



WWJMRD 2018; 4(1): 388-391  
www.wwjmr.com  
International Journal  
Peer Reviewed Journal  
Refereed Journal  
Indexed Journal  
UGC Approved Journal  
Impact Factor MJIF: 4.25  
E-ISSN: 2454-6615

**Dr. Vivek Kumar Mishra**  
Lecturer of Economics, at  
Vivekanand Inter College,  
Unnao, Uttar Pradesh, India

## Mounting Sugarcane Arrears in India

**Dr. Vivek Kumar Mishra**

### Abstract

Sugar industry in India has been an example of highly regulated sectors in India. Perishable nature of cane, small farm landholdings and the need to influence domestic prices has made it mandatory for the government to regulate this sector. For a long time after 1931 when a Tariff Board was set up the sugar industry in India brought under protection. Almost every aspect of sugar industry has been kept under government control. There was complex system of Licensing, Minimum Distance criteria, Cane Reserved Area, Dual Cane Pricing Mechanism. Levy Sugar Obligation, Regulated Release Mechanism, Regulations Related to Utilization of By-products and EXIM Policy of sugar and a number of these still persist. In such a scenario ex-mill sugar prices have remained stagnant over a long time, whereas the SMP/FRP has increased continuously to support sugarcane growers which in turns made it difficult for sugar mills to clear their cane price dues within reasonable time leading to mounting cane arrears. Efficiency in production, Utilization of by products, Diversification of sugar business and implementation of effective revenue sharing formula for sugarcane pricing as recommended by Rangarajan Committee (2012) would be the key to resolve the problem of mounting cane arrears.

**Keywords:** Sugar Industry, Regulation, Cane Arrears

### Background

Although sugarcane was being grown in India from the Vedic period and sugar was being produced from fourth century, there was no sugar industry in India. The modern sugar processing industry in India made its beginning in 1904 when the first vacuum pan process sugar plant was set up at Saran in Bihar. The growth of the industry was slow till 1930 with only 30 sugar mills. By 1931-32, there were 31 sugar factories in India, all of which were in the private sector. The total production of sugar at that time was only about 1.5 lakh tonnes, whereas the consumption was about 12 lakh tonnes.<sup>1</sup> To meet the domestic demand of sugar, India had to import sugar mainly from Java (Indonesia). In 1931, a Tariff Board was set up and the sugar industry was brought under protection. Since then, the number of sugar mills went on increasing from time to time.

Sugar industry in India has been an example of highly regulated sectors in India. Perishable nature of cane, small farm landholdings and the need to influence domestic prices has made it mandatory for the government to regulate this sector. For a long time after 1931 when a Tariff Board was set up the sugar industry in India brought under protection. Almost every aspect of sugar industry has been kept under government control. There was complex system of Licensing, Minimum Distance criteria, Cane Reserved Area, Dual Cane Pricing Mechanism. Levy Sugar Obligation, Regulated Release Mechanism, Regulations Related to Utilization of By-products and EXIM Policy of sugar and a number of these still persist. While making these regulation the government would have three objectives first to protect consumer from high sugar prices, second to assure minimum support price to sugarcane growers for their produce and third to make the sugar manufacturing a profitable business. Hence, in this background it would be palatable to examine the level of sugarcane arrears and to identify the root causes of the same.

### Correspondence:

**Dr. Vivek Kumar Mishra**  
Lecturer of Economics, at  
Vivekanand Inter College a  
Unnao, Uttar Pradesh, India

<sup>1</sup> Coopsugar.org

## Review of Literature

Shroff and Kajale (2014)<sup>2</sup>, attempted to examine the issue related to sustainability of sugar sector in India with reference to subsidy and cane arrears. The study revealed that paying unduly high SAP above FRP is unsustainable from the point of view of sugar mills leading to cane arrears as well as cyclicity in sugarcane production thereby causing fluctuations in sugarcane production and pricing. A report of Uttar Pradesh Sugar Mill Association (2014)<sup>3</sup> examined the Operations for sugar industry in Uttar Pradesh and found that due to the high cost of production, high SAP (input cost), low ex-mill prices for sugar, the millers are not making any margins hence resulting into their inability to pay the farmers for sugarcane they procure. This in-turn results into mounting of cane arrears year on year. Since 2006-07 the cane arrears have increased from INR 681 crore to INR 7,500 crore as on 31st March 2014, an increase by 11 times.

Vikas and Babu (2017)<sup>4</sup> in his paper "State Intervention: A Gift or Threat to India's Sugarcane Sector?" examines the nature, changes and factors responsible for issues and problems faced by the sugarcane growers and sugar mills in India. The result reveals that the State's price policy and failure of regulatory mechanisms are the major factors responsible for the problems of sugarcane sector. The gap between total price payable and total price paid by the sugar mills to the sugarcane grower has been increasing over the years which is not a healthy progress from the point of view of sugar mills as well as sugarcane growers.

## Objectives of the Study

The paper has twofold objectives, first to examine the level of sugarcane arrears and second to identify the root causes of the same.

## Methodology of Research

The present paper is based on the author's own Doctoral research work titled as "A Critical Study of the Performance of Sugar Industry in India with Special Reference to Sugar Mills of Bacharach District of Uttar Pradesh" submitted to the Department of Economics, University of Allahabad. To achieve the objectives of the study secondary data collected from various reliable sources of information has been utilized. The study is exploratory in nature and made use of simple charts, graphs and averages.

## Analysis

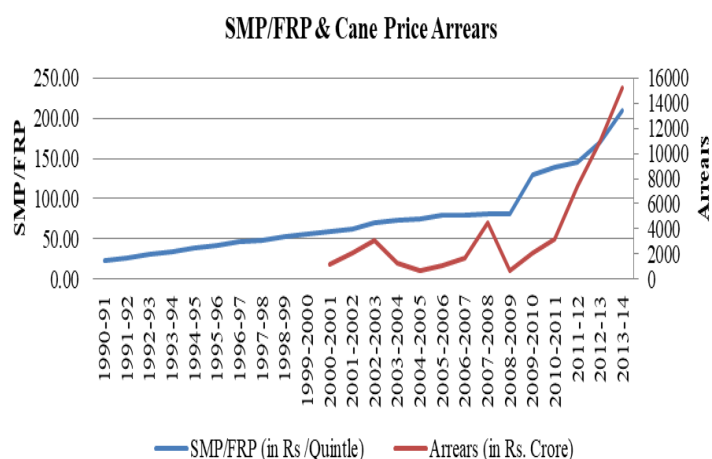
### Price Support and Cane Price Arrears

To ensure a minimum price to the sugarcane farmers for their produce, Statutory Minimum Price (SMP) of

sugarcane was being announced by the central government in terms of sugarcane (control) order 1966 for each sugar season.

The system has been replaced by Fair and Remunerative Price Mechanism, introduced in 2009. The state governments are used to fix their State Advised Price (SAP) with a margin above SMP/FRP.

The government support to sugarcane farmers has been instrumental to encourage the sugarcane farming. However the low sugar prices in the market and high sugar production cost has made it difficult for the sugar mills to timely settle the cane price payments, leading to higher cane price arrears. As a consequence with the increase in government price support to farmers the Cane price arrear has also increased.



**Chart 1:** SMP/FRP and Cane Price Arrears

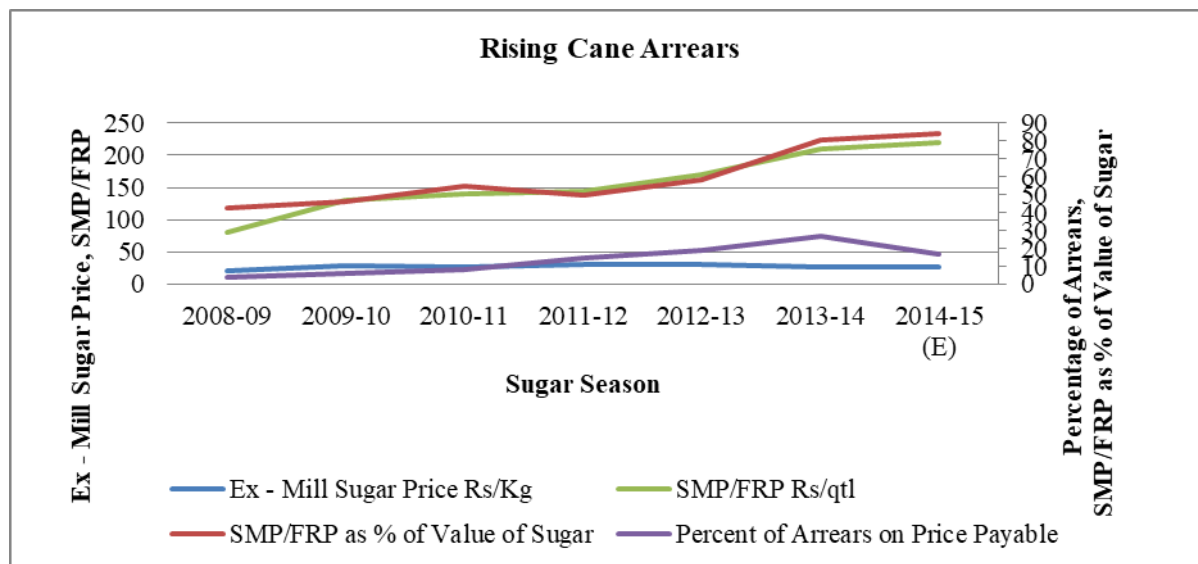
**Note:** Researcher's illustration, Data Source: Cooperative Sugar (various issues), NFCSFL

It could easily be observed from the Chart 1 that before 2009 the SMP has registered rather smooth growth over time however with the introduction of FRP and recent political changes has induced the rapid increase in the same. The cane price arrears have also increased rapidly after 2009. The SMP of sugarcane has increased from Rs 23 per quintal in 1990-91 to Rs 62.05 per quintal in 2001-02. The SMP which was Rs. 81.08 per quintal in 2008-09 has registered a sudden increase in 2009-10 and reached the level of Rs 129.84 per quintal and 2013-14 it was fixed at Rs. 210 per quintal. Likewise the cane price arrears which was Rs. 1169.78 crore in 2000-01, reached the level of Rs. 15209 crore in 2013-14. Some states like Uttar Pradesh follow a system of state advised price (SAP) for their sugarcane growers, which is remarkably higher than the FRP. For example the SAP announced by Uttar Pradesh for 2013-14 sugar season for the common variety was Rs. 280/quintal as against the FRP of Rs. 210/quintal. This kind of practice by the states has led to deterioration in the condition of cane price arrears.

<sup>2</sup> Shroff and Kajale (2014), Sugar Sector: Is it sustained by Subsidies? Ind. Jn. of Agri. Econ. Vol.69, No.3, July-Sept. 2014, pp 375-384, web Link: [ageconsearch.umn.edu/bitstream/229841/2/16-Sangeeta%20Shroff-01-n.pdf](http://ageconsearch.umn.edu/bitstream/229841/2/16-Sangeeta%20Shroff-01-n.pdf), DoA 27/03/2018

<sup>3</sup> Uttar Pradesh Sugar Mill Association (2014), Operations for sugar industry in Uttar Pradesh – Sustainability challenges, web Link: [gtw3.granthornton.in/assets/UPSMA\\_Report.pdf](http://gtw3.granthornton.in/assets/UPSMA_Report.pdf), DoA 27/03/2018

<sup>4</sup> Vikas and Babu (2017), State Intervention: A Gift or Threat to India's Sugarcane Sector? Web Link: [www.isec.ac.in/WP%20385%20-%20Abnave%20Vikas%20-%20Final.pdf](http://www.isec.ac.in/WP%20385%20-%20Abnave%20Vikas%20-%20Final.pdf) DoA 27/03/2018



**Chart 2:** Sugar Price, SMP/FRP & Sugarcane Arrears

**Note:** Researcher's illustration, Data Source: Cooperative Sugar (various issues), NFCSFL

To illustrate the linkages between market price of sugar, SMP/FRP and the level of cane price arrears in India the chart 2 has been created. It could easily be observed from the chart that the ex-mill sugar prices have remained stagnant over time, whereas the SMP/FRP has increased continuously. The ex-mill sugar price has increased from 2127 Rs/qrtl in 2008-09 to 2980 Rs/qrtl in 2009-10 on account of shortage of sugar in the domestic as well as international market. However during the next five years the ex-mill sugar price has shown variation within a narrow range of 150 Rs/qrtl. For example the ex-mill prices of sugar in 2010-11 was 2659 Rs/qrtl and 3079 Rs/qrtl in 2013-14. Whereas the SMP/FRP announced by central government has increased from 81.18 Rs/qrtl in 2008-09 to 220 Rs/qrtl in 2014-15. Not only in absolute term, the SMP/FRP has improved in terms of percentage value of produced sugar also. In terms of percentage value of produced sugar the SMP/FRP was 84.30 % in 2014-15 as compared to the level of 42.41% in 2008-09. This situation has increased the inability of sugar mills to pay the cane farmers. This in turn, has led to mounting cane price arrears during recent past. The cane price arrears which were ranging between 4% to 8% of the total cane price payable during 2008-09 to 2010-11, has reached the all time high in 2013-14 as 27% of the cane price payable has been left as cane price arrear. Recent reports reveal that total cane arrears as on January 31, 2018 stood at Rs 16,520.63 crore, of which UP mills accounted for 6,078.51 crore<sup>5</sup>.

### Conclusion

Sugar industry in India has been an example of highly regulated sectors in India. Perishable nature of cane, small farm landholdings and the need to influence domestic prices has made it mandatory for the government to regulate this sector. For a long time after 1931 when a Tariff Board was set up the sugar industry in India brought under protection. Almost every aspect of sugar industry has been kept under government control. There was complex system

of Licensing, Minimum Distance criteria, Cane Reserved Area, Dual Cane Pricing Mechanism. Levy Sugar Obligation, Regulated Release Mechanism, Regulations Related to Utilization of By-products and EXIM Policy of sugar and a number of these still persist. In such a scenario ex-mill sugar prices have remained stagnant over a long time, whereas the SMP/FRP has increased continuously to support sugarcane growers which in turn made it difficult for sugar mills to clear their cane price dues within reasonable time leading to mounting cane arrears. Efficiency in production, Utilization of by products, Diversification of sugar business and implementation of effective revenue sharing formula for sugarcane pricing as recommended by Rangarajan Committee (2012)<sup>6</sup> would be the key to resolve the problem of mounting cane arrears.

### Acknowledgement

I am heartily thankful to my supervisor Prof. Girish Chandra Tripathi (Head, Department of Economics, University of Allahabad, Former Vice -Chancellor, Banaras Hindu University, Varanasi) for his kind guidance and encouragement during the development of this research paper.

### References

1. Commodity Specific Studies on Sugarcane – Uttar Pradesh, Karnataka and Haryana, Department of Economic Analysis and Research, Evaluation Studies Division, NABARD  
[https://www.nabard.org/pdf/Sugarcane\\_200309.pdf](https://www.nabard.org/pdf/Sugarcane_200309.pdf) a/o 10/11/12
2. Cooperative Sugar, National Federation of Cooperative sugar Factories Ltd. New Delhi.
3. Cooperative Sugar Editorial (2015), Crisis in sugar Industry Due to High FRP of Sugarcane, Cooperative Sugar, August 2015, Vol. 46, No. 12.

<sup>5</sup> <https://timesofindia.indiatimes.com/business/india-business/sugarcane-price-arrears-to-farmers-at-nearly-rs-14000-cr-as-on-jan/articleshow/63187451.cms> Doa 27/03/2018

<sup>6</sup> Rangarajan C (2012), Report of the committee on the regulation of sugar sector in India: The way forward. Economic Advisory Council to the Prime Minister. Government of India; 2012.

4. Rangarajan C (2012), Report of the committee on the regulation of sugar sector in India: The way forward. Economic Advisory Council to the Prime Minister. Government of India; 2012.
5. Shroff and Kajale (2014), Sugar Sector: Is it Sustained by Subsidies?, Ind. Jn. of Agri. Econ. Vol.69, No.3, July-Sept. 2014, pp 375-384, web Link: [ageconsearch.umn.edu/bitstream/229841/2/16-Sangeeta%20Shroff-01-n.pdf](http://ageconsearch.umn.edu/bitstream/229841/2/16-Sangeeta%20Shroff-01-n.pdf), DoA 27/03/2018
6. Uttar Pradesh Sugar Mill Association (2014), Operations for sugar industry in Uttar Pradesh – Sustainability challenges, web Link: [gtw3.grantthornton.in/assets/UPSMA\\_Report.pdf](http://gtw3.grantthornton.in/assets/UPSMA_Report.pdf), DoA 27/03/2018
7. Vikas and Babu (2017), State Intervention: A Gift or Threat to India's Sugarcane Sector? Web Link: [www.isec.ac.in/WP%20385%20-%20Abnave%20Vikas%20-%20Final.pdf](http://www.isec.ac.in/WP%20385%20-%20Abnave%20Vikas%20-%20Final.pdf) DoA 27/03/2018
8. Coopsugar.org
9. <https://timesofindia.indiatimes.com/business/india-business/sugarcane-price-arrears-to-farmers-at-nearly-rs-14000-cr-as-on-jan/articleshow/63187451.cms> Doa 27/03/2018