THE OBSERVER
OF BUSINESS AND POLITICS
MONDAY JUNE 26, 1995

Crying wolf

The need for doing away with all facets of control on sugar cannot be overemphasised, says **Uttam Gupta**

HAVING robbed the consumers of colossal sums during the extremely tight 1993-94 sugar season, the sugar manufacturers are now trying to default on payment to the farmers.

The sugar production during 1994-95 is expected to be a record 14.5 million tonnes (mt). Together with carryover stock of about 3 mt, the total availability would be 17.5 mt. With demand estimated at about 11.8 mt, there will thus be a surplus of 5.7 mt. Moreover, if the government decides to take delivery of the 0.4 mt of imported sugar contracted by STC and MMTC, the surplus would be higher by that amount.

The excess availability has exerted a downward pressure on the selling prices in the free market, although these have not dropped to the extent claimed by the manufacturers. Whereas, they maintain that the prevailing price is Rs 12 per kg, the consumers are still paying not less than Rs 15 per kg.?

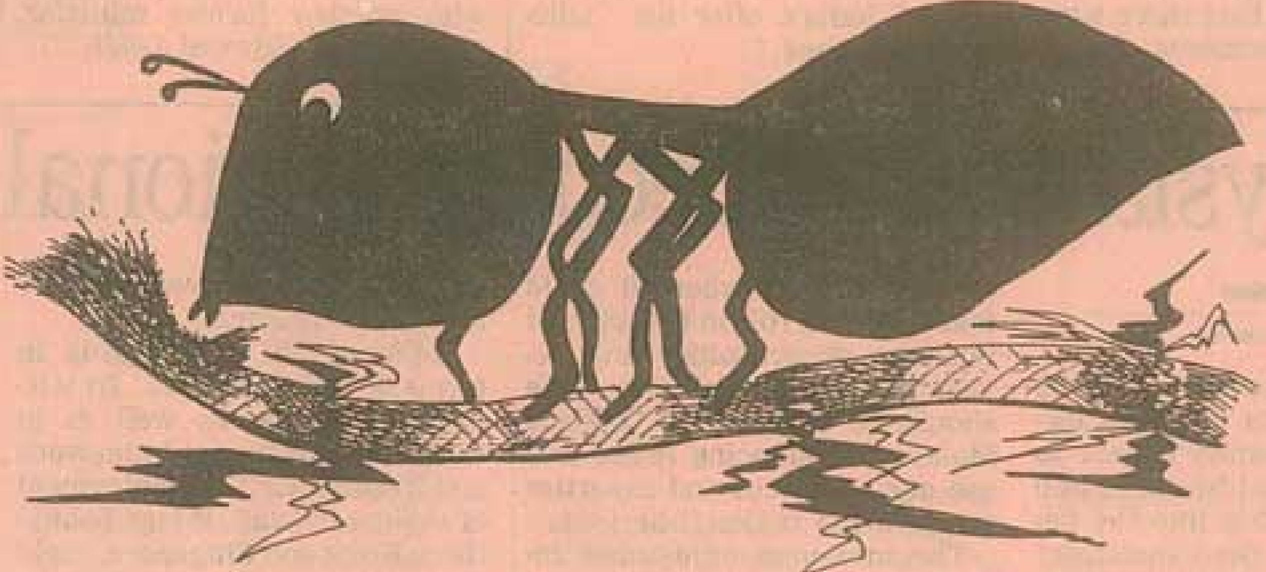
The claim that at Rs 12 a kg the manufacturers would lose to the point of defaulting on the farmers' legitimate dues is a fallacious argument. Prior to 1993-94, the sugar prices were hovering around the same level as now i.e. Rs 12 per kg. Then the manufacturers' inability to clear cane arrears was not ascribed to the price factor. Why now?

If on the other hand, because of the mounting stocks, cash flow is a problem, the solution is to reduce the selling price to realistic levels to boost demand. But the real hitch is that the manufacturers want to have a higher volume of sales without having to reduce the price. The mounting pressure on the government not to take delivery of the 4 lakh tonnes of imported sugar is motivated by this consideration only.

The manufacturers' concern for farmers is spurious. Presently, the minimum support price (MSP) of sugarcane is Rs 39 per quintal for cane with 8.5 per cent recovery factor. The latter means that 8.5 kg of sugar can be extracted from 100 kg or 1 quintal of sugarcane. On this basis, the corresponding raw material cost in the total cost of production of sugar would be about Rs 4.5 per kg only.

Is it the manufacturers' case that in a total price realisation of Rs 12 per kg, they can't spare even Rs 4.5 per kg to pay for the raw material cost? The hollowness of the argument becomes even more apparent in case of majority of the sugar factories which are old and depreciated and consequently, the burden of capital servicing is negligible.

A related argument advanced by the manufacturers is that on sales through the PDS, they make a loss. This is again factually incorrect as for old depreciated units, even at the government-controlled price of about Rs 9 per kg, there is no reason to believe that their cost will not be fully covered. With almost negligible capital servicing charges and the raw material cost being about Rs 4.5 per kg, the balance Rs 4.5 per kg should be adequate to meet other expenses including fuel, marketing and distribution cost etc. That apart, on the free sale quota presently at 60 per cent of production, their gain is phenomenal. New units in any case, are fully exempted from the PDS supply obligation for a period long enough to enable them recuperate their investment cost.



When the manufacturers made huge money during 1993-94 on a market that favoured them, no questions on the cost and selling prices were raised. Now, on the same logic, when the demand-supply situation has moved slightly in favour of the consumers, should they not take it in the same spirit and be content with somewhat lower profits. Why do the manufacturers need the support of the government now and why do they have to train their gun from the farmers' shoulders? In 1993-94, when they realised exorbitant prices from sale of sugar, did they share even a bit of it with the farmers by way of higher price paid for sugarcane.

The manufacturers demand for creation of a buffer stock and the government's inclination to accept it is only an attempt to get rid of the surplus availability with the former at the expense of the consumers. The only way the prices can be brought down is by maintaining the supply pressure which producers wish too avoid. Maintaining a buffer will result in unnecessary cost to the government particularly when 1995-96 sugar production is also expected to be good.

Unfortunately for the consumers, the manufacturers have got accustomed to a win-win situation for all time. Whereas in a shortage situation, they make supernormal profit, even when the overall supply position is comfortable, they consider a good profit margin as their fundamental right. And to facilitate this, the consumers have all along been made to pay high prices. For instance, during 1994-95, the extra subsidy of Rs 700 crores on import of sugar by STC and MMTC for distribution through PDS by raising the overall budget deficit is ultimately a burden on the common man. The anticipated loss on the contracted 4 lakh tonne (irrespective of whether we finally import or cancel the contract) also will make a hole in his pocket. Purportedly, such interventions are made in the name of common man with a view to help him, but leave him poorer at the end.

Needless to mention that this highly iniquitous and discriminatory situation is being abetted and encouraged by continuation of the obnoxious regime of control which are ridiculous to the point of the government authorising release of sugar from each factory on a monthly basis.

But for this and in the absence of licensing and other controls, the situation would have been much better from the consumers's angle and involving no drain on the exchequer as well. Undoubtedly, this would have the effect of minimising the scope for unjustifiably high profit margins of the producer/traders. But that is what the reform and liberalisation is all about.

It is unfortunate that despite a body of opinion building in favour of liberating sugar from controls, no move has yet been made in this direction. The issue is getting trapped in an unnecessary and unwarranted controversy over which aspect of sugar should be decontrolled first, i.e. licensing, distribution controls or control on price.

Delicensing has no meaning so long as distribution controls are in vogue. For instance, what will a new unit do with the production if it is not authorised to sell. Likewise, freedom to fix selling price is irrelevant so long as the producer needs permission to sell.

Abolition of pricing and distribution controls with licensing in fact would also not improve the situation. This is because in the absence of freedom of entry, the existing producers will continue to resort to supply and price manipulation to the detriment of the consumers.

The need for doing away with all facets of control on sugar i.e. licensing, distribution and pricing cannot be overemphasised. That indeed is the best way of helping the consumers in terms of ensuring easy availability of sugar at reasonable prices.