

Special Guest Editorial**Musings on the SAP for Uttar Pradesh
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Sugar prices have risen by more than 100% in one year while sugarcane acreage in Uttar Pradesh has fallen 21%, sugarcane production has fallen by 22% and the expected sugar shortfall is 45% higher with sugar production down to 1.5 million tonnes this year.

In my view, fixing the State Advised Price (SAP) for crushing season 2009/10 should use scientific data provided by the UP Council of Sugarcane Research Shahjahanpur for sugarcane cost production and the recommendations made by the National Commission on Farmer's Chaired by Dr. M.S Swaminathan.

In short, they and I recommend the Minimum Support Price (MSP) of principal agricultural commodities should be at least 50% more than the weighted average cost of production in order to promote production.

During 2005/06, the National Commission on Farmers chaired by Swaminathan submitted five reports incorporated in the Draft National Policy for Farmers recommending that Minimum Support Price (MSP) of principal agricultural commodities should be at least 50% more than the weighted average cost of production, which was considered by the Commission for Agricultural Costs and Prices in its supplementary report.

According to the NCF report, "the Commission on Agricultural Costs and Prices (CACP) should be an autonomous statutory organisation with its primary mandate being the recommendation of remunerative prices for the principal agricultural commodities of both dry-farming and irrigated areas. The MSP should be at least 50% more than the weighted average cost of production. The take home income of farmers should be comparable to those of civil servants. The CACP should become an important policy instrument for safeguarding the survival of farmers and farming."

But in January of this year, the government approved some changes in the items to be included as costs (premium paid by farmers on crop insurance, marketing and transport charges) incurred by the farmers while calculating the minimum support price of agricultural commodities. The CACP wasn't given statutory status, however. The underlying idea was to insulate the fixation of MSPs from political pressures and subject these, instead, to rational economic principles.

The Expert Committee's suggestion was rejected by the Cabinet ostensibly at the instance of the Union Agriculture Ministry.

The latter held the Cabinet Committee on Economic Affairs (CCEA) recommendation that MSPs be set well before the start of the cropping season. The CCEA also rejected the Expert Committee's proposal to extend the CACP's terms of reference to include, "To advise from time to time on the tariff structure and other measures relating to imports and exports of agricultural commodities and their processed products."

This would, in effect, have made it mandatory for the Centre to consider the CACP's views regarding increases or decreases in import tariffs for any agri-commodity and measures to restrict or ban export/import of particular products. The opposition in this case came mainly from the Commerce Ministry. The Commerce people felt the CACP cannot be authorised to advise on what the tariff levels for individual commodities should be, so as to maintain the MSPs recommended by it.

In April 2007, the standing committee on agriculture felt that the criteria of fixing the MSP by CACP had become outdated, and the prices fixed were not delivering the desired benefits to the farmers. Therefore, the committee adopted the report of the national commission on farmers and made the same recommendation for the 50% payment above the average cost of production.

The final price of sugar is not at all relevant for those growing sugarcane. Only the rise in input costs for sugarcane production and the fact that sugarcane is a long duration crop that takes the time of two grain crops in the field. The return or margin of profit on the costs versus investment to the farmers are most relevant for fixing the sugarcane price (SAP).

The CACP has also never considered the market prices of sugar while recommending SMP though it is one of the criteria as provided in clause 3(1)(d) of the Sugarcane Control Order, 1966 for fixing SMP. Thus neither SAP nor the SMP takes into consideration the market price of "sugar." However sugar prices derived by the sugar mills as per NCDEX can also be considered while determining SAP.

Since sugarcane farmers are statutorily compelled to supply their produce to a particular mill, and they can produce only one crop, cane growers are entitled to remunerative prices.

Recommendations made by the CACP supplementary report of March 2008 recommend the SMP at INR142 plus bonus and have a persuasive value as it is based on the relevant considerations and ultimate hike in SMP by central government for the 2009/10 season.

Scientific data provided by the UP Council of Sugarcane Research Shahjahanpur for the cost of sugarcane production is a relevant consideration for SAP as it has been recognised and upheld by the Supreme Court as well as by the Allahabad High Court. The Constitution Bench judgment dated 5 May 2004 held that "The State Government fixed uniform prices and not factory wise, such affixation of price is, therefore, more just and equitable from the point of view of the cane growers." The Allahabad High Court judgments dated 7 October 2004, 7 July 2008, and 18 December 2009 recognised and upheld the scientific data provided by the UP Council of Sugarcane Research Shahjahanpur for sugarcane cost production.

The questionnaire for 2010/11 sent by the Cane Commissioner of UP to CACP suggesting the rate of SMP contains relevant economic data for sugarcane production costs and it would be relevant material for fixing the SAP for 2009/10. Sugarcane prices in neighbouring states are also relevant factors for determining the SAP by the state.

If the market price of sugar is being taken into consideration for fixing SAP, then the huge earnings of sugar mills from byproducts of sugarcane must be counted as well.

The main reason for the need to include earnings from byproducts is diversion of sugarcane towards production of ethanol and jaggery. On 28 December 2008, the government diluted the Sugar Control Order 1966 to permit ethanol production directly from sugarcane juice. Earlier it was produced only from molasses. Since October 2007, the government has included 5% percent blending and since October 2008 10% blending of ethanol in petrol compulsory to promote the sale of ethanol.

The support price for paddy has been hiked by INR100 per quintal, while pulses is up INR300 per quintal. The support price for common paddy will now go up to INR950 per quintal from INR850, while the A grade variety will be INR980. The minimum support price per quintal for tur dal has gone up from INR2,000 to INR2,300, for moong dal it is up from INR2,520 to INR2,760 and for sesame it is up from INR2,750 to INR2,850.

India had logged record food grain production during 2008/09 (July-June), which was estimated at 233.87 million tonnes. However, the failure of monsoon this season, on which 60% of Indian agriculture depends, has cast a shadow on this year's crop. Despite this fact, the increase in support prices for food grain production has led farmers to favour those crops over sugarcane.

Again, I recommend the Minimum Support Price (MSP) of principal agricultural commodities should be at least 50% more than the weighted average cost of production to promote adequate sugarcane production.