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Pandering to the barons

The move to create a buffer of sugar is aimed at maintaining high prices, says **Uttam Gupta**

WHEN the acute shortage of sugar during October 1993 to September 1994 resulted in hefty increase in prices, the government did not lift a finger.

The decision to allow import on the OGL was taken only in April 1994, by which time prices in the international market had already shot up. Far from bringing succour to the beleaguered consumer, handling and distribution of such imports though PDS resulted in subsidy burden of about Rs 700 crore.

More recently, the government has incurred heavy losses on the resale in the international market, of about 3.5 lakh tonne of sugar bought earlier under forward cntract at much higher prices.

During 1994-95, the availability has improved with production expected to be about 145 lakh tonne as against the likely consumption of about 120 lakh tonne. And yet, the consumers have got no relief by way of reduction in prices.

Whereas the government has lost no time in reaching out assistance to the producers. While on the one hand, export of sugar has been permitted, on the other, the Prime Minister has already promised to the industry creation of a buffer stock involving about 10 lakh tonne of sugar. This is amazing.

The underlying circumstances, in the present case, call for a simple and straightforward approach i.e. an offer of minimum about Rs 3 to 4 per kg reduction in the selling price over the prevailing high of Rs 15 per kg. While giving relief to consumers, it will facilitate revival of demand and, in turn, help industry reduce stocks. Additional benefits will accrue by way of releasing godown space and funds/working capital which could be used for supporting other pressing needs. Establishment of a buffer is totally unnecessary and irrelevant.

Unfortunately, the sugar industries is interested in creation of conditions whereby even the natural market pressure to reduce prices is eliminated; conditions that will enable the manufacturers to maintain supernormal profit even under somewhat adverse circumstances (read excess supply) from their viewpoint.

Quite clearly, the manufacturers' sole objective is to seek immobilisation of the excess stocks. With the Prime Minister agreeing, in principle, to creation of the buffer and the food ministry having been asked to formulate detailed guidelines on this, the government has already acquiesced into this gameplan.

For establishing the buffer, a critical question is the price. It is unlikely that it would pay the lower price applicable to the levy procurement meant for sale through the PDS. That does not serve the manufacturers' interest as, in that case, they would prefer to offload sugar n the market and avoid the hassles of interacting with government agencies. Consequently, it has to be the market price only.

What then does the government do with the high cost sugar bought at Rs 15 per kg? Considering that 1995-96 is likely to be another bumper year with a record production of about 15 million tonne, the excess supply situation is bound to persist for a minimum of one year and may be even more (as the season itself start with an estimated stock of about 54 lakh tonnes against 18 lakh tonnes at the beginning of 1994-95).

Against this backdrop, it is unthinkable that the government would be able to dispose off these stocks without incurring heavy subsidies. And, the longer it sticks to the stocks, the greater will be the subsidy on account of additional inventory carrying cost.

The burden will multiply if the government goes on increasing the size of the buffer which is quite likely in view of continued excess availability and pressure from producers' to help in immobilising more and more of their stocks.

The sugar stacked in godowns for too long is bound to deteriorate in quality and much of it may even be rendered useless. Poor handling and storage conditions will further aggravate these trends. The government should also consider that the limited infrastructure i.e. warehousing space etc, tied to these wasteful operations, could be utilised productively elsewhere.

Unlike basic staple food e.g. wheat and rice, subsidy on sugar was some thing unheard of all along in the past. The phenomenon surfaced only during 1994-95. Now, with the idea of buffer finding favour with the government, this would become a permanent feature. The financial burden on the exchequer would be severe depending on the quantities dumped by the manufacturers on the government's buffer, the buying price, the carrying cost and the price at which the latter will be ultimately forced to sell sugar to consumers.

The move to create a buffer of sugar is aimed at maintaining high prices and providing a dumping ground for the excess sugar that cannot be sold at such high prices. And all this to provide immunity to the manufacturers against slight perturbations in the market place.

There can be no disagreement with the government's decision to permit export of sugar. At the same time, however, the government must not reverse its decision to freely permit imports by anyone. This is necessary to prevent manipulation of supplies by the domestic industry, resultant shortages and exploitation of consumers.

All existing controls on sugar must go as these are anti-consumer. Continued licensing enables a few producers to dictate terms and prevents necessary adjustment in capacity. Distribution controls prevent smooth flow of sugar and deny access to consumers even when overall supplies are comfortable. In fact, it is the bureaucrat-industry nexus that decides how much sugar should go and where; this in turn, shapes the price at which the consumers get sugar.

Levy procurement by government for sale through PDS at the so-called subsidised price is another control mechanism that enables the industry to justify high prices on free market sales. The argument that this dispensation helps in catering to the poor has no merit as the price i.e. about Rs 9 per kg at which the poor buy from the ration shop, is definitely not the subsidised price. At this price, the reasonable cost of majority of the producers get covered.

Only if free market forces are allowed to operate unhindered, will consumers get reasonably priced sugar. Needless to say that this would cover all the poor quite unlike sale through the PDS which cover only a fraction of the entire lot and there, too, the supplies may not be assured in view of large scale diversion.

Instead of perpetuating the existing controls and adding new dimensions such as the proposed buffer, the government should, in the true spirit of liberalisation, allow free market forces to decide the supply, pricing and distribution of sugar. It may, however, play the role of a facilitator by providing an update on demand-supply, world market trends, market intelligence and other inputs to the industry, trade and consumers for helping appropriate decisions.