

Hefty Cane Arrears may Juice Up Elections in Key States

Government reluctant to raise minimum sale price despite 70% jump in arrears to ₹20,000 crore

Rituraj Tiwari & Jayashree Bhosale

New Delhi | Pune: Sugarcane arrears of farmers have jumped 70% in a year to a record ₹20,000 crore as mills struggle to pay them amid a glut in the market, a development that could influence the vote in key states such as Uttar Pradesh during the upcoming general election.

The government is reluctant to raise the minimum sale price of the sweetener to the extent the mills say is necessary to help them make payments, as it walks the tightrope between protecting consumers by controlling inflation and helping farmers by increasing cash flows to the sugar sector. In Maharashtra, the state government has started proceedings to confiscate assets of millers to pay farmers their dues.

The sugar industry fears that arrears will rise to ₹35,000 crore at the time of elections, hurting farmers, particularly in BJP-ruled Uttar Pradesh and Maharashtra, the main producers of the sweetener. In these two states, more than 25 million farmers grow 75% of India's sugarcane, while Tamil Nadu, Karnataka, Andhra Pradesh and Telangana are among the other main producers. The

Not So Sweet!

SUGARCANE ARREARS
(₹ Cr)


Current
20,000

Projections
35,000
in 2-3 mths
(Industry estimates)

REASON
Govt raised cane price but not the mill-gate sugar price

Market has a glut:
Sugar season (Oct-Sept 2018-19)

Opening Stock	10.72 mt
Sugar Availability	41.42 mt
Demand	26 mt
Estimated output	30 mt



cultivators are restive.

"Farmers are readying to launch an agitation demanding fast payment of their cane arrears," said Kisan Jagriti Manch president Sudhir Panwar. "Mill owners are not fulfilling their obligations, citing a liquidity crunch. Strong protests are being witnessed in Shamli, Muzaffarnagar, Bijnor and Modinagar, which will intensify if they don't get their dues."

The government is unlikely to increase the floor price of sugar by more than 8% although millers are seeking a 25% increase over the current minimum sale price of ₹29 per kg. Top producer Uttar Pradesh has urged the Centre to increase the minimum support price (MSP). On February 7, it wrote to the central government suggesting that the MSP be increased to ₹32.50 per kg.

To be sure, the government has sought to assuage agrarian distress by announcing an income transfer scheme in the interim budget for some farmers. But the Centre's sugar directorate is reluctant to increase the price much amid abundant supply.

"There is no shortage of sugar. There has been a long-drawn demand from industry to raise MSP by ₹5-6 a kg for liquidity. But even if we increase the MSP to help them clear the mounting arrears, it would not be beyond ₹1-2 per kg," said a sugar directorate official.

Jai Kisan Andolan national convener Avik Saha blamed government policies for the situation. "Though this government largely inherited the problems of the sugarcane industry, it failed to offer pragmatic solutions to those problems," Saha said. "It did not have a clue about how to solve the problem and ended up increasing it. Sugar was allowed to be imported, when we had overproduction."

In June last year, the government fixed the minimum mill gate price at ₹29 a kg and said it may be revised if there is a change in fair remunerative price (FRP).

'Higher MSP Won't Pinch Public Much' >> 10

‘Higher MSP Won’t Pinch Public Much’

►► From Page 1

Fair remunerative price (FRP) is the minimum price that the government determines every year for purchase of sugarcane from farmers, except in Uttar Pradesh, Tamil Nadu and Punjab, where they get the state advised price (SAP).

In July last year, the government increased the FRP by ₹20 a quintal to ₹275, prompting millers to demand a higher floor price. The Uttar Pradesh government, however, kept SAP unchanged at ₹315 a quintal.

Any rise in sugar prices may upset consumers, said the sugar directorate official cited above.

The Indian Sugar Mills Association argues that higher MSP will not affect the public much as 65% of the sweetener is being used by bulk consumers such as food product and soft drink manufacturers.

“Raising prices by Rs 5-6 a kg would not pinch the public much,” said ISMA director general Abinash Verma. “On the other hand, it will help industry to have extra liquidity of ₹500-600 per quintal on sugar sale. It will give an additional

₹20,000 crore from current stock and further production, which can be used to clear cane farmers’ dues which is increasing by the day.”

This year the sugar season started in October with stocks at a 10-year high of 10.72 million tonnes. Sugar availability is likely to be 41.42 million tonnes while demand is 26 million tonnes. The estimated production of 30.7 million tonnes makes the situation more precarious for the industry.

“Even if we assume that we are able to export 30 lakh tonnes sugar in this tight market, the opening balance for the next season would be 124 lakh tonnes—even more than this year’s balance,” Varma said.

ICRA said in a report that the sugar MSP in Maharashtra, where sugarcane is purchased at ₹2,750 a tonne, should actually be around ₹32,000 a tonne while in Uttar Pradesh where cane is sold at ₹3,150 a tonne, the MSP should be ₹34,000 a tonne.

“We have considered landed cost of cane, recovery, cost of production and contribution margin while calculating the MSP,” said Sabyasachi Majumdar, senior vice president, ICRA.