CHAPTER-IV

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4.1 INTRODUCTION :

The price linking formula discussed in various chapter had nothing to do with the cost of cultivation of cane. It was adopted to pass on a certain share of the sugar price to the raw material producer, without any explicit consideration of quality of cane and cost of cultivation. The principle of arriving at a cane price on the basis of the cost of cultivation and quality of cane was not yet considered.

Till the early 1960's the statutory minimum price of cane did not reflect its cost of cultivation or its quality. It was determined purely in terms of poverty pricing with reference to gur and the prices of competing crop. The concept of the cane price did not imply cost-plus pricing of cane.

For nearly a decade from 1952-53 to 1961-62, the statutory minimum price of cane did not show any significant changes although therehad been changes in the cost of cultivation during this period. It was only in the latter part of the post-independence period (after the mid 1960s) that the upward pressure on cane prices became a part of political economy of the industry. From the beginning of the 1962-63 season the minimum price for cane was linked to a 9 percent recovery level with a premium for every 0.1 percent higher recovery, an additional mills were four paise per quantal of cane were to be paid by the mills. Thus the minimum cane price fixed at Rs. 4.02 at 9 percent recovery which was the statutory minimum price for cane prevailing in the 1959-60 to 1961-62 seasons. The new mechanism led to a further escalation in cane price at higher recovery levels.

In practice, however, many sugar mills did not adhere strictly to this procedure in paying cane price to the growers. Even the Agricultural Prices Commission hinted at this in its report on price policy for sugar cane for 1968-69 season.

An important weakness inherent in these methods of cane price determination is that individual grower is not adequately rewarded or penalized, as the case may be, for the quality of cane he supplies to the mills because the procedures adopted to estimate cane quality are highly aggregative and do not distinguish between the different producers of cane.

4.2 THE PROBLEMS RAISED BY AGRICULTURAL PRICES COMMISSION :

The Sugar Enquiry Commission (1965) and the Agricultural Prices Commission recommended that the minimum price for sugarcane should be linked to recovery level of 8.4 percent. The Government declined to accept this recomendation (until 1972-73 sugar season) because it was feared that it would have 'An adverce effect' on the price received for sugarcane by a majority of the growers in the States of Bihar, Punjab, U.P., M.P., Madras, Kerala and Pondichery where the percentage of recovery is comparatively low.

Cane pricing involves following questions :

i) The minimum price for cane at given level of recovery.

ii) The recovery rate with respect to which the minimum price is fixed.

iii) The specified premium for higher recovery level cane price.

Each of these factors has different distributional implications for the growers and millers. Any increase in the minimum price for cane, without a corresponding increase in the recovery level would clearly benefit the growers and not the miller. This will cause general increase in cane costs irrespective of cane varieties mainly because increase is related only to the minimum price. Moreover, it does not take into consideration differences in recovery rates. On the other hand, keeping the minimum price unaltered and providing premium for higher recovery above the minimum recovery, will benefit only those growers who supply cane with a surcrose content higher than that of the minimum recovery level. However, it cannot be practical to arrange for differential pricing of cane for cane suppliers of one and the same sugar mill. This should not be done because the recovery rate of cane is an area average in a respect of a mill, with reference to a specific year. However, it is ironical that the growers selling cane to mills in regions where the average recovery rate is higher, get better prices than the growers (even with higher individual recovery) supplying cane to mills in areas with low average recovery. It is exactly for these reasons that the procedure of holding the minimum price constant but increasing the premium for higher rates of recovery becomes necessary. It is beneficial to grower in high recovery regions. It is necessary to note that the recovery rate is a function of water management, climatic conditions and efficient mill management. It is generally observed that the procedure of awarding a higher premium to higher recovery rates tends to be more beneficial to growers in the tropical regions.

It is also important to note that the sugar mills are differentially affected by different forms of price changes. Changes in the statutory minimum price affect all the mills equally. However, changes in the premium or recovery rates alone affect only those mills buying cane of the relevant quality. In other words, if a mill reports a higher surcrose recovery percentage from the cane crushed by it, then it has to pay a higher price. Naturally the private mills tend to conceal the real recovery rates. Similarly, it is very difficult to separate the shares of the cane growers and the miller in the increased recovery. And if this can not be done, it is really a perplexing as to who grower or miller should be compensated for higher recovery.

Identifying the source of quality improvement is not only a a technical problem. It is a problem of equitable division of the approapriate surplus between the grower and the miller. This has all along been a bone of contention between the growers and millers. However, the importance of this issue in the case of the co-operative sector, is of less critical significance because distinction between grower-miller does not really exist. The productivity increase may be at the farm or the factory. Assessment of the source of improvement in the recovery rate emerges only because there are no independent estimates of cane equality.[1]

Higher sugar recovery may be due to (i) better quality of cane or (ii) better mill efficiency or (iii) higher suitability of soil. These changes, it there really significant can be ascertained. The improvements maybe in the cultivation or in the factory, such as in the introduction of new cane varieties, the extension of irrigation, faster modes of transportation of cane to the mill, the modernisation of plant and machinery, the introduction of new chemical processes etc. Improvement in cane quality and mill efficiency took place simultaneously in India during the 1960 and 1970. Naturally, it was difficult to quantify the precise source or extent of the distribution of any given source of quality improvement.

4.3 FACTORS AFFECTING THE PRICE OF SUGARCANE :

Price of sugarcane is the most significant incentive to the cane growers. Cane price is dependent on various factors. Various factors affect sugarcane prices in general.

Following are the important factors :

i) cane acreage,
ii) cane production,
iii) the difference in the prices of cane, paid by sugar mills gur makers and khandasari, makers,
iv) execution of agreements between the factories and the cane growers,
v) actual implementation of such agreement,
vi) process for payment of cane prices and
vii) the minimum prices for sugarcane fixed by the Government
viii) seasonal factors.

Moareover, the following factors also influence the price of sugarcane. Let us briefly examine these factors.

1) Seasonal factors -

The monsoon is a decisive factor in the agricultural life of the country. Good crop of sugarcane depends on seasonal conditions such as timely and sufficient rainfall, required amount of moisture and control of pests and diseases. Other things remaining the same the increased supply of cane resulting from higher yields may lower cane price as payable by the sugar factories. Sometimes, this price comes down to a lower level than the minimum cane price level fixed under the provision of statutory minimum cane price. Similarly, if the demand for cane by the cane using sections falls the cane growers will have no alternative but to sell their sugarcane to sugar mills even if the cane price decreased still further.

On the other hand, the sugar mills will be compelled to pay higher prices to cane growers in case of lower cane production due to adverse seasonal or weather conditions. It is thus clear that the cane prices may fluctuate due to seasonal variations.

2) Prices of gur and khandsari -

It is socially necessary to arrange to proper distribution of available sugarcane to the sugar industry, gur and khandsari industry. This has the capacity, for stablishing the sugar industry and also for maintaining suitable prices for both these sectors. It can also avert cut throat competition between the two. About 35.3% of the sugarcane paroduced in the country is utilized in the manufacture of sugar while about 52.9% is used for the manufacture of gur and khandasari and the balance of 11.8% goes to feeding chewing, seeding and other uses. In this way, a major portion of sugarcane is used for the purposes of other than manufacture of sugar.[2]

3) Prices of Alternative Agricultural Produce

Sugarcane occupies land for a longer period than any other agricultural crop. Its complete growth period extends from 10th months to 18 months. During this period, two or more other crops including both food crops and cash crops can be grown which can give the farmers a quicker return for their inputs. Paddy, maize, wheat, oilseeds, chilly and other types of crops are the alternatives for sugarcane cultivation. Sugarcane also needs larger investment of inputs compared to the wheat and paddy crops in which technological revolution has already been achieved.

The prices of these products affect the price of cane payable by the sugar mills. Higher price of cereals and other cash crops will divert the land under sugarcane cultivation to these crops. In such conditions the sugar mills are compelled to pay higher prices for the sugarcane to make full capacity utilization.

4) Fixation of cane prices by the Government

Before 1962-63 the main principles and methods adopted by the Central Government and State Governments in fixing the minimum cane price were as follows :

1) Linking sugarcane price to prevailing sugar price.
2) Fixing minimum price, unrelated to sugar price for the whole or part of a season.
3) Fixing consolidated price.
4) Linking cane price to extra realisation from the sale of sugar.

However, in the recent past, the Rayout Unions also have exerted pressure on the Government and concerned agencies to fix fair and reasonable prices of sugarcane. Their role is also immense and they do affect the sugarcane price.[3]

4.4 THE PROBLEMS RAISED BY FARMERS :

The minimum cane price of Rs. 7.37 per quintal, which continued since 1967-68 was unremunerative and contributed to the fall in sugarcane production in 1970-71 and 1971-72. It was pointed out that during the previous 5 years, the costof all inputs required for cane cultivation had gone up, fertilizers had become more costly, water rates had gone up the cost of bullocks and tractors had increased, electricity rates were higher, labour wages had risen, other implements used in sugarcane agriculture cost much more and the growers had to pay hihger prices for all other necessities of life. With the deveopment of high yielding varieties of wheat, paddy, etc. the relative profitability of these crops vis-a-vis sugarcane had also changed. Farmers got a better return from other crops than from sugarcane and were, therefore, not inclined to grow sugarcane to the extent justified by the increasing of demand by increasing number of sugar mills. It was felt that the Government had not given due weight to the above aspects in fixing the sugarcane price.

It was suggested that Government should make a realistic assessment of the cost of production of sugarcane based on current costs of inputs and also maintain parity in the income accruing from different competitive crops.[4]

The high level of prices realised by farmers for cane during 1980-81 season led to sugarcane acrage expanding to 3.19 million hectares in 1981-82 from 2.67 million hectares in 1980-81 and production of sugarcane increasing to 1.86 million tonnes from 154 million tonnes.

The continuance of State advised prices of high levels in 1982-83 despite a large carry over stock of sugar in the system did not allow the required adjustment in acreage under sugarcane to take place. The available estimates indicated that the acreage in 1983-84 would not be significantly lower than that in 1982-83, though cane production was likely to be lower on account of adverse weather conditions in certain regions.

Sugarcane production in India has been characterised by cyclical fluctions caused primarily by acreage shifts in response to changes in cane price realised by farmers from sugar factories and gur manufacturing.[5]

The farmers (cane growers) use different types of industrial goods, fertilizer, pesticides, farm equipments, tractors, motor pumps and oil etc. The prices of these inputs go up every year. It means that the farmers have to spend more year after year on industrial goods. They have to pay more for wages of farm labour, as wages of labour group. Hence the cost of production of cane rises, but prices of cane does not rise correspondingly. It is, therefore, necessary that while fixing the price of sugarcane, due attention must be given to the rise in the cost of production.[6]

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