Bill Summary

The Essential Commodities (Amendment) Bill, 2010

- The Essential Commodities (Amendment) Bill, 2010 was introduced on August 9, 2010. It seeks to amend the Essential Commodities Act, 1955 to clarify the price payable for levy sugar (procured for public distribution system).
- The Principal Act was amended last in December 2009. That amendment had two main provisions.
  - It added an Explanation to Section 3 of the Principal Act, stating that the central government, while procuring levy sugar, would not pay any price in excess of that calculated on the basis of the Minimum Price (SMP) for sugarcane set by the central government. This Explanation comes into effect from 1974. The Supreme Court has ruled that the price of levy sugar should include the additional price as indicated in Section 5A of the Sugarcane Control Order, 1966 (known as the Bhargava formula) and the State Advisory Price (SAP) set by state governments. This amendment negated the judgement. This provision was brought into force with retrospective effect from October 1974, and valid until September 2009.
  - It also amended the price to be paid to sugar producers by the central government for procuring levy sugar. It specified that the price of sugar will be based on the "Fair and Remunerative Price" (FRP) fixed for sugarcane, and will include the manufacturing cost, duties, taxes and reasonable rate of return. Earlier the price was based on the Minimum Price (SMP) for sugarcane, and included the other costs and return. The FRP will be announced by the central government, similar to the earlier system of SMP. The Amendment clarified that the central government would not pay any price in excess of that based on FRP for sugarcane. This came into force from October 2009.
- This Bill adds an explanation similar to the first provision described above. The second provision above provided that the price paid by the central government for levy sugar will be based on the FRP for sugarcane. The Bill clarifies that the FRP shall not include any price determined by any state government or through any agreement between the sugar producer and a cooperative of sugarcane growers.
- We describe below some of the ways in which the sugar sector is regulated.
  - Each sugar mill is allocated a command area in its vicinity (which usually varies from 15 km to 25 km radius, depending on the state). The mill is bound to purchase any sugarcane grown in that area. Sugarcane farmers are also expected to sell only to the designated mill.
  - The central government announces a price called the Statutory Minimum Price (SMP) for sugarcane, which is linked to several factors such as cost of growing cane, alternative crops, fair price of sugar and the yield of cane (sugar content). States also announce a price called the State Advisory Price (SAP), which is usually higher than the SMP. Cane mill pay the higher of SMP or SAP to farmers.
  - Sugar Mills are required to sell a part of their produce to the government. This is called levy sugar. The percentage was recently raised from 10% to 20% for the current sugar season (starting October 1, 2009). The price paid by the central government to the mills is based on SMP. Mills are free to sell the remaining sugar in the free market. However, the government announces monthly quotas to each mill, and thus controls the supply.

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