CHAPTER IV

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SUGARCANE PRICING POLICY

4.1 INTRODUCTION

The agricultural price plays an important role in determining the production of agricultural commodities. Particularly it has to play an important role in pricing of cash crop like sugarcane from which an essential consumer goods like sugar is produced. Pricing helps in building of a modern scientific agriculture. Beside it safeguards the interest of the cane growers and helps them to adopt modern technology to raise the productivity. Since there is prevalence of unexpected and violent fluctuations in the prices, the need of price policies programmes and protection becomes inevitable.

During the season of excess demand, state intervention is necessitated by the demands of the consumer in order to prevent hike in sugar prices, controls on the prices and sales of sugar became an obvious from of state intervention. In a season of excess supply, it is the millers and the growers who demand state intervention to prevent sugar prices from falling to uneconomic levels. So despite their mutually contradictory goals or objectives, both producers and consumers acquire a state in the price and distribution controls.

4.2 EARLY STEPS IN SUGARCANE PRICING

The price policy for sugarcane has a long history. The need for a minimum price for sugarcane supplied was felt within a short period after the grant of protection to the sugar industry in 1932. The sugar industry protection Act 1932 was intended to benefit both the industry and the cane grower. With a view to ensuring the farmers a fair and reasonable price for their produce, the Sugarcane Act 1934 was passed. The Act conferred powers on the provincial Governments to fix minimum prices for cane. The state Governments enacted their own legislations and the minimum prices for cane continued to be fixed by state Governments till 1950-51. In fixing the minimum prices, the state Governments followed different principles and methods from time to time. There was not uniformity neither in the prices fixed nor in the methods adopted in fixing them.

Following the recommendation of the Tariff Board (1950), a provision was made in the Sugarcane Control Order, 1955 requiring the central to fix the minimum price for cane. This could be done by keeping in view, inter alia, the cost of production & sugarcane, the availability of sugar to the consumer at a fair price and the recovery of sugar from sugarcane. However the price of cane continued to be determined on the basis of weight having little relation with the quality of cane.

The Tariff Commission (1961) recommended an interim arrangement in the form of collective incentive for improving the quality of cane for all cane growers attached to a factory by linking price of sugarcane to the average recovery of the preceding season. The Government of India accepted this recommendation and has since 1962-63 been fixing each year a statutory minimum price linked to a sugar recovery with a premium for every 0.1 percent increase in sugar recovery over the basic level[1] .

ROLE OF AGRICULTURAL PRICE COMMISSION

The sugarcane price fixation is a very complex issue. Various methods have been evolved since early periods. However, for fixing the sugarcane prices on a principle known as 'rational principle' was thought of. As an objective to fix the prices on a sound basis allied with other crops, the Agricultural Price Commission was set up by the Government of India in January 1965. Since its establishment statutory minimum price for sugarcane is being fixed every year.

While fixing the price of sugarcane, A.P.C considers the important factors such as-

a) Cost of production of sugarcane.

b) The return to the grower from alternative crops and the general trend of prices of other agricultural commodities.

c) A fair price of sugar for the consumer.

d) The price at which sugar produced from cane is sold by producers of sugar and the

e) Recovery of sugar from cane.

The agricultural price commission (Now C.A.C.P) fixes every year the minimum price for sugarcane as per the provisions of clause 3 of the Sugarcane Control Order 1966. The sugar factories are legally bound to pay the cane price as per the rule specified by the Government of India.

The statutory minimum price of sugarcane payable by sugar factories for the 1996-97 season is fixed to Rs.45.90 per quintal linked to basic recovery of 8.5 percent, with a premium of Rs 0.57 per quintal on every 0.1% increase in recovery.

4.3 FORMATION OF SUGARCANE PRICE: THE METHOD INVOLVED

Until 1950 the statutory minimum price for cane was fixed only in certain cane growing states, and that too was established separately for each state by the respective state Governments. However it has resulted in inter-regional variations in the minimum price fixed for cane. These variations partly reflect inter-regional differences in cane quality and cost of production. They also reflect the presence in certain provinces, as absen in others 2.

In 1950 the Tarif Board suggested that such inter-regional variations be eliminated and that uniform prices be determined for the entire country. The Government under the Sugar and Gur Control Order, 1950 fixed the S.M.P purely on a weight basis and not in terms of cane quality (or sucrose content). The Tarriff Board suggested that in fixing the minimum and fair prices such factors as cost of cultivation and fair return to cane growers should be taken into consideration.

In 1955 a modified sugarcane control order was passed, which stated that the minimum price for cane payable by white sugar producing mills be determined with respect to following factors

(a) The cost of production of sugarcane.

(b) The return to the grower from alternative crops.

(c) The general trend of prices of other agricultural commodities.

(d) A fair price of sugar for the consumer.

(e) The price at which sugar produced from cane is sold by producers of sugar and

(f) The recovery of sugar from cane.

It was not until 1962-63, however that the minimum price for cane was actually fixed with respect to its quality. From the beginning of the 1962-63 season, the minimum price for cane was linked to a 9 percent recovery level. For every 0.1 percent increase in the recovery level, the mills were required to pay a premium of 4 paise per quintal of cane. Thus the minimum cane price was fixed at Rs.4.02 for 9 percent recovery. This would work to Rs. 3.34 at a 9.8 percent recovery which was the SMP for cane prevailing in the 1959-60 to 1961-62 seasons what the new mechanism ensured was a further escalation in cane prices at higher recovery levels.

Since 1966-67 the Government have been consulting the Agricultural Price Commission in regard to fixation of minimum prices for sugarcane. The reports of Agricultural Price Commission are generally submitted to the Government during October, November month every year.

While fixing the statutory minimum cane price as per provisions of sugarcane control order 1966, the Government of India (APC) takes into account the following factors-

(a)Cost of cultivation of sugarcane.

(b) Return to the growers from alternate crops and the general trends.

(c) Availability of sugar to the consumers at a fair price.

(d) Price at which sugar produced from sugarcane is sold by producers of sugar.

(e) Recovery percentage of sugar from sugarcane.

The actual cane price payable by the factories depends upon the recovery of sugar registered by the sugar factories. As per, the provisions of Sugarcane Control Order vide clause 5-A, the sugar factories are also required to pay additional cane price upon closure of the season.

As per Central Government's and CACP's norms the price fixed for the sugar factories in Karnataka is stated in the table No.4.2.

4.4 THE COMPLEXITY OF SUGARCANE PRICING

The issue of sugarcane pricing has become a bone of contention from the earliest period. In the early period before 1930, the mills did not create any new marketing credit or transport networks, but relied on landlords, money-lenders and rich peasants as agencies for procurement for their supplies. These agencies purchase sugarcane from the growers and sold it to the factories. The unbiased and open exploitation of the farmer by the miller was well known. This problem was felt in All India Sugar Conference met in July 1933 at Simla, securing a statutory minimum price for cane was felt. The miller could no longer afford to ignore the cultivators.

Different formulas were adopted in fixing the price of sugarcane. The price of cane was linked to the cost of cultivation of sugarcane & cost of sugar production, sometime it was linked to the sugar price prevailing in the market over and above the minimum price. Until 1950 the SMP was fixed only in cane growing states and that too was established seperately for each state by the respective state Government. The SMP in these states were fixed purely on a weight basos and not in terms of cane quality. It was determined purely in terms of the value of gur and the value of competing crops.

So as to abide inter-regional variations and to form uniform prices for entire country, the Tariffe Board (in 1950) suggested some determining factors stated as earlier.

Such factors seems to be relevent in determination of the cane price payble by sugar mills. The present system of pricing of sugarcane (the SMP) is based on these facts.

(i) The Quality Of Sugarcane And The Price

Under the existing system of pricing of cane the indivisual cane grower is not adequatly rewarded for the quality of cane he supplies to the mill because the producers adopted to estimate cane quality are highly aggregative and do no distingush between the different producers of cane. Every one is paid at the average recovery level.

Again as it is accepted by Agricultural Price Commission and by the Sugar Enquiry Commission (1965), the quality assessed is not properly determined, because it is calculated on the basis of actual production in the mill, so it is possible that inspite of good quality of cane the recovery level will be low due to the low extraction efficiency of the mill, so experimental testing of cane quality is required in compensating the cane growers.

(ii) The Improvements In Cane Quality

The improvements in the cane quality is involved in pricing complexity. Since there is no independent estimates of cane quality, the question arises whether a higer sugar recovery is due to the better quality of the cane or better mill efficiency.

The factory owners group (the private sugar mills) argues that, the plea that improved mill efficiency also contributes to improve recovery rates. The introduction of new cane varieties, the extension of irrigation, faster models of transportation of cane to the mill, the modernisation of plant and machinery, the introduction of new chemical processes and so on are the contributing factory.

The Sugar Industry Enquiry Commission (SIEC) 1974, the Indian Sugar Mills Association took the view that,

(i) Recovery depends on the sugar content and the total sugar losses in a factory. The sugar factories play a very important role in improving the quality of cane. After the cane reaches the factory, extraction depends entirely upon the efficiency of factories.

(ii) Farmers are only interested in improving yield per acre of cane and are not concerned about the quality of cane.

The co-operative sugar mills have argued that it is the grower alone who should be rewarded for any improvement in cane quality.The co-operative sugar mills held the view that:

(1) Sugar is produced in the field and not in the factory. The improvement in the cane quality is the direct result of the efforts of the growers. They should therefore receive full benefit of the improvement in quality of cane.

(2) The premium is primarily entered to encourage cane grower to improve the quality of their cane.

(3) The claim of the factories for a share in the benefit on the ground of their contribution of improvement in quality is unre asonable.

(4) Even for allowing the full benefit or increased recovery to cane growers, a substantive advantage remains with factories on account of production of more sugar from a given quality of cane and lower conversion charges.

(III) PRICING COMPLEXITY RELATING TO THE MARKET FOR SUGARCANE

The cane growers in India encounters three different market situations; the first in organised or unregulated market, which is the market in which cane is sold to the gur or khandasari producers, Second, the market provided by the private sector mills, and Third, the market provided by co-operative mills. In each of these markets a different prices for cane may prevail. The process by which these different prices are determined also varies.

In the unorganised market, the price more or less reflects the current supply and demand situation. In general, this price tends to be the lowest of the three market situations, except in seasons of sugar shortage, when the free price of cane rises faster than the controlled price. In case of co-operative sector mill, the tendency is to offer prices which are higher than SMP for cane. In general, the private sector mills tend to pay only the SMP or State Advised Price (SAP) and rarely do they offer a higher price.

It happens that the mills offer prices marginally higher than SMP but even they are interfered from competing with other processors of cane such as the gur and khandsori manufacturers whose prices are not regulated. The price system under the existing scheme is partial, as it applies only to that portion of cane which is sold to the sugar factories. Stability in sugarcane economy is possible only when the policy aims at achieving the equilibrium between the total demand for and supply of all the three products gur, khandasari & sugar. Khandasari accounts for a small proportion of the total supply. However unless some price support is extended to gur, fluctuations in sugarcane output could not be contained.

(IV) THE COST OF PRODUCTION AND CANE PRICING:

The price linking formulae have still certain problems inspite of its linkage to the cost of cultivation and quality. It is stated that the price derived from the sale of cane to sugar mills in Maharashtra is mainly due to institutional rather than purely economic factors cost, quality and so on. These institutional factors include the existence of a co-operative sector dominated by landlord & rich peasant household It is found that the cost of cultivation of sugarcane per quintal in Maharastra was lower as compared to the U.P. There is structural differences in the pattern of cane cultivation, while it is observed that the actual price paid or the price differentials in cane are largely due to the predominance of the cooperative sector & not due to variations in the cost of cultivation.[3]

The problem raised by the farmers in this regard is notable. The sugarcane production in India has been characterised by cyclical fluctuations caused primarily by acreage shifts in response to changes in cane price realised by farmer from sugar factories & gur manufacturing.

The farmers 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 labour group. Hence the cost of production of cane rises, but prices of cane does not rise correspondingly. It is therefore necessary to give due weight to the above aspects in fixing the sugarcane price.

TABLE NO. 4.1

THE MINIMUM PRICE (SMP) AND ACTUAL PRICE PAID BY THE FACTORIES

Season	SMP in Rs/Qtl.	Basic Recovery	Premium of every 0.1 increase in recovery	Range of SMP Rs/Qtl.	Range of actual price paid by factories
1962-63	4.34	9.8	0.04	N.A	N.A
1963-64	4.69	0.04	N.A	N.A	N.A
1964-65	5.36	10.4	0.04	N.A	N.A
1965-66	5.36	10.4	0.04	5.36 to 6.48	NA
1966-67	5.68	9.4	0.04	568 to 6.48	NA
1967-68	7.37	9.4	0.0536	7.37 to 9.35	NA
1968-69	7.37	9.4	0.0536	737 to 9.35	7.37 to 15.00
1969-70	7.37	9.4	0.0536	7.37 to 9.09	737 to 10.00
1970-71	7.37	9.4	0.066	7.37 to 9.22	737 to 11.55
1971-72	7.37	8.5	0.066	7.37 to 9.48	7.37 to 18.40
1972-73	8.00	8.5	0.094	8.00 to 11.57	8.00 to 15.50
1973-74	8.00	8.5	0.094	8.50 to 11.29	8.00 to 18.00

1974-75	8.5	8.5	0.10	8.5 to 12.40	8.50 to 18.65
1975-76	8.5	8.5	0.10	8.50 to 12.80	8.5 to 17.50
1976-77	8.5	8.5	0.10	8.50 to 12.70	8.50 to 16.60
1977-78	8.5	8.5	0.10	10.0 to12.40	8.5 to 16.50
1978-79	10.00	8.5	0.117647	12.5 to14.59	10.0 to 14.71
1979-80	12.50	8.5	0.147059	13.0 to 18.68	12.50 to 22.0
1980-81	13.00	8.5	0.122941	13.0 to 18.35	13.0 to 28.20
1981-82	13.00	8.5	0.152941	13.0 to 18.81	13.0 to 26.00
1982-83	13.00	8.5	0.152941	13.0 to 19.12	13.46 to 23.0
1983-84	13.50	8.5	0.158824	13.5 to 19.69	13.50 to 26.2
1984-85	14.00	8.5	0.164706	14.0 to 20.42	15.00 to 35.0
1985-86	16.50	8.5	0.19412	16.5 to 24.07	16.5 to 32.19
1986-87	17.00	8.5	0.20	17.0 to 25.00	17.60 to 28.1
1987-88	18.50	8.5	0.21765	18.55 to 26.77	18.50 to 38.6
1988-89	19.50	8.5	0.2299	19.50 to 27.99	19.50 to 49.5
1989-90	22.00	8.5	0.2588	22.00 to 32.09	22.00 to 56.0
1990-91	23.00	8.5	0.270588	23.00 to 34.36	30.0 to 60.10
1991-92	26.00	8.5	0.325882	26.00 to 38.54	26.0 to 60.00
1992-93	31.00	8.5	0.364706	31.00 to 47.41	31.0 to 71.90
1993-94	34.50	8.5	0.405882	34.50 to 53.17	34.50 to 65.0
1994-95	39.10	8.5	0.46 upto 10% 0.60 above 10 %	39.10 to 66.40	39.10 to 71.0
1995-96	42.50	8.5	0.54	42.50 to 68.96	NA
1996-97	45.10	8.5	0.57	NA	NA

Source: Co-operative Sugar July 1996 (Vol 27 No-11)

Various state Governments had enacted their legislations to determine minimum prices for cane till 1950-51. Different principles and methods were followed from time to time to fix the prices. There was a lack of uniformity in prices fixed in these states. In 1963-64 the recovery limit was reduced to 9 percent. However in the very next year, the recovery limit increased to 10.4 percent.

Again in between the year 1966 to 1971-72 the recovery limit was brought down to 9.4 percent. In 1971, the price was linked to a recovery of 8.5 percent which is kept constant till today.

The price fixed is (SMP) increasing from the period under review (see table 4.1). The cane price fixed during 1962 to 63 was at Rs. 4.34 increased to 5.36 in 1964-65 and Rs. 7.37 in 1967-68 which remained constant up to 1971. For the seasons from 1974 to 1977-78 the cane price stood at 8.50 per quintal.

The statutory minimum price raised to Rs.13 per quintal in 1980 and Rs 16 per quintal in the year 1985-86. It increased to Rs. 23 per quintal in 1990-91, Rs.39.10 quintal in 1994-95. For the season 1995-96 the price fixed was increased to Rs.42.50.

For sugar season 1996-97, the cane price is fixed at Rs.45.90 per quintal linked to a recovery of 85% with a premium of Rs. 0.57 rise in recovery above 8.5%. In 1962-63 the premium payable on every 0.1% increase in recovery was at Rs. 0.04 per quintal. The premium is also increasing continuously except in few years. The premium in 1995-96 increased 0.54 paise per quintal. For the sugar season 1996-97 it has been raised to Rs.0.57 per quintal.

The range of actual price paid by the factories it is greater than the S.M.P per quintal.

The range of SMP and the range of actual per price paid by the factories are also increasing except in two cases.

TABLE NO-4.2

STATUTORY MINIMUM PRICE FIXED BY THE CENTRAL GOVERNMENT FOR THE SUGAR FACTORIES IN KARNATAKA (FOR THE YEAR 1995-96)

Sl.No.	NAME OF THE SUGAR FACTORY	S.M.P. Rs/Qtl.
1)	Godavari-Sameerwadi(Bijapur)	63.56
2)	Mysore sugar-(Mandya)	48.98
3)	Gangavathi-Raichur	50.06
4)	M.P.M-Bhadravati(Shimoga)	53.84
5)	Pandavapura-(Mandya)	47.36
6)	Halasidhanth-Nipani(Belgaum)	59.24
7)	Hiranyakesi-Sankeswar(Belgaum)	57.62
8)	Malaprabha-M.K.Hubli(Belgaum)	59.78
9)	Dodhaganga-chikodi(Belgaum)	66.26
10)	Raibag-(Belgaum)	58.70
11)	Ghatapradha-Gokak(Belgaum)	61.40
12)	Kampli-Kampli(Bellary)	did not work
13)	Shiraguppa-Gouribidanur(Kolar)	50.60
14)	Bidar-Halliakhed(Bidar)	45.74
15)	Vanivilas-Hireyur(Chitradurga)	51.14
16)	Bhadra-Doodabathi(Chitradurga)	51.14
17)	Sriram-Krishnaraja nagar(Mysore)	46.28

18)	Karnataka-Havery(Dharwad)	51.14
19)	Hemavati-Shrinivas pura(Hassan)	48.98
20)	Dakshin Knnada-Brahmawar(South kanara)	43.04
21)	Chamundeswari-Maddur(Mandya)	49.12
22)	Solarjung-Munirabad(Raichur)	42.50
23)	Tungabhadra-Shimoga(Shimoga)	50.06
24)	Ugar-Ugark(Belgaum)	67.04
25)	India-Hospet(Bellary)	53.84
26)	Shiaguppa-Shiraguppa(Bellary)	54.38
27)	Davanagere-Kukkuvada(Chitradugra)	47.36
28)	Bannariamman-Nanjangad(Mysore)	50.60
29)	Aland-Tehsil Aland(Gublarga)	45.74
30)	Nandi-Krishnanagar(Bijapur)	62.48

Source: Official Records, Directorate of Sugar Bangalore.

4.5 THE STATE ADVISORY PRICES

The statutory minimum price of sugarcane is announced every year by the Government of India on the basis of the recommendations of the C.A.C.P. In 1974, th Government of India received the report of Second Sugar Inquiry Commission under the chairmanship of justice Shri. V. Bhargav. The commission considered the problem of erratic supply of cane to factories and came to conclusion that it could be greatly stabilised if cane growers could be held to their agreements for supply of cane in years of shortage. To give an incentive to the growers, the Commission came out with a scheme under which the growers were entitled to a share of profits arising out of excess realisation from sale of free sugar. the scheme known as "Bhargava Formula" envisged the extra sales realisation between the factory and the cane growers on equal basis.

Under the Bhargava Formula, the growers were assured a share in the factory's profits resulting from prevailing high open market prices over and above the statutory minimum cane price fixed by the Government of India.

However, the Bhargava Formula was not given a fair trial various state Governments brought into practice a system informally known as the 'State Advised Prices' keeping in view the high market prices of sugar and in order to satisfy the growers, the concerned state Governments fixed the sugarcane prices higher than that fixed by the central Government, which threatened to destroy the all India character of the price policy.

At present almost all sugarcane producing states are fixing the 'State Advisory Prices'. The prices paid are generally higher than statutory minimum price fixed by the centre. In Karnataka, the state Government takes into considerations the local conditions like, cost of cultivation, cost of production of sugar, financial position of the sugar factories etc., and fixes the State Advisory Price every year linked to 8.5 sugar recovery. And this is desirable in the interest of sugarcane and sugar production, farmers and factories.

4.6 CONCLUSION:

An important aspect of the sugar and sugarcane economy in India is the problem of output fluctuations. A chronic instability in the output of sugar and sugarcane acreage under sugarcane are wel known phenomenon. Such instability in output can be eliminated by adopting a proper pricing policy.

There should be a proper co-relation between the SMP fixed and the SAP to help sugarcane cultivators, sugar factories and the consumers as a whole.

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