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Impact of FRP (Fair remunerative prices) on sugarcane industry and its regulation in India

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Abstract
The sugar Industry in India is highly regulated by state. Sugarcane Industry plays a very important role in for rural upliftment as about 5 million farmers are engaged in this industry directly or indirectly. The assured sugarcane prices play a crucial role in sugarcane production and area expansion under this particular crops. The central government fixes the Fair and Remunerative price (FRP) of sugarcane based on the recommendations of the Commission for Agricultural Costs and Prices (CACP) and after consultations with State Governments and other stakeholders. The FRP is benchmark price below which no sugar mill can purchase from growers. The FRP has increased continuously since its inception despite of large surplus stock carried forward from previous years. The government has been prompted to hike the FRP in deficit years but has not decreased it in surplus years. During 2010-11 & 2017-18, despite excess production in almost years, the FRP for cane has nearly doubled from RS 139.12/quintal to Rs 255/quintal. Government needs to take some improved policy interventions to ensure timely assured prices to the farmers and fair shares and facilities to the sugar mills too, so that the issue large cane price dues from time to time can be resolved and direct links between FRP and demand-supply of sugar market can be maintained.

Keywords: fair remunerative prices, sugarcane, commission for agricultural costs and prices

Introduction

The Indian sugar industry is highly regulated by state. In last few decades it has been observed that area and production has increased in both traditional and non-traditional sugarcane growing regions but yield is still stagnant which needs to be increased parallelly. The assured sugarcane prices play a crucial role in sugarcane production and area expansion under this particular crops. The central government fixes the Fair and Remunerative price (FRP) of sugarcane based on the recommendations of the Commission for Agricultural Costs and Prices (CACP) and after consultations with State Governments and other stakeholders. The FRP is benchmark price below which no sugar mill can purchase from growers. Some states like, Uttar Pradesh, Uttarakhand, Haryana, Punjab, and Tamilnadu announce State Advised Price (SAP) which is generally higher than the FRP. For year 2020-21 Sugarcane season CACP has recommended (FRP) Fair and remunerative price Rs. 285 per quintal at basic recovery of 10 percent. FRP will increase by Rs. 2.85 for every 0.1 percent increase in recovery per quintal and for every 0.1 percent point decline in sugar recovery below the FRP should reduce by Rs. 2.85 per quintals. Sugarcane is one of the most sought out commercial crop after cotton in India and a source of livelihood to millions of farmers and their families directly or indirectly. The sugarcane area and production had increased continuously year on year. In 2018-19. Its production reached a record high of 400.2 million tonnes, 20.3 million tonnes (5.3%) higher than previous year. There were 746 sugar mills in the country as per 30th Sept. 2019 (324 in Co-operative, 44 in public sector and 378 in private sector), out of which 529 mills were in operation in 2018-19 season, closed mills count higher about (77.35) in public sector compared to cooperatives (31.8%) and private sector (21.2%). In recent times the country has witnessed a steadily rise in sugar consumption in domestic market. During 2001-02 and 2018-19 India's sugar consumption increased from 16.7 million tonnes to 26 million tonnes, average annual growth of 2.8 percent. Domestic sugar consumption increased marginally in 2017-18 by 3.7 percent to 25.3 million tonnes while production increased by 60.4 percent (32.4 million tonnes), creating a surplus of about 7 million tonnes, the highest since 2007-08. The excess supply of sugar creates a downward pressure on price of sugar resulting in loss to the sugar mills operating in the country.

Sugarcane pricing and the state interaction in sugar industry

The sugarcane industry is controlled and regulated by the state in India and its pricing is governed by statutory provisions of the sugarcane (control) order, 1969 issued under the essential commodities Act (ECA), 1955. Earlier central govt. used to fix the statutory minimum price (SMP) of sugarcane up to sugar season 2008-09. Pricing policy of sugarcane ensures its growers protection from unfair market practices and guaranteeing them an effective sugarcane price. The sugarcane (control) order, 1966 was amended on 22.10.2009 and statutory minimum price (SMP) of sugarcane was replaced with the "Fair Remunerative Price" (FRP) from 2009-10 sugar season.

Fixation of FRP is based on following criteria:

1. Cost of production of sugarcane
2. Return to the growers from alternatives of agricultural commodities
3. Availabilty of sugar to consume at a fair price
4. Price at which sugar produced from sugarcane is sold by sugar producers
5. Recovery of sugar from sugarcane
6. Realization made from sale of by-products viz., molasses, bagasse, &press mud or their imputed value and
7. Reasonable margins for the growers of sugarcane on account of risk and profits. In order to incentivize higher profits. In order to incentivize higher sugar recoveries, the FRP is linked to a basic recovery rate of sugar with a premium payable to farmers for higher recovery of sugar from sugarcane.

Table 1: Average annual growth in FRP during 1998-99 to 2018-19

Year	Fair and remunerative Price (RS/Quintal)
1998-1999	52.7
1999-00	56.1
2000-01	59.5
2001-02	62.05
2002-03	69.5
2003-04	73
2004-05	74.5
2005-06	79.5
2006-07	80.25
2007-08	81.18
2008-09	81.18
2009-10	129.84
2010-11	139.12
2011-12	145
2012-13	170
2013-14	210
2014-15	220
2015-16	230
2016-17	230
2017-18	255
2018-19	275
average annual growth rate	9.24%

Source: Calculated by author based on data from directorate of economics and statistics

Impact of Sugarcane FRP on Sugarcane Industry

The assured prices are one of the major factors for the growth in production of any crop. The state supported sugarcane pricing and subsidies encourages sugarcane production relative to other crops in the country and leading to area expansion for sugarcane crop. Even those areas where the soil and climatic conditions are not much favorable to sugarcane cultivations the better support prices or FRP are encouraging farmers to grow sugarcane rather than other crops which are much favorable in those particular climatic and physical situations, this is not always profitable in long terms. Low productivity of sugarcane, water resources exploitation soil distortion is static problems from last two to three decades. The FRP has increased continuously since its inception despite of large surplus stock carried forward from previous years. The government has been prompted to hike the FRP in deficit years but has not decreased it in surplus years. During 2010-11 & 2017-18, despite excess production in almost years, the FRP for cane has nearly doubled from RS 139.12/quintal to Rs 255/quintal. In addition, the state has been reluctant to allow higher prices to reflect in the end-product free market price of sugar. Sugar prices in the same period have barely risen 30%, leading to a loss-making industry and unpaid cane dues. FRP directly affects the change in sugarcane production regarding this claim there is not much literature is available but it surely encourages area expansion in the country.

Conclusion

Sugarcane industry plays a very vital role both economically and politically in our country and FRP or assured prices for sugarcane was a decision taken with good incentives to reduce the policy divergence between government and state governments. FRP should be decided rationally based on cultivation cost, production, productivity and supply and demand of sugar in India. There should be a direct link between Fair and Remunerative prices and market supply and demand Factors of sugar. Necessary Policy interventions and steps need to be taken so that, the farmers get an assured price and be safeguarded from exploitation and similarly the sugar mills also get their share fairly.

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