Sweet nothing: on bailout scheme for sugarcane farmers

A little over a month after the Centre proposed a special cess under the GST to help alleviate distress among sugarcane farmers, the Cabinet Committee on Economic Affairs approved a 7,000- crore package for the sugar sector last week. This package, with a mix of assured minimum pricing and special incentives for increasing molasses and ethanol production to gainfully mop up the glut of sugar in the country, is independent of the cess proposal that was expected to raise 6,700 crore. To put this in perspective, sugar mills' dues to farmers stand at 22,000 crore. Under the proposed bailout scheme, the government will procure sugar from mills at a fixed minimum price to help them clear dues to farmers, and also offer them other financial assistance. Only about 1,175 crore, however, will be used towards procurement of refined sugar from mills to create a buffer stock of 30 lakh tonnes. This is a fraction of the 63.5 million tonnes output expected in the two sugar seasons from October 2017 to September 2019. With the record output, sugar prices have dropped from an average of 37 a kg in the previous season to 26 in the current season. The bailout plan promises to pay 29 a kg. Sugar mills say this is below their production cost of 35 a kg, though it may dissipate their immediate liquidity problems to an extent.

Rating agency Crisil reckons that the fixed price for sugar at mill gates and the buffer stock will at best help mitigate about 40% of the outstanding arrears to sugarcane farmers. And as production will rise again in the coming season, so will the extent of arrears. The rest of the package will take time to materialise, with 4,440 crore of loans and 1,332 crore of interest subsidies for greenfield and brownfield distillery capacities. Over time, this could help to use excess sugar for the manufacture of alcohol or ethanol, but it will not be soon enough to address the present crisis. All said and done, the Centre's sweetener for the sector does little to address structural problems and sticks to old-style pricing and stock-holding interventions instead of signalling a shift to market-driven cropping decisions. The political compulsions driving the bailout are obvious, given that the sugarcane crisis was a rallying cry in the by-election in Kairana in Uttar Pradesh, which the BJP lost. But that is no excuse for not thinking the package through. Perpetuating the complex web of state controls in a politically-sensitive sector is no solution. The best way to address the problem of excess supply in the long run is to ensure some linkage between the price paid for sugarcane and the end-products it is used for; and encouraging the feedback from market prices to inform farmers' future cropping decisions. The current sops-driven solution could distort the agriculture sector further.

The new biofuels policy is high on ambition, but success will depend on the details

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