SWEET SUCCESS

Building a Resilient and Sustainable Future for India's Sugar Industry

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INTRODUCTION:

Sugar industry is second most important agro-based industry in India after textile industry that impacts rural livelihood of about 50 million sugarcane farmers and around 5 lakh workers directly employed in sugar mills. India ranks as the world's second-largest sugar producer and the largest sugar consumer, contributing approximately 19% to global sugar production and 16.6% to global consumption. During the Triennium Ending (TE) 2022-23, around 5.3 million hectares was under sugarcane cultivation with production of 445.1 million tonnes with an average productivity of 83.9 tonnes per hectare. The First Advance Estimates for 2023-24 project sugarcane production at 434.8 million tonnes, reflecting an 11.4% decline from the previous year due to decreases in both acreage (-7.3%) and yield (-4.4%). Sugar industry is viewed as a game changer mainly for India as its products have potential to shift crude oil dependence which is economically and environmentally sustainable in achieving Net Zero emission and SDG targets.

The sugar industry in India is one of the most heavily regulated sectors, with the central government setting the Fair and Remunerative Price (FRP) for sugarcane each year, based on recommendations from expert bodies like the CACP and CCEA. For the 2024-25 sugar season, the FRP was set at ₹340 per quintal. This increase is part of the government's strategy to support sugarcane farmers and fulfill its commitment to doubling their income, which, in turn, aims to boost rural prosperity. However, while the government continues to raise the FRP, the Minimum Selling Price (MSP) of sugar—the lowest price at which sugar mills can sell sugar—is fixed at ₹31 per kg.

CHALLENGES IN THE SUGAR INDUSTRY

The sugar industry in India faces several interconnected challenges, leading to financial stress for both farmers and sugar mills.

1. Constant Increase in Fair and Remunerative Price (FRP): The government announces the FRP to ensure fair payment to farmers. However, the continuous increase in FRP, without commensurate improvements in sugar price, places an unsustainable burden on sugar mills. Many mills struggle to pay the arrears owed to farmers, leading to financial distress for both parties.

2. Mounting Cane Arrears: Cane arrears-delayed payments to farmers-remain a significant issue. As sugar mills grapple with low profitability due to stagnant sugar prices, increased production costs and surplus sugar stock, they fail to clear these dues promptly. This adversely impacts farmers' livelihoods, causing unrest and financial instability.

3. Farmer Protests and Suicides: The inability of sugar mills to pay arrears leads to farmer protests. These delays, coupled with dependency on sugarcane as a primary income source, push many farmers into debt. In extreme cases, this has led to farmer suicides, particularly in states like Maharashtra and Uttar Pradesh, where sugarcane farming is prominent.

4. Market Glut and Low Sugar Prices: Excessive sugar production often leads to a market surplus, driving down sugar prices. Despite government interventions like export subsidies and minimum selling prices (MSP), mills face difficulties in covering costs, further exacerbating the arrears issue.

5. Dependence on Monsoons: Sugarcane cultivation is highly water-intensive and dependent on adequate rainfall. Erratic monsoons or drought conditions severely affect crop yields, leading to fluctuations in both production and income.

6. Policy and Regulatory Issues: A lack of alignment between state and central policies adds complexity. Disparities in state-advised prices (SAP) and FRP create further challenges for mills and farmers.

PROSPECTS IN THE SUGAR INDUSTRY

Despite these challenges, the sugar industry has considerable potential for growth and diversification, which can help reduce cane arrears and ensure sustainability.

1. Diversification into Ethanol Production: The government has been promoting ethanol production as part of its biofuel policy. By diverting surplus sugarcane to ethanol production, mills can improve their profitability. The guaranteed buyback through ethanol purchase agreements and the significant rise in ethanol prices in recent years have led to a substantial increase in ethanol supply. By ESY 2022-23 (as of October 29, 2023), ethanol supply had reached 5,027 million litres, with a petrol blending rate of 12.1%. To achieve the ambitious goal of a 20% ethanol blend in petrol by 2025-26, Oil Marketing Companies (OMCs) will need around 10,160 million liters of ethanol.

2. Waste-to-Wealth Initiatives: The strategic use of by-products like molasses and bagasse can further strengthen the industry's sustainability. Molasses, a key raw material for ethanol production, and bagasse, which is used for electricity generation, enable sugar mills to diversify their revenue streams while contributing

to the production of renewable energy and eco-friendly fuels. This integrated approach not only ensures the financial viability of sugar mills but also supports broader economic and environmental goals.

3. Revamping Policy Frameworks: Diversification efforts, such as the Ethanol Blending Programme and co-generation of electricity, have introduced new opportunities for the sugar industry. Given the evolving dynamics of the Indian sugar sector, the Commission recommends the formation of a High Power Expert Committee to assess these changes and propose a revised revenue-sharing formula that ensures the interests of both sugarcane farmers and the sugar industry are protected.

4. Discontinue Distortionary State advised Price: The State Advised Price (SAP) has distorted the sugar sector's economics, with states like Haryana, Punjab, Uttarakhand, and Uttar Pradesh setting SAPs significantly above the FRP. This leads to growing cane price arrears and financial strain on sugar mills. Additionally, SAP is not linked to sugar recovery, failing to incentivize higher yields. The Commission notes that in Uttar Pradesh, improved recovery rates have narrowed the gap between SAP and FRP. Therefore, the Commission recommends discontinuing SAP nationwide. If any state continues with SAP, it should directly compensate the difference to farmers through Direct Benefit Transfer (DBT), as done in Haryana. Aligning state and central policies and setting up a revenue-sharing model between farmers and mills can bring long-term stability.

5. Dual Pricing of Sugar: The dual pricing system proposes that sugar be sold to household consumers at an affordable price, while allowing sugar mills to sell sugar to industrial consumers at a higher price. The Commission recommends implementing this system as a means to bridge the gap between rising production costs and the current sugar prices.

6. Technology and Yield Improvement: Introducing new varieties such as Co 14005, Co 11015 and Co 18009 ensure higher yield, higher sugar content and sugar recovery which are tolerant to drought and floods also. Mechanization and precision farming techniques can also reduce labor costs and enhance efficiency.

7. Strengthening Export Policies: Encouraging exports through subsidies and exploring international markets can help address the domestic surplus issue. Building trade relations with countries with a sugar deficit can provide a sustainable export avenue.

8. Crop Diversification: Promoting alternative, less water-intensive crops in sugarcane-dominated areas can help reduce over-reliance on sugarcane. This can be achieved through awareness campaigns, financial incentives and research on suitable crop alternatives.

CONCLUSION

The sugar industry's problems are complex but not insurmountable. A combined effort from stakeholders-farmers, sugar mills and the government—is required to address issues like cane arrears, surplus production, and farmer distress. Embracing diversification, technological advancements and policy reforms can pave the way for a resilient and sustainable sugar sector. With a focus on ethanol production, export growth and waste utilization, the industry holds significant promise for contributing to India's agricultural and energy needs while improving farmer incomes and reducing financial stress.