

No end in sight to India's sugar populism

By Prerna Sharma Singh

With elections in UP around the corner, the ruling party has little choice but to pay cane farmers more.

During the formal cane price fixation meeting of India's largest sugar producing state, Uttar Pradesh (UP), the farmers' representatives demanded a whopping **25% increase in the state advised price (SAP) of cane** to INR400 a quintal for the sugar season 2018/19. This comes at a time when the state's mills are struggling to pay even the existing cane price of INR315 a quintal - which is in any case 14.5% higher than the fair and remunerative price (FRP) fixed by the federal government last year.

The farmers contend that costlier diesel, fertilizer and other inputs warrant upward revision in cane prices. What's more, the BJP led government must deliver on promises made to double farmers' income. Though the proposal is yet to be accepted or rejected by the state government, this is not good news for the state's troubled sugar milling sector.

Among all the sugar producing states, the state of UP remains the most populist when it comes to fixation of cane prices. No surprise as it accounts for more than 60% of the country's total cane arrears. Despite regular nudges by the Centre to follow FRP, the state government has remained reluctant to fall in line. As a result, its cane prices (SAP) are

invariably higher than centrally mandated FRP by 10%-15% that makes the state sugar mills cost inefficient and makes them seek bailout packages.

The state's sugar mills have been reiterating their inability to pay up increased prices for cane due to supply glut and depressed sugar prices. They argue that the state government had to announce a soft loan package of INR40 billion, showing that their financials were precarious and that any further cane price hike will complicate matters. Yet, the latter continues with its appeasement of the farm lobby.

That is not difficult to understand though. There are more than four million rural households associated with cane farming in UP and their votes are crucial for winning the western part of this politically significant state in the run up to the 2019 general election. The ruling political dispensation must keep rural voters happy and that's what it is doing. The collateral damage of course is the financial health of the mills, but who cares about them in India's competitive political democracy?

At this juncture, talking about cane pricing reform or linking of cane and sugar pricing has no takers in the official establishment, and as things stand today, the state's mills will continue to bleed for some more time. The problem of cane arrears is not going away anytime soon, either.