorted to a short-term fix, in the time-honoured tradition of placating this politically powerful sugar sector.
- There can be no getting away from increases in the support price, or 'fair and remunerative price (FRP)'.
- Despite various efforts to reform the sector, **the sugar mills are able to extract concessions from the State** on the pretext that the FRP is too high for them to meet their costs and pay farmers.
- Cane arrears are now close to ₹16,000 crore, principally due to farmers in Uttar Pradesh.
- But in Maharashtra, where the arrears are far lower, there's a larger social cost of keeping the cooperative sector going.
- There is certainly a case for this region moving away from growing cane.
- This calls for a well-thought-out plan, given the number of sugarcane farmers

and industry workers involved.

What is the option?

- One option, as has been promoted by the Centre, is to **actively encourage the conversion of cane to ethanol** by offering a high price for the latter.
- At present, ethanol is prepared **from C-grade molasses**, whereas efforts should be made to prepare it from sugarcane juice and B-grade molasses as well.
- This will take care of excess stocks, with positive balance of payments effects.
- Subsidies for sugar should be directed towards building ethanol capacities. However, sugar cooperatives are often run on less than commercial lines.
- Researchers have established how cooperatives are often milked to fund election campaigns of cooperative chiefs. **The system needs a clean-up.**

Source: Business Line

Quick Facts

Fair and Remunerative Price (FRP) of Sugarcane

- The FRP has been determined on the basis of recommendations of **Commission for Agricultural Costs and Prices (CACP)** and after consultation with State Governments and other stake-holders.
- It is used in **sugarcane industry** and is fixed by the government but is **paid by the mill owner**.
- Recommended FRP has been arrived at by taking into account various factors such as
 1. Cost of production,
 2. Overall demand-supply situation,
 3. Domestic and international prices,
 4. Inter-crop price parity,
 5. Terms of trade prices of primary by-products
 6. Likely impact of FRP on general price level and resource use efficiency.

Buffer Stock Policy

- The concept of buffer stock was first introduced during **the IV Five Year Plan** (1969-74).
- Buffer stock of food grains in the Central Pool is maintained by the Government of India (GOI) / Central Government for
 1. meeting the prescribed minimum buffer stock norms for food security,
 2. monthly release of food grains for supply through Targeted Public

- Distribution System (TPDS) and Other Welfare Schemes (OWS),
3. meeting emergency situations
 4. price stabilisation or market intervention to augment supply so as to help moderate the open market prices.
- The **Cabinet Committee on Economic Affairs** fixes the minimum buffer norms on quarterly basis.



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