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Descandalising sugar

The fear that delicensing would entail largescale closure of plants is unfounded, says Uttam Gupta

THE political ramifications have overshadowed the serious implications of the sugar scandal on the government's finances and the national economy. Unlike the securities scam, in this case, there is obviously no question of this loss being recuperated. But, could this have been prevented? The question assumes significance as, after all, this country has been witnessing sugar scandals on several occasions in the past.

A possible answer may be sought by looking at the much broader question of whether the government should at all have a role in the supply (including imports), distribution and pricing of sugar. Sugar is not a basic staple food item unlike wheat, rice or other foodgrains. The former is certainly not that relevant from the viewpoint of food security whereas the latter is a prerequisite.

The fact that sugar was included under PDS, does not change this fundamental. That the PDS embraced sugar was itself an aberration of policy and it would not be fair to use this as a justification to lend undue strategic importance and, in turn, justify government's presence in every aspect related to it.

It is ironical that whereas in respect of foodgrains — where the government is still committed to the objective of self-reliance and supply at subsidised rates to the poor, various restrictions on supply movement and prices have been abolished and even vital inputs like fertilisers liberated from controls — sugar continues to be under all-pervasive controls.

At the macro level, this control is exercised through the compulsory levy procurement. At the micro level, by regulating releases of even free market sales of domestic production and imported sugar. Then, there are licensing controls and stock limits both at the wholesale and retail levels in the distribution chains which chokes the supply and availability rather than making it smooth.

In March 1994, when the government announced the decision to decanalise import of sugar and put it on the OGL, an impression was given that it was moving towards a liberalised trading regime. But the implications turned out to be much worse than would be the case in a totally controlled regime because of the manner in which this was done.

But because of the long time gap of almost 4 months from the time the shortage was perceived (November 1993) initially to the time the decanalisation decision was actually taken, the international cartel of suppliers was given the opportunity to raise sugar prices exorbitantly. In the process, not only the government's intention was defeated but even the concept of liberalisation got discredited in the bargain.

A policy of complete control or decontrol has its merits and demerits. Whichever policy dispensation the government may decide to choose, the key element is whether we have an effective system in place that would make the best of the policy. This is where the crux of the problem lies and that would explain the unusual phenomenon of shortages and scandalous situations.

An ideal solution would be to allow free market forces to operate unhindered. But, we need to be absolutely clear as to what it means and the package that this would involve. First, the sugar industry needs to be delicensed which should enable free entry, leading to expansion of manufacturing capacity to match the demand or even exceed it. This would keep the consumers interest foremost both in terms of price and availability.

The fears expressed in some quarters that this would lead to large scale closure of plants is totally unfounded and baseless. At worst, this would cut into the hefty profit margins of a select few manufacturers.

Adequate flexibility and autonomy of action will be necessary in areas like allotment of land, supply of power, availability of bank finance and long term capital from the financial institutions to ensure free access in setting up production facilities.

There may, of course, be the risk of existing small scale or even co-operative sugar factories getting threatened by the big players or further addition to capacity monopolised by the latter. But then it is only the big players who have been the major beneficiaries even within the existing dispensation,

Besides, in a delicensed regime, the governments can exercise positive discrimination in favour of the weak i.e. the small enterpreneur or the cooperatives, by giving them priority in land allotment, loan from the banks/FIs and even fiscal concessions. Presently, bulk of the bank finances are locked up in supporting speculation and hoarding in sugar, a factor that had its due share in aggravating the crisis during 1993-94.

Alongside delicensing, the controls on supply and distribution should also go. Till date, these have been justified on grounds of meeting the needs of the PDS on the one hand and protecting sugarcane farmers on the other. The PDS argument does not carry conviction purely in terms of the essentiality consideration; even if sugar consumption by the poor goes down, it will not have very serious repercussions.

Besides, we also need to consider whether the existing system has served any useful purpose. The PDS prices have been progressively rising, besides paving the way for large scale diversion to the free market and rampant generation of black money in the process. More crucially, with mounting fiscal deficit, can we afford subsidy on sugar?

The need for protecting sugarcane producers can't be overemphasised. But, here we need to make a basic distinction; the big farmers providing bulk of the cane, are capable of fending for themselves in a free market situation. For the small and medium farmers, the objective of realising a remunerative price and an assured market can be achieved by positive interventionist policies. There is no dearth of infrastructure, finances and commercial skill to carry out such policies.

Third, there is need for adequate competition not only within but with imports as well. Although sugar import has been put on the OGL, there is still some uncertainty as statements made by functionaries who matter have indicated possible reversal of the policy. The government should categorically announce that liberalised import policy will stay. This will encourage enterprises/traders to develop permanent stake in the business of importing, keep fly-by-night operators at bay and minimise chances of manipulating and exploiting the shortage situation by key domestic producers. Above all, it will provide effective competition with ultimate benefit to the consumers in terms of both price and availability.

In the past, the sugar scene has been manipulated to suit the interests of manufacturers and traders. The present thrust on liberalisation should be aimed at ensuring timely supply of good quality sugar at reasonable prices to the consumers. For, in the ultimate scheme of things, the market is not unfriendly to the consumers, if only those who manage it, act according to the rules of the game.