The Observer of Business and Politics August 2, 1994

A policy turned sour

The policy on sugar has to go beyond just monitoring availability and price, says **Uttam Gupta**

AFTER successfully executing a neatly orchestrated gameplan which not only robbed the consumer but also the exchequer (by way of subsidised sale of imported sugar through the PDS) in a short span of just about three months, the sugar barons are holding out the promise of a rosy picture for the next year.

Curiously, even as they maintain a conspicuous silence on whether they have any relief to offer during the remaining three months of the current season that would end on September 30, a bumper production of about 140 lakh tonnes for 1994-95 is being talked about.

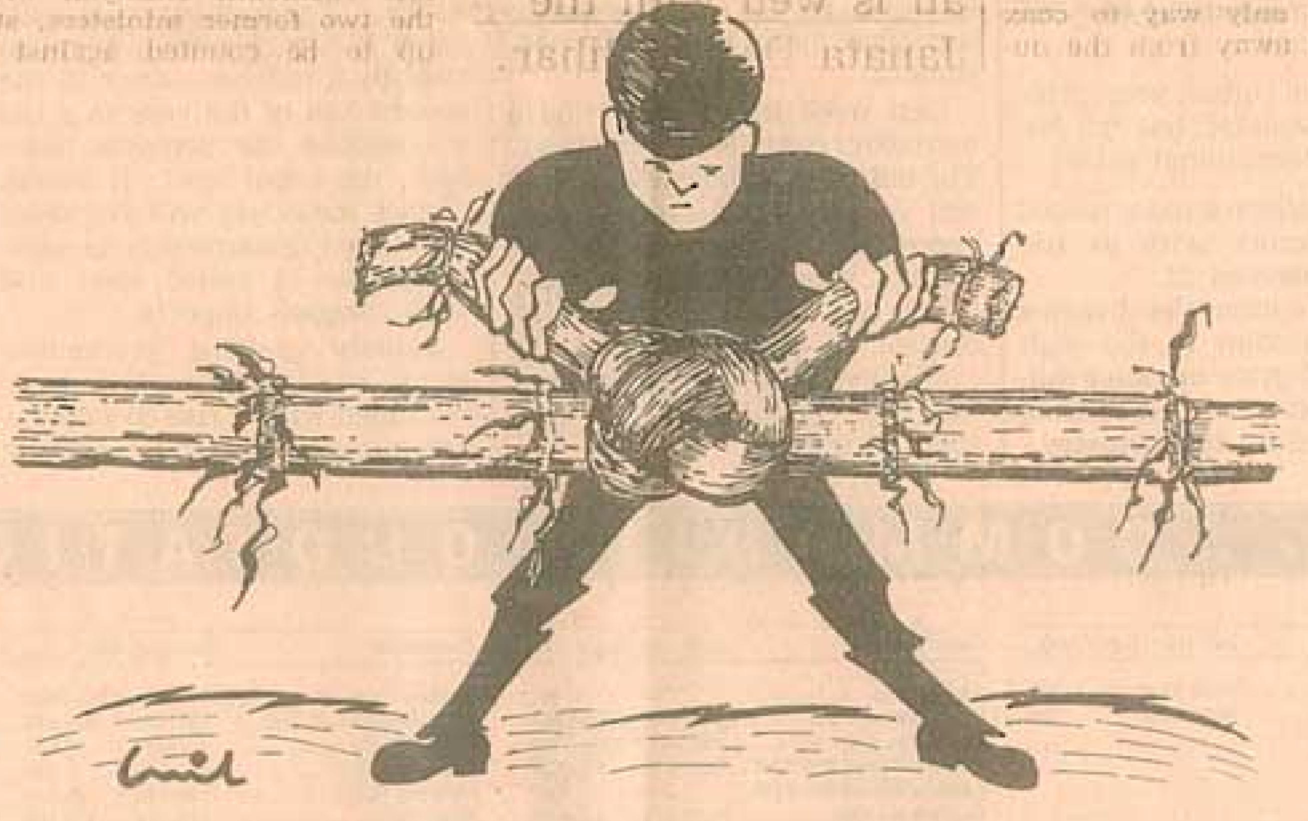
The battered consumers are being told that following the good rainfall, cultivated area under sugarcane during the year will be 30 per cent more, and that due to improved technology, sugar recovery factor would also be more. And, all this would result in record production; hence, 1994-95 will be automatically be sweeter for the common man. That is totally misleading.

A cursory review of the chronology of events since the beginning of 1993-94 season i.e., October, would bring out that availability of sugar was never a problem. The sugar industry itself has been estimating production at about 116 lakh tonnes, which together with 30 lakh tonnes carried over from the previous year, should be enough to meet demand. In retrospect now, the industry association's production estimate for 1993-94 is 96 lakh tonnes. But, no credible justification has been provided for the downward revision.

The cultivated area planted under sugarcane, the precise rainfall level and spread was known. And, even the diversion of sugarcane to gur and khandsari, if any, on a scale significant to destabilise the calculus of the sugar industry was unlikely to have gone unnoticed for so long. Then, why the drastic change of production figures and why should the government be accepting these at face value. Afterall, the latter not only has an arrangement with the industry for supply of levy quota for the public distribution system (about 40 per cent) but is also, regulating sale through the free market on a fortnightly basis.

It is clear that supply was not a constraint; instead, it was a classical case of artificial shortage generated through a combination of hoarding and propagation of disappointing statistics. And, it is also clear that the government, far from combatting the gameplan of the sugar barons, has unwittingly encouraged it.

The decision not to authorise imports at the beginning of the season when the international price situation was favourable, the Indian ports free from congestion and weather conditions were right; decanalising sugar imports at a time when world market prices had already firmed up; unnecessarily delaying the provision of subsidy on import by government agencies i.e. MMTC and STC for sale through PDS (even now subsidy authorisation is being done in bits and pieces); and, wasting time in unseemly controversies as to which agency should be authorised to import — all these add up to gross mismanagement of the state of affairs.



It would be no exaggeration if one were to conclude that the government is simply not interested in improving the availability of sugar — both for the free market and PDS — and easing the price situation. Imagine a situation of acute shortage for the common man (even PDS has been left high and dry in states like UP which has the greatest concentration of sugar factories) and a major consignment held up at the port and in the process, heavy demurrage being incurred, not because of congestion, but because STC who procured the consignment, was delaying transfer of the relevant documents to the FCI. Given the fact that both are agencies of the government as also the urgency of the demand, a well-coordinated and centralised decision could have easily prevented such a situation.

What is the government doing to improve the situation? Except oft-repeated announcements that it is monitoring the availability and price situation, there is hardly anything credible coming up either by way of changing the overall policy dispensation or relaxations of controls. That, after the selling price initially increased to a peak of Rs 20 per kg, it reduced to about Rs 16 per kg is purely a market phenomenon. In no way, this can be ascribed to any worthwhile measure taken by the government.

The only worthwhile announcement that has come is that sugar imports would continue to be on the OGL. Freeing this from stocking and turnover restrictions is also welcome. However, unless this is duly incorporated in the import-export policy deleting sugar from the negative list and specifically permitting imports at zero customs duty to avoid any scope for ambiguity, it is impossible to think of alternative import channels other than either the government agencies or the industry itself.

The sugar industry has to be delicensed and all controls on pricing and distribution have to go; and the sooner it is done the better. For a commodity where even under adverse circumstances (like cane area declining), supply would be far from being a bottleneck, licensing and controls are the surest way of turning a potentially comfortable situation into a tight one. This has been amply demonstrated by the experience of 1993-94 and even on earlier occasions.

At a time, when majority of the industries have already been delicensed, controls abolished and even free movement and distribution of foodgrains put in place, there is absolutely no basis for keeping sugar under licensing and controls unless there is something surreptitious or clandestine about it. Sugar is not even a strategically sensitive industry that would warrant such rigorous control, making for government involvement on an almost daily basis. The business of authorising and regulating supplies even for free market sales on a weekly basis and enforcement of stock limits on traders is too detailed, to the point of rendering the system ridiculous and almost unworkable.

The government knows it is impossible to administer such a cumbersome interventionist system. It is, in fact, well known that necessary permission of the designated authority is invariably delayed. Consequently, even if the commodity is available in the required quantities, because both the supplier and the user are at the mercy of the concerned bureaucrat, the same can't be made available on time to the consumer.

Undoubtedly, while giving reasonable profits to the sugar industry, the new free market dispensation will be consumer friendly as well. In this context, the minister of state for food has given some indication of the possibility of decontrol, but ruled out delicensing. The latter is inexplicable unless it is the intention to allow the monopoly of a few sugar manufacturers, a situation in which even decontrol of pricing and distribution will not produce the desired results. The consumers' interests can be best served by implementing both the decisions simultaneously.