Problems of Sugar Industry Management System in India

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Abstract: India was the fourth major sugar producing country in the world India has now emerged as the largest sugar producing country in the world with 22% share of the world's sugar production .Sugar Industry is the second largest agro-based industry in the country. It ranks third largest industry in terms of its contribution to the net value added by manufacture and employs nearly 3 lakh workers, besides creating extensive indirect employment for 45 million farmers of sugarcane.

Keywords: Sugarcane, Sugar industry, gur, factories, problem, old machinery, labour crises, loadsheding

Introduction: Sugarcane cultivation accounts for 3% of total cultivated area and contributes 2.5 % of the gross value of agricultural production. It is also an important source of excise duty for the central government. There are now 571 sugar factories in India within 500 factories were in operation. India is the largest consumer and second largest producer of sugar in the world. Sugar industry is the second largest agro-based industry in the country. The sugar industry has been a fiscal point for socio-economic development in the rural areas by mobilizing rural resources, generating employment and higher income, transport and communication facilities. Among the heavy industries, Sugar industry occupies a vital position and progress of this industry will make the country's development in future. In spite of this, sugar industry is facing with various problems in recent India which hampers its production. This research paper tries to pinpoint the problem of sugar industry and find out the ways of developing this industry.

Objectives of the Study:

The objectives of the study are as follows

1) To study about the importance and history of development of sugar industry.

2) To know about the problems those are confronted in sugar industry.

3) To put forward an ideal model for sugar industry and compare it with total sugar production in India.

4) To analyze the nature of the problem and the impact of demand, supply & price fluctuations on sugar production.

5) To suggest the measures for solving the problems and to put forward recommendations for developing the sugar industry.

Methodology of the study: The data will be collected from primary and secondary source in India. The primary data will be collected with the help of interview method and survey method. The primary data will be collected from a sample survey among the sugarcane farmer, producer, and owner of the factory, labour, retailer and whole seller of sugar in the market. The information has been collected through observation and the conclusion has been made on the basis of the information. For evaluating the objectives of the study, the secondary data will be collected from the various sources such as books, journals, reports, websites, university libraries, planning commission, Govt. publications(central and state),state and district wise statistical office, sugarcane produce market committees etc.

Statement of the problem: The history of sugar industry in India begins in 1903 when a sugar factory was set up in Bihar and UP each. In 1932, there were 32 factories operating in the country. In that year, tariff protection was granted to the industry and as a result the number of factories rises to 137 in 1937 and India became self-sufficient in sugar production. In 1936-37, 85% of the sugar production came from these two states. In the last four decades, the industry has developed at a fast rate in Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu. Since the sugar mills in these states have been set up in recent decades, their production efficiency is greater and costs of production lower as compared to the mills in UP and Bihar. As on June 15, 2016, there were 719 installed sugar factories in the country. Production of sugar has increased by leaps and bounds in the planning period. The largest share in sugar production in 2014-15 was Maharashtra, UP, Karnataka. Because of frequent controls, decontrols and recontrols by the government and artificial regulation of market supplies by the industry and because of many administrative blunders, sugar prices rose to record heights and shot up between Rs 8 to Rs 16 per kg. Consequently, the government reintroduced the dual price mechanism with partial control. Under this system, the government fixed the ratio of levy and free sale sugar quota. The ratio was 45:55. It was revised to 28:72. The levy sugar was sold to consumers through fair price shops at lower prices. The free sale quota was sold by sugar factories at higher prices in the open market. The production of sugar has been increasing during the last two decades. While production of sugar was steadily rising, consumption too had been rising but at a lower rate. There are huge inventories or accumulated stock of sugar with industry and trade. Despite huge surplus stocks, the country was unable to export much because the price of Indian sugar was much higher than international price.

Problems of Sugar Industry: Sugar Industry is an agro based industry and its output fluctuates with the vagaries of monsoons. Secondly, the output of cane is influenced to a great extent by the prices of sugarcane-industry's main raw material which in turn depends upon the prices of competing food crops and the cane prices fixed by the government. The output of sugar is also greatly influenced by the relationship between cane prices and gur pieces. From the production side sugarcane can be used for the manufacture of sugar or gur. From the consumption side, the substitution of sugar in place of gur arises when the prices of sugar fall in relation to gur prices. The problems of sugar industry are-1) Shift in locational pattern: The sugar industry was initially located in Uttar Pradesh and Bihar which together accounted for about 60% of sugar production in 1960. Since the sucrose content of sugarcane begins to deteriorate soon after the stalks have been cut, it is essential that mills must be located in close proximity to the sources of raw material. Attempts were made to locate new units in the cane producing states. As a result , the share of Uttar Pradesh and Bihar declined from 60 % in 1961 to 28 % in 1981, while that of Maharastra, Andhra Pradesh, Karnataka, and Tamil Nadu rose from 31% to 60% in that year. 2) Role of the co-operative sector: During recent years co-operative sector has been increasing in importance in sugar industry. There are now 211 co-operative sugar factories producing over 60% of the total output of sugar. Co-operative sugar mills have two positive advantages .They get the maximum supply of sugarcane and the profits of the co-operative units are distributed among member –farmers instead of going into the hands of a few "sugar barons".

3) Need for Cane development: The factor which is of crucial importance in the growth of sugar industry in the yield of sugarcane per hector from 33 tons in 1950 to 70 tons in 2001. Percentage recovery of sucrose is the second factor which determines production. In India, both the yield of sugarcane per acre and percentage recovery of sucrose is low. There is possibility of doubling or even trebling the yield of sugarcane.

4) Competition from Gur Production: In India, 10 tons of sugar are obtained from 100 tons of cane. But in case of Khandsari only 7 tons of sugar are derived. Thus there is a net loss to the country by the use of cane for Khandsari and gur. While the price of sugarcane supplied to the factories is fixed by the government, there is no price fixation for sugarcane used for gur. The obvious result is that production of gur often increases at the cost of sugar. As a result of the policy of price fixation alone, the distribution of sugarcane among the producers of sugar, gur and Khandsari is not done on a fair basis. It is, therefore, necessary that price competition between sugar, gur, and khandsari is not done on a fair basis. It is therefore necessary that priced competition between sugar, gur, khandsari be avoided. It would be much more desirable to chalk out a combined allocation policy of sugarcane for these three close substitutes at the same price.

5)Problem of production of sugar: The low yield of sugarcane short crushing season, unsatisfactory location of the industry in U.P. and Bihar and inadequate supply of cane- all these create problems of production of sugar in India. Indian sugar factories have low milling efficiency and recovery of sugar from sugarcane is very low due to uneconomic character of many of the sugar mills. Further, Indian sugar mills do not have sugar plantations of their own and hence do not have control over the quantity and quality of sugarcane supplied by cane growers.6) The problem of high prices of sugar: The inefficiency and uneconomic nature of production in sugar mills, low yield and short crushing season, the high price of sugarcane and the heavy excise duties levied by the government – these are responsible for the high cost of production of sugar in India. The price of Indian sugar is higher than the world price of sugar. Apart from the manipulation of stocks by sugar factories, hoarding, speculation and black-marketing of sugar by wholesale dealers are rampant in India.

7) The problems of by-products: An important problem of sugar industry is the fuller utilization of by-products specially bagasse and molasses. At one time bagasse was used as fuel ,while sugar factories did not know what to do with the accumulating molasses ,a health hazard.Presently, small paper plants are coming up to make paper and paper board ,packing paper etc through using bagasse. Molasses is now being used for the manufacture of power alcohol, fertilizers, cattle feed etc. A number of sugar mills located in close proximity to each other are joining together to utilize by-products fully and effectively. Thus, they help to bring down the cost of production of sugar.

8) Problem of mounting losses: Sugarcane prices have been increasing over the years as the costs of production have been rising and the government feels that a suitable price policy is necessary for growers so that the incentive to grow more remains. Since cane prices account for as much as 60% of the cost of producing sugar. This, in turn implies that the cost of producing sugar has been increasing year after year. The sale of sugar are not rising adequately to meet increasing costs resulting in heavy losses to sugar units. Naturally, the arrears of sugarcane due to farmers are rising.

9) The question of minimum economic size: The minimum economic size, exits in India is 2,500 tons of cane crushed per day. This is much less than the minimum economic size in other countries. The sheer size makes us lose out on the economics of scale. Also, the small MES makes efficient use of by- products impossible. 10) Old machinery: Some sugar factories also require replacement of old machinery and modernization of production techniques specially in UP and Bihar.

11) Low sugar recovery: The sugar recovery from the canes, as also the yield of cane crop, has been stagnant for a long time for want of any major breakthrough in breeding better varieties of sugarcane. The average recovery rate for the Indian sugar mills is just 9 to 10 %.

12) Failure of consistent government policy: The government has not followed a consistent long term policy for sugar. It has varied between complete control, partial controls and total decontrol. Sugar factories were under compulsory licensing till recent years. There is a Statutory Minimum Price (SMP) for sugarcane fixed by the Central Government and State Advised Prices (SAP) fixed by each state over and above the SMP. There is a levy-40% of the output- on the sugar mills which have to supply the levy quota at prices fixed much lower than the market prices. The levy sugar is allotted to the state for distribution through the public distribution system (PDS).Prices of levy sugar are fixed zone wise, on the basis of SMP of sugarcane plus conversion costs .There is no price control on the sale of free sale sugar are regulated by the government by fixing monthly release quota so as to maintain price stability. The government has announced its intention to review this policy regime with the objective of making sugar industry globally competitive and generating export surplus while ensuring adequate supplies for domestic consumption. To reconstruct sugar industry, price and distribution controls on molasses were abolished in June 1993.The government has announced a number of incentives to encourage sugar mills to maximize sugar production. The main reasons for sickness in the sugar industry –as many as 70 mills are lying closed- are the practice of State Advised Prices(SAPs) for sugarcane, low realization from the sale of molasses, fluctuations in sugar production, non availability of adequate cane and the uneconomic size of the mills and their out-dated machinery and mismanagement.

Recommendations and undertaken government policy measures for solving the problem:

1)Sugarcane Pricing: The pricing of sugarcane is affected by a number of factors, the most important being the Statutory Minimum Price (SMP) and the State Advised Price (SAP).SMP is the price of sugarcane which was fixed by the central government on the basis of cost of production of sugarcane. SAP is the price fixed by the state government for specific recoveries from conditions of the state. With the amendment of the sugarcane control Order, 1966 on October 22, the concept of SMP of sugarcane was replaced with 'Fair and Remunerative Price (FRP) of sugarcane for 2009-10 and subsequent sugar seasons. The amended provisions of the sugarcane control order, 1966 provide for fixation of FRP of sugarcane having regard to the following factors –

i) cost of production

ii) Return to the growers from alternative crops.

iii) Availability of sugar to consumer at fair price.

iv) Price at which sugar produced from sugarcane.

v) Recovery of sugar from sugarcane. vi) Reasonable margins for the growers of sugarcane on account of risk and profits. The FRP of sugarcane for 2016-17 was fixed at Rs 230 per quintal.

2)Distribution of sugar in PDS: Sugar being an essential commodity of public consumption is supplied under the PDS system mainly to BPL families through fair price shops except in the North Eastern States, Hilly States and Island Territories. The central government was following a policy of partial control on sugar under which a part of sugar production was requisitioned from sugar mills as levy sugar for distribution at a uniform Retail Issue Price (RIP) in PDS. In April 2013 the central government decontrolled the sugar sector by removing the levy obligation on sugar mills and doing away with the regulated release mechanism on open market sale of sugar.

3) Sugar Development Fund: It was formed in 1982 under act of parliament to provide inter alia for financing for development activities of sugar industry. The Fund is utilized for concessional loans to sugar industry, grants-in-aid for promoting research as well as contingency schemes-export subsidy/buffer subsidy/interest subvention etc.

4) Financial Assistance to sugar Undertaking: The government introduced a scheme in January 3, 2014 for Extending Financial Assistance to Sugar Undertakings (SEFASU-2014) envisaging interest free loans worth Rs 6,600 core by banks as additional working capital to sugar mills, for clearance of cane price arrears of previous sugar seasons and timely settlement of cane price of current sugar season to sugarcane farmers.

5) The government of India set up the B.B. Mahakam Committee to study the development and growth of sugar industry in India and suggest modifications, amendments or repeal of existing laws and controls in order to increase production and efficiency. Some recommendations has been made in this committee report in April 1998-

i) Complete decontrol of sugar to provide level playing field to domestic industry.

ii) Discontinuation of sugar through PDS so as to prevent PDS sugar entering the open market.

iii) Setting up of a board for determining Statutory Minimum Price for sugarcane in the month of September every year.

iv) Pescribed a minimum distance of 15 kms- instead of the existing 25 kms between an existing sugar mill and a new sugar mill.

v) Continuance of import of sugar under OGL to protect the consumers against any unusual rise in prices and vi) abolition of existing incentives for a new factory. Following the recommendations the government has declared its decision to remove the sugar industry from compulsory licensing under the provisions of Industries Development and Regulation Act, 1956.and to maintain a minimum distance of 15 kms between an existing sugar mill and new mill to avoid unhealthy competition among sugar factories.

Conclusion:

Sugar industry is largest agro-based industry in India. Sugar is an essential food item for daily human life. At the begging of the day, we take any drinks such as tea, coffee, milk, horlicks, complain .For making those drinks sugar is necessary. We cannot think life without sugar. For making sweets, drinks, cooking, it is very essential goods. Sugar is produced from raw sugarcane which we can eat also like fruits. The farmers produced sugarcane in agricultural land which are used as raw materials. So in Indian economy sugar industry occupies a vital place. India has suitable environment & proper climate and weather for producing sugarcane and developing sugar industry also. But now-a- days this industry is suffering from various types of problems. To remove this problem the government has introduced various type of policies which are not enough. To wipe out the problem completely from root the government should adopt more strong policy measure on the one side and on the other side, number of sugar industry &the possibility of domestic as well as foreign investment amount should be increased.

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