

President Museveni has promised the SDA Church that govt will consider request not to conduct exams on Saturdays

**Mike Ibrahim Okumu, academician**

# An input to the sugar Bill

In my recent article about the sugar industry, I highlighted the 23.4% drop in sugar cane prices from sh175,000 per metric tonne (MT) to sh134,000 per MT in hardly six months. This is partly because of policy failure in regulating the sugar industry and market especially with regard to sugar imports that is not sensitive to sugar demand and supply gap.

In this article, however, I wish to highlight the continued mispricing of sugar cane as a way of partly providing some in-put to the Sugar Bill debate.

For starters, sugarcane in Uganda is typically processed to produce sugar with bagasse, molasses and press-mud as by-products. Bagasse is a fibre matter left after juice is pressed out of sugar cane. Bagasse can be used to make either bio-gas or electricity. Molasses on the other hand is a sticky product resulting from processing sugar cane into sugar. Molasses is used in making ethanol. Finally, press-mud is the residue after filtering sugar cane juice. Press-mud is used as manure and it is either used internally by the millers or sold to outgrowers.

Typically, the existing sugar cane price per MT is equal to the sugar selling price per MT after taxes times 9% times 40%. Where 9% is assumed to be how much sugar can be extracted from a given weight of sugarcane. For example from one MT of sugarcane, the 9% assumption implies that only 90 kilogrammes of sugar can be extracted. While 40% is the sugar sales realisation that accrues to farmer.

The aforementioned formula is unfair to the farmer. For example, as we noticed earlier sugar is not the only product that is extracted from sugarcane. Rather millers produce electricity, ethanol and manure each of which earns them an income without an expense on the key ingredients. For example, millers that are generating electricity from bagasse do not pay for bagasse from the factories. Similarly, millers that equally produce ethanol do not pay for molasses that is extracted from sugarcane processed by their mills. Instead millers sell excess molasses to the other millers that are interested in producing ethanol. While press-mud is either used as manure in the farms owned by millers or sold to outgrowers or any other farmer.

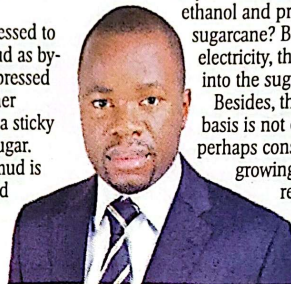
Either way what is clear is that the sugarcane price determination mechanism is unfair to farmers. Why then would the sugarcane price formula consider sugar as the only product from sugar cane yet millers earn from other sugar by-products at no cost? A careful look at the balance sheet of many of the millers

should be able to indicate that millers producing electricity do not pay for bagasse! Besides those processing ethanol with molasses being attained at site do not pay for molasses. Only if the molasses produced internally is not sufficient will a miller buy molasses from other millers.

Finally, millers with nucleus farms use press-mud manure to enhance the soil fertility of their fields while equally selling excess press-mud to outgrowers. Under such circumstances, why wouldn't the sugarcane pricing formula include electricity, ethanol and press mud prices and quantities recoverable from sugarcane? Besides, even for millers that do not produce electricity, they equally sell bagasse which could be priced into the sugar cane pricing formula.

Besides, the 40% share that accrues to the farmer, its basis is not clear. What could be rather convincing is to perhaps consider using the unit cost of what a farmer incurs growing sugarcane to maturity. This would be more representative as compared to merely assuming that farmers should take 40% of the sugar sales realisation. Besides, even if the 40% is to be maintained; it should be inclusive of sales from electricity or bagasse, ethanol or molasses and press-mud. Furthermore, by the selling pricing of sugar entering the sugar cane pricing formula after tax suggests that farmers are actually carrying the miller's tax burden.

Besides it is cumbersome to know which taxes are incorporated; that is whether it is VAT or Excise duty or both? I am of the view that such taxes ought to be extended to the final consumer as opposed to the farmer. In fact, if both the consumer and farmer are paying VAT and Excise duty then, then it is a case of beyond mis-pricing sugarcane. Going forward therefore, the sugar cane pricing formula should: reflect not only sugar but also electricity/bagasse, ethanol/molasses and press-mud as products from the sugarcane processing cycle; secondly, it should capture the unit cost of growing a MT of sugar cane; and thirdly ensure that the selling price of sugar (if electricity/bagasse, ethanol/molasses and press-mud are included) that enters the sugarcane pricing formula should not be net of taxes. Otherwise the existing pricing mechanism is purely exploitative to the farmer.



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