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Abolish sugar controls

Record sugar price despite a favourable supply-demand balance demolishes the case for controls, says **Uttam Gupta**

THE price of sugar in the free market have shot up to a record high of about Rs 16 per kg in the last few weeks. And there is very little possibility that it will abate in the near future. Although the issue price of sugar distributed through the public distribution system (PDS) continues to be much below at Rs 9 per kg, that is not of much help for three basic reasons.

First, the supplies through PDS contribute only 40 per cent of the total requirements. Second, the PDS serves only the ration card holders, thus excluding the vast majority of the poor in the metropolitan cities who are daily wage earners. And third, whenever the conditions in the free market are buoyant with prices rising, the supplies through the PDS too tend to disappear.

For a country which ranks second in the world as a producer of sugarcane and has one of the highest productivity levels backed up by an effective research and extension paraphernalia, the phenomenon is somewhat unusual. The problem is certainly not one of inadequacy of production in relation to demand. Although sugarcane production has fluctuated in the past and, to some extent, diversion to gur and khandsari may have affected the availability for sugar manufacture in recent years, the fact remains that the overall supply-demand balance for sugar has not been terribly disturbed.

For instance, although domestic production slid down from 134 lakh tonne in 1991-92 to 106 lakh tonne in 1992-93, the position was not alarming in terms of total availability vis-a-vis the demand. In 1993-94 also, with an inventory of 31 lakh tonne as on 1.10.1993 and a likely production of about 98 lakh tonne, the total indigenous availability would be 129 lakh tonne. This is still 11-13 lakh tonne higher than the likely demand of 116-118 lakh tonne. Against this backdrop, the emergence of sugar shortage and skyrocketing prices clearly demonstrates the utter failure of the supply management and distribution system in the country.

If the government thought that the anticipated surplus would still be inadequate, what prevented it from arranging necessary imports at the beginning of the season itself i.e. October, 1993? That was also the time when the international market was favourable with the prevailing cif price of raw sugar at US $217 per tonne.

Now, this has already gone up to US $300 per tonne. The crystal sugar is ruling in the range of US $378-386 per tonne. Adding port handling charges and the distribution cost including the profit margins of the wholesalers and retailers, the selling price of imported sugar to the consumers would not be less than Rs 16 per kg.

And, it is precisely around this time only that the government had decided to decanalise import of sugar.

Interestingly, substantial imports of about 2-3 lakh tonne are taking place even at these prices that are significantly higher than the cost of domestically produced sugar. The latter itself is higher than the reasonable levels as there are hardly any prescribed norms for computing production cost even as the price setting continues to be devoid of accountability and transparency.

Inevitably, the market will now settle at the import-based prices that would, on the one hand, hit the already impoverished consumers hard and, on the other, yield unprecedented profit to the sugar barons which according to some estimates, has been placed in the range of Rs 800-1000 crores. Is this the kind of liberalisation that the government had contemplated ostensibly to benefit the vast majority of the poor?

With such devastating results in an essential item like sugar, what remains of the credibility of the government in effectively using the massive foreign exchange in stabilising the domestic price situation? Only sometime back, the finance minister had pinned great hopes on this cushion to prevent resurgence of inflation. Presently, he seems to have given in to the rising international prices of cotton and sugar. And, having done so, the current increasing trend in prices is sought to be legitimised as a seasonal factor and the poor made to live on hope for another 3-4 months.

The enigmatic failures in the supply and distribution system in respect of sugar are primarily the result of a flawed policy which has neither allowed the 'invisible hand' to work its way nor made the government fully accountable for its interventions.

In the emerging liberalised regime, prima facie, the case for government's intervention is totally unwarranted. All the more in respect of sugar, since there was no shortage of sugarcane. Consequently, there is no reason why the sugar industry should not be delicensed. It is extremely necessary to break the monopoly of a few sugar barons if the government is really serious about easing the sugar supply and price situation.

Further, considering that not very sophisticated technologies are involved in the production processes and that the scale of investment is also not beyond the reach of entrepreneurs with modest funds, it is much easier to implant competitive forces.

Second, the present dichotomy between levy and free sale sugar has led to distortions. Besides choking supplies in either channels, this has given a handle to the industry to raise free sale sugar price on the ground of losses sustained on levy supplies. Along with delicensing, even these controls may have to go. Under the present dispensation, even supplies to the free market are being regulated by the government. With removal of control on distribution, supplies can be made more responsive to the market demand.

It may be argued that denial of supplies through the PDS would affect the interest of the poor. Herein, we need to take a pragmatic view of the situation and not be guided by notional consideration only. The PDS is serving predominantly the better off section of the community. Undoubtedly, there may be some cases who genuinely need supplies from the PDS at low prices. For serving such group, the government may target some supplies, say about 10-20 per cent of the total production, and subsidise the same, if necessary. That should not be used as a plea for including even the rich within the ambit of PDS.

Decanalisation of sugar imports and its placement on the OGL was a healthy step. However, there is a looming doubt that this decision is only temporary, since this announcement was not a part of the export-import policy. The government should announce categorically that this would stay to enable importers to take advantage of the international supply and price situation as and when it is favourable. These steps could be expected to develop parallel marketing and distribution network and provide effective competition to the domestic producers.

In short, the government would be best serving the objective of providing sugar to vast majority of population in adequate quantities and at reasonable prices by shedding controls and vacating the market territory in favour of the invisible hand.