

Hike in FRP: Is this the solution?

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Accepting the recommendations by Commission for Agricultural Costs and Prices (CACP) and citing improvement in sugar prices, the government hiked the price of sugarcane by Rs.25 per quintal to Rs.255 per quintal for sugar year 2017-18 after keeping it unchanged in last year 2016-17. The increase in cane price was inevitable and did appear reasonable but this again points out that revenue sharing formula or linkage between sugarcane and sugar price suggested by Rangarajan Committee remained unheard.

Hike in Fair and Remunerative Price (FRP)

Recently, the government increased FRP for sugarcane for the season 2017-18 that had remained unchanged during the last season 2016-17. The sugarcane FRP was increased by Rs. 25 per quintal to Rs. 255 per quintal for the season October 2017-September 2018. This implies a rise of 10.9% on a y-o-y basis.

The FRP was fixed at Rs.230 per quintal for the two seasons 2015-17. The price increase was recommended by Commission for Agricultural Costs and Prices (CACP) taking into consideration the rising cost of sugarcane production and increase in sugar prices.

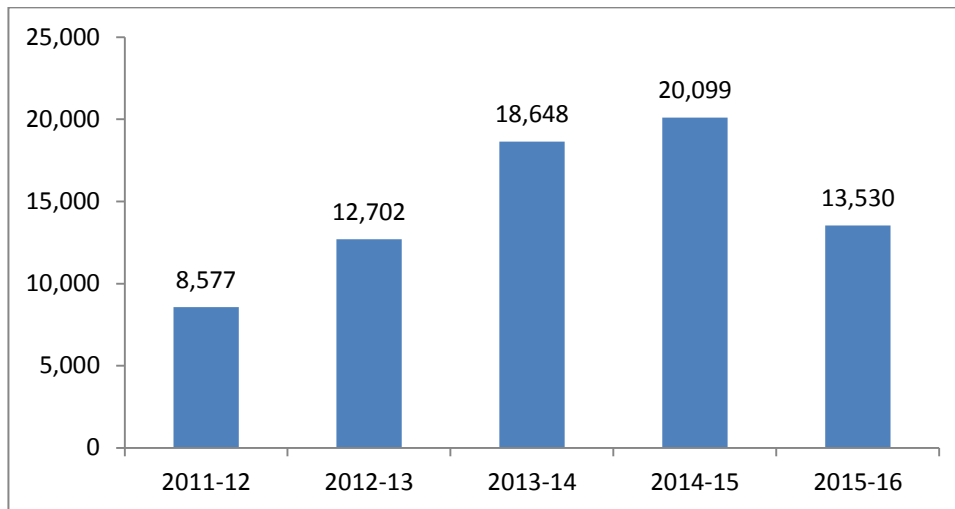
Improvement in sugar prices

The sugar prices that declined on a y-o-y basis in each of the years during the sugar seasons 2013-15 averaged higher by 27.2% on a y-o-y basis to Rs.3,321.6 per quintal during 2015-16. The prices continued to grow in the current sugar season and they averaged 23% higher to Rs.3,797.9 per quintal during October 2016-April 2017 compared to the corresponding period a year ago on account of lower sugar production.

Issue of sugarcane arrears

While the government keeps on eye on sugar industry considering its importance, the problem of sugarcane arrears in the industry remains unsolved. This is mainly because the sugar prices during a year moves according to the market forces or demand-supply situation while the cane prices are fixed ahead of the new sugar year with no linkage to sugar price. According to market sources, sugarcane arrears are around Rs 25,000 cr.

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Chart 1: Sugarcane arrears in March (in Rs. Crore)

Source: ISMA

The above table gives the amount of arrears owed by the sugar millers to the sugarcane farmers. The arrears that were low at Rs. 8,577 crore in March 2012 touched a high of Rs.20,099 crore in March 2015 compared to the years mentioned in the chart. This points out to the problem of sugarcane arrears in the industry due to a mismatch between sugarcane and sugar prices.

Suggestions by Rangarajan Committee and ISMA

The Rangarajan committee suggested that sugarcane price be 70% of revenue from sugar and primary by-products or 75% of revenue from sugar alone, with 5% weightage given to by-products. Also, ISMA recommended that if the government wants the farmers to get minimum FRP, the difference between FRP and Revenue Sharing Formula (RSF) be looked after by a fund which is to be created by the government. For this, ISMA suggested a Price Stabilization Fund (PSF) that will collect cess from sugar consumers when the sugar prices fall.

Concluding remarks

- *The hike in FRP though appears reasonable does not address the problem of sugarcane arrears in the industry*
- *The government should therefore consider revenue sharing formula or linkage between sugarcane and sugar price and thus the pricing for cane be rationalized*

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