# SUGAR POLICY DURING THE REGIME OF PARTIAL DECONTROL:

## AN ANALYSIS OF ITS OBJECTIVES AND IMPLICATIONS

SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENTS OF THE DEGREE OF
MASTER OF PHILOSOPHY
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI

SANJAYA BARU

CENTRE FOR DEVELOPMENT STUDIES
ULLOOR, TRIVANDRUM
KERALA.

# C O N T E N T S

## ACKNOWLEDGEMENT

I owe a debt of gratitude to Professor N.Krishnaji whose patient guidance and constant encouragement has helped me immensely in the writing of this dissertation. I am grateful to Professor K.N.Raj for patiently reading through an earlier draft and offering valuable suggestions.

I must thank Professor I.S.Gulati, Dr.S.R.Sen, Shri P.J.Manohar Rao (Addl. Chief Director, Directorate of Sugar, Ministry of Agriculture, Government of India), Dr.S.K.Rao, Shri Chandan Mukherjee and Shri C.P.Chandrasekhar for helpful discussions at various stages of the preparation of this dissertation.

Thanks are also due to the library and administrative staff of the Centre for Development Studies, Trivandrum, for their co-operation and assistance. A special word of gratitude is due to Shri K.Muraleedharan and Smt. Chechamma George for typing this dissertation.

The views expressed here are my own and none of the above may be implicated.

# CHAPTER I

## Introduction

1.1 The sugar industry, as many other industries in India, is characterised by a high degree of state interventionism. At various levels, namely, the fixing of the minimum price for cane, levy price of sugar, excise and other duties, monthly quotas for the open and controlled markets and finally export quotas, the state intervenes actively in the sugar economy.

1.2 With such a high degree of state intervention the sugar economy cannot be regarded as operating according to the 'traditional' laws of a free market economy. The state in a class society, we must note, is not a neutral arbitrator seeking to protect the interests of all its constituents but an active instrument in the hands of the ruling classes for the perpetuation of a class society.

1.3 Given our understanding of the state and our knowledge about the extent of state intervention in the sugar economy it becomes relevant to study the nature of official policies and their implications for the different classes that constitute this economy.

1.4 Our study is restricted to the period 1967-68 to 1976-77, that is, the period of Partial Decontrol. We do this with a specific purpose in mind. For twenty years after Independence the state has experimented with controls and decontrols alternately with a view to stabilising sugar cane and sugar production and offering the cultivators, the manufacturers and the consumers a "fair" deal. Finally, it was believed that the Regime of Partial Decontrol offered the solution by affording the manufacturer an opportunity to pay a remunerative price for cane; making sugar available at a 'reasonable' price to the bulk of the consumers (through the ration shops) and finally assuring the industry a 'decent' rate of return from sales on the open-market.

1.5 Surely if all these expectations were realised the situation would be ideal. The question, therefore, is whether or not these expectations have been realised in practice. It is to answer this question that we have undertaken this study.

## Methodology and Data

1.6 We first examine the nature of the sugar economy. The class character of the grower and the manufacturer is analysed and the nature of their relationship examined. Second, we examine the objectives - as stated, and the implications - as observed, of the Dual Price System. Third, we discuss the actual experience of movements in prices, production, stocks, exports and per capita consumption during the regime of partial decontrol and the implications of these movements for the grower, the manufacturer and the trader. Finally, we examine critically the Sugar Policy for the 1977-78 Season given our understanding of the nature of the sugar economy.

1.7 The data we have used are basically secondary published data. We also put forward some qualitative evidence which was gathered during the field trip to New Delhi when we held discussions with some officials in the Ministry of Agriculture and Irrigation. The data are based on published government reports; the sources are mentioned as and when they are cited.

# CHAPTER 2

## THE NATURE OF THE SUGAR ECONOMY

2.1 The Sugar Industry in India is about half a century old and is the second largest agro-based industry. There are over 225 sugar factories which provide direct employment to about 2.5 lakhs workers and income to nearly 20 million growers who supply the sugar cane.

2.2 It is a characteristic feature of the Indian sugar economy that, unlike in most other sugar cane growing countries, here cane is grown to a large extent on small and medium sized holdings numbering about 20 million. While in the whole of Latin America, East and West Indies and South-East Asia cane is grown on vast plantations, employing hundreds of slaves at one time but now largely wage-labour based, in India alone one finds cane being grown on small, semi-medium and medium sized farms. Available data relating to the years 1954-55 and 1970-71 (see Tables 2.1 and 2.2) show that nearly 85 percent of the area under cane is distributed among such holdings, (that is, in the range of 0.00 to 9.99 hectares) while only about 15 percent is in very large holdings of more than 10 hectares.[1]

Table 2.1: Area under Sugarcane by Size-group of Operational Holdings (All-India and For Regions), 1954-55 (Percentages)

| Size-Class (in hectares) | North India | East India | South India | West India | North West India | All India | Type of holding |
|---|---|---|---|---|---|---|---|
| Below 0.60 | 1.42 | 1.84 | 2.67 | 1.63 | 0.00 | 1.34 | - |
| Below 1.00 | 3.68 | 3.67 | 5.34 | 3.26 | 0.94 | 3.32 | Marginal |
| 1.00 to 2.00 | 23.36 | 28.19 | 31.56 | 8.13 | 10.03 | 22.08 | Small |
| 2.00 to 4.00 | 33.94 | 21.25 | 22.46 | 13.83 | 26.02 | 29.35 | Semi Medium |
| 4.00 to 10.00 | 20.20 | 30.40 | 18.19 | 37.38 | 45.15 | 31.44 | Medium |
| Above 10.00 | 18.82 | 16.49 | 22.45 | 35.77 | 17.86 | 13.81 | Large |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | - |

Note: North India = Uttar Pradesh; East India = Bihar, Orissa, Assam, West Bengal, Manipur, Tripura, etc., South India = Kerala, Mysore, Coorg, Andhra, Madras; West India = Bombay, Saurashtra, Gujarat, Kutch; North-West India = Rajasthan, Punjab, Jammu and Kashmir, Delhi, Himachal Pradesh; (Central India, which includes Madhya Bharat, Hyderabad, etc., is left out of this Table).

Source: N.S.S. Report No.74 (1954-55) on land holdings.

1/ There has been some change in the distribution of land holdings between the two time-points mentioned but the share of large holdings has not significantly altered. Secondly, it must be noted that Maharashtra and Haryana have a greater proportion of large farmers than the rest of India. However Haryana is not a major producer and may be ignored. The case of Maharashtra is important but here also large farmers account for only 28 percent of the total area under cane.

Table 2.2: Sugarcane Cultivation By Size-Group of Holdings 1970-71 (Percentages)

| Size-Class (in hectares) | U.P | Maharastra | Bihar | Haryana | Punjab | Tamil Nadu | Andhra Pradesh | All India |
|---|---|---|---|---|---|---|---|---|
| Below 0.50 | 6.8 | 2.1 | 11.0 | 1.0 | 0.9 | 5.1 | 5.2 | - |
| Below 1.00 | 17.2 | 6.3 | 20.8 | 3.4 | 4.6 | 14.3 | 14.6 | 13.7 |
| 1.00 to 2.00 | 19.3 | 10.5 | 14.1 | 7.5 | 10.2 | 19.4 | 17.7 | 16.4 |
| 2.00 to 4.00 | 27.2 | 19.5 | 21.5 | 19.0 | 25.0 | 26.5 | 21.9 | 24.6 |
| 4.00 to 10.00 | 26.9 | 35.3 | 23.4 | 41.8 | 41.7 | 28.6 | 26.0 | 29.6 |
| Above 10.00 | 9.6 | 27.3 | 20.2 | 28.3 | 18.5 | 11.2 | 19.8 | 15.7 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: All-India Report on Agricultural Census, 1970-71. Ministry of Agriculture and Irrigation, Government of India.

2.3 It is true that the smallness in the size of holdings we have referred to is only in relation to the size of sugarcane farms in other major sugar producing countries and not to the average size of operational holding (i.e. average area cropped by a household) in India which itself is very small. But its significance lies in the fact that individual growers cater only to a small fraction of the needs of an average-sized factory (with a crushing capacity of 1250 to 2000 tonnes of cane per day).

This naturally gives the factory owner a monopsonistic power vis-a-vis the growers. On an average each factory in India buys cane from a few thousand growers every day during the crushing season. If a factory refuses to buy the cane from any grower or merely keeps him waiting at the factory gate he can be financially ruined since the sucrose content of cane declines rapidly and reduces the weight of the cane.[2/]

2.4 As far the Industry itself we find two types of factories, namely, the joint stock private and public limited companies and the growers' co-operatives. By and large the entire North and most of Tamil nadu are dominated by joint stock companies set up by Managing Agencies during the 1930's and 1940's or by indigo planters who were forced out of their erstwhile business due to the fall in demand for natural indigo. In some cases even big landlords and traders came forward to invest in sugar factories. Some of them had in fact induced the cultivation of cane among growers in order to find adequate supplies for their factories.

2.5 The phenomenon of "forced commercialisation" referred to by some economic historians was essentially manifested in sugarcane cultivation in U.P.[3/] The Sugar Industry Protection

---

2/ Payment for cane is based on the weight of the cane at the factory gate.

3/ See E.Whitcombe, "Agrarian Conditions in Northern India" O.U.P. (London) (1971).

Act, which was enacted in 1932, helped the industry by shutting off the highly competitive Javanese Sugar industry and this, coupled with the economic powerlessness of the grower, gave a fillip to profits in the industry[4].

2.6 After the mid-fifties the Government made some effort, however, to encourage the growth of growers' Co-operatives and of Co-operative sugar factories. As a result the number of co-operative factories went up from 2 in 1950-51 to 20 in 1960-61 and to 96 in 1974-75. This was, ofcourse, the result of the government's licencing policy which had explicitly stated that in the case of the sugar industry preference should be given to co-operative factories vis-a-vis joint stock companies. The idea was to protect the interests of the many small and medium growers. However, what happened in actual practice needs to be examined. In Maharashtra and Gujarat (which account for more than one half of all co-operative factories; see Table 2.3) the Sugar Industry Enquiry Commission (1974) found a neat integration of the big landlord and the manufacturer in what is called a "growers'" co-operative factory.

---

4/ The imposition of a protective duty on imports brought down the imports of sugar from 5.86 lakhs tonnes in 1931-32 to 3.89 lakh tonnes in 1932-33 and to 24,000 tonnes in 1936-37. Till 1950-51 again imports of sugar never exceeded 50,000 tonnes per annum.

Table 2.3: Pattern of Ownership of Sugar Factories in India

| State | Joint stock | Co-op-erative | State sector | Total | State | Joint stock | Co-op-erative | State sector | Total |
|---|---|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 10 | 8 | 2 | 20 | Orissa | 1 | 2 | - | 3 |
| Bihar | 28 | 1 | 1 | 30 | Punjab | 2 | 4 | - | 6 |
| Gujarat | - | 8 | - | 8 | Rajasthan | 1 | 1 | 1 | 3 |
| Haryana | 1 | 2 | - | 3 | Tamilnadu | 10 | 8 | - | 18 |
| Kerala | 1 | 2 | - | 3 | Uttar Pradesh | 63 | 5 | 5 | 73 |
| Madhya Pradesh | 5 | 1 | - | 6 | West Bengal | 2 | - | - | 2 |
| Maharashtra | 11 | 42 | - | 53 | | | | | |
| Karnataka | 6 | 8 | 1 | 15 | All India | 141 | 84 | 10 | 235 |

Source: India Sugar Year Book, 1973-74 (I.S.M.A) New Delhi

2.7 The Report of the Sugar Industry Enquiry Commission states "..... the advantages which accrue to a co-operative factory are enjoyed by a small number of cultivators only. In some co-operative factories there is a reluctance on the part of the existing members to enlarge the membership of the factory. It is said that the co-operative factories have become a close preserve of a limited number of shareholders and families". Further, the Report adds, "The co-operative factories in Maharashtra and Gujarat also pay high prices for cane to their members whose number is limited". It has also been alleged that some growers who are members of co-operative sugar factories buy the cane unofficially from smaller growers at their farms and in turn sell it to the factory as their produce. This enables them to buy at a price which is less than the statutory minimum price from small growers and sell it at a very high price to the factory 5/. In practice, therefore, the co-operative sugar factories are controlled and run by the big landlords or rich peasants rather than the majority of small and medium growers.

2.8 To sum up, on the production side we see that in most states sugar cane is cultivated on small and medium sized holdings by growers who number in millions (a few thousand for each factory). Most factories are joint stock companies owned by managing agencies or big business houses, big land owners and traders 6/. In some states, specially Maharashtra, where co-operative factories are more dominant one has reasons to suspect

---

5/ "A sample study of the organisation of cane supplies in co-operative factories showed that the pattern of supplies was inexplicable in a number of cases. It was found that there is little relationship between the area under cane with a member and the quantity of cane supplied by him..... It shows that in some cases members of co-operative societies supplied cane produced by others in their own names". p.47, Report of the Sugar Industry Enquiry Commission, 1974, Govt. of India.

6/ Some of the big business houses with investment in sugar industry include the Birlas, Shri Rams, Singhanias, Dalmias, Parrys, Walchands, Modis, etc.

that even these are controlled by big land owners.

2.9 On the consumption side we see that sugar is consumed largely by the upper income groups both in urban and rural areas. The National Sample Survey Tables on Consumer Expenditure show the following: Both in rural and urban areas sugar consumption is very unevenly distributed as between the different expenditure groups; in 1961-62, as Table 2.4 shows, in urban areas the bottom 30 percent of the population accounted for only 16 percent of the total consumption of sugar while the top 30 percent consumed 47 percent of the total. In rural areas the pattern of consumption is still more skewed—the bottom 30 percent consumed about 7.5 percent while the top 30 percent consumed about 66 percent (Fig.1 shows the lorens curves of sugar consumption).

<u>Table 2.4: Consumption of Sugar According to Population Deciles All-India Urban and Hural 1961-62.</u>

| Decile Group | Relative Share (Rural) | Cumulative Share (Rural) | Relative Share (Urban) | Cumulative Share (Urban) |
|---|---|---|---|---|
| 1 | 1.32 | 1.32 | 3.62 | 3.62 |
| 2 | 2.21 | 3.53 | 6.23 | 9.85 |
| 3 | 5.26 | 7.47 | 6.09 | 15.94 |
| 4 | 6.62 | 11.88 | 8.28 | 24.22 |
| 5 | 10.63 | 17.25 | 8.34 | 32.56 |
| 6 | 6.88 | 24.13 | 9.72 | 42.28 |
| 7 | 9.41 | 33.54 | 10.57 | 52.85 |
| 8 | 12.50 | 46.04 | 14.78 | 67.63 |
| 9 | 18.37 | 64.41 | 21.44 | 89.07 |
| 10 | 35.59 | 100.00 | 10.93 | 100.00 |

<u>Source</u>: Computed from N.S.S.Report No.200, 1961-62, (17th Round), Tables on Consumer Expenditure.

**Fig.1: Lorenz Curves of Sugar Consumption**

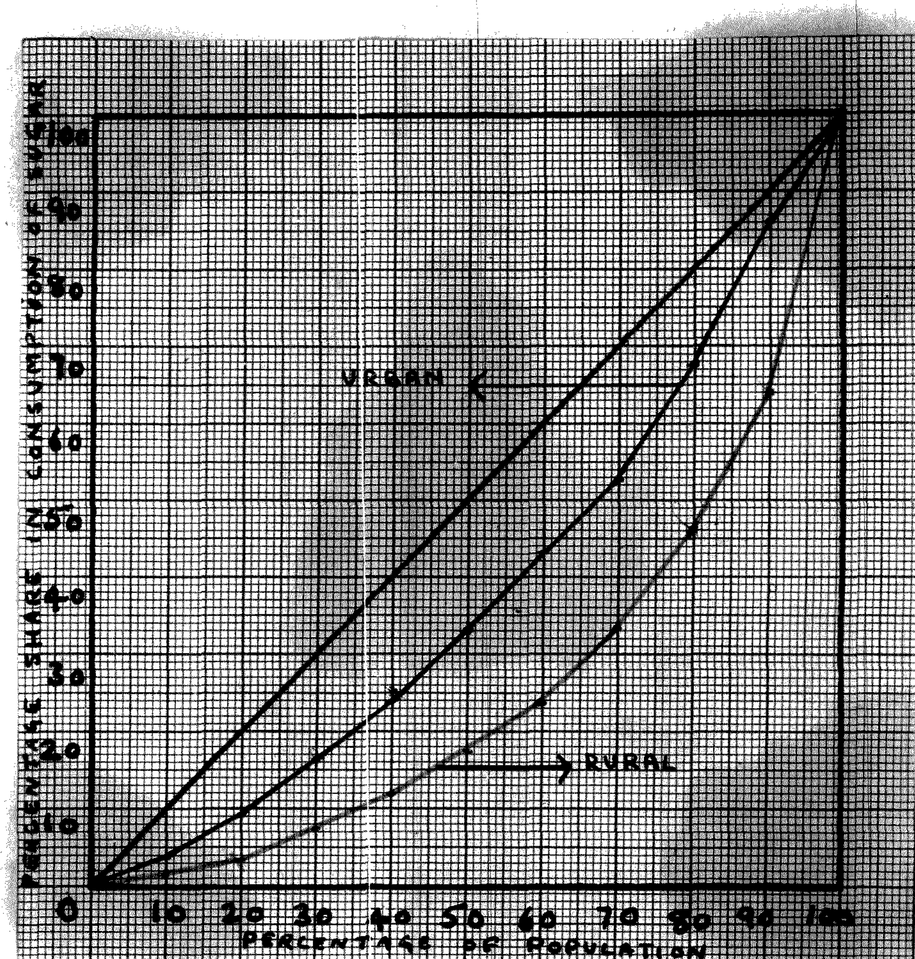


Figure 1 also shows that consumption of sugar is less unequal in urban areas as compared to rural areas. This may be partly due to the fact that the Public Distribution System caters largely to urban areas (except in Kerala) thus enabling the poorer sections to consume more than their counter parts in rural areas.

2.10 Secondly, the consumption of sugar in urban areas is much more, in per capita terms, than in rural areas. Per Capita consumption of Sugar in 1971 in rural areas was estimated to be about 5.35 kgs. per year and for urban areas it was estimated to be about 15.15 kgs per year 7/. Given the distribution of population between rural and urban areas (according to the 1971 Population Census 19.1 percent of the population lived in urban areas while 80.9 percent lived in rural areas) we have estimated that about 40 per cent of the total consumption is in urban areas while 60 percent is in rural areas 8/.

2.11 Thirdly, we observe that per capita consumption of sugar has fallen over the decade of the 'sixties. The N.S.S. Reports on Consumer Expenditure for 1961-62 and 1970-71 show that per capita consumption of sugar, over 'All Classes' for a period of 30 days, has fallen from 0.93 kgs in 1961-62 to 0.68 kgs. in 1970-71 (in urban areas).

---

7/ Report of the National Commission on Agriculture, 1976, Part III, Appendix 10.3, p.51.

8/ We estimated this on the basis of the above per capita consumption and population figures.

Table 2.5: Per Capita Monthly Consumption of Sugar 1961-62 and 1970-71:All-India

(in kgs)

| Year | Urban | Rural |
|---|---|---|
| 1961-62 | 0.93 | 0.21 |
| 1970-71 | 0.68 | 0.24 |

Source: N.S.S. Report No.200, 1961-62 Part II (17th Round)
N.S.S. Draft Report No.250, 1970-71 (25th Round)

2.12 This fall in consumption cannot be explained as being due to lack of availability since the per capita net availability has increased over the years.[9]

2.13 Finally, we must note that in rural areas it is gur which is more commonly used both as a sweetening agent and for cooking purposes. The consumption of gur in urban areas (vis-a-vis rural areas) is lower because in urban areas gur is used primarily for cooking purposes and not as a sweetening agent.

2.14 What we have done so far is to show who grows sugar cane, who produces sugar and who consumes it - in other words

9/ Per capita net availability increased from 3.56 kgs per year in 1950-53 to 5.30 kgs in 1960-63 to 6.73 kgs in 1970-73. While per capita net availability has increased we see, from the N.S.S. Consumer Expenditure data, that per capita consumption in urban areas has fallen between 1961-62 and 1970-71. This can be explained only as being due to the steep vise in the price of sugar. The Index of Wholesale Prices rose from 103.7 in 1962 to 204 in 1972. We shall examine these trends clearly in a later chapter and analyse their implications.

the group interests underlying the Sugar Economy.

2.15 From as early as 1932, when the Sugar Industry Protection Act was enacted, the industry has witnessed State intervention at various stages. Be it in the form of statutory minimum prices for cane, the monthly releases of sugar, the levy quota for sugar, or subsidised exports of sugar, etc., the state has actively intervened in the sugar economy. Even during periods of complete decontrol, as far as trade was concerned, the government continued to retain the power of releasing monthly quotas for sale on the open-market.

2.16 How exactly this Policy, during the regime of partial decontrol, has affected the interests of the grower, the manufacturer and the consumer will be discussed in following chapters [10].

---

[10] By 'Partial Decontrol' is meant the regime of trade and prices in which part of the output is sold at a fixed price through Ration on Fair Price shops and part of it is sold through the open-market where prices are allowed to fluctuate. In India the regime of partial decontrol has been in operation (in sugar) since 1967-68 (with some gaps in between). At present (from 1977-78 season) 60 percent of the output is released for sale through the Public Distribution System while 40 percent is sold on the open-market.

# CHAPTER 3

## THE REGIME OF PARTIAL DECONTROL - OBJECTIVES AND IMPLICATIONS

3.1 The sugar economy in India has had a history replete with changes in the regimes of prices and distribution (see Table 3.1).

Table 3.1: Regimes of Distribution and Price for Sugar and Minimum Price of Cane and Index Numbers of Sugar and Gur Prices All-India, 1950-51 to 1975-76

| Year (Oct.-Sept.) | Regime of Prices and Distribution | Minimum Price of cane Rs. per Quntl. | All-India Whole-sale Price Index 1952-53 = 100 Sugar | Gur |
|---|---|---|---|---|
| 1950-51 | Selective Control | 4.69 | 97 | 202 |
| 1951-52 | Selective Control | 4.69 | 104 | 146 |
| 1952-53 | Partial Decontrol | 3.52 | 100 | 100 |
| 1953-54 | Complete Decontrol | 3.85 | 96 | 138 |
| 1954-55 | " " | 3.85 | 105 | 133 |
| 1955-56 | " " | 3.85 | 95 | 85 |
| 1956-57 | | | | |
| 1957-58 | Complete Control | 3.85 | 104 | 105 |
| 1958-59 | " " | 3.85 | 120 | 125 |
| 1959-60 | " " | 4.34 | 127 | 145 |
| 1960-61 | " " | 4.34 | 122 | 155 |
| 1961-62 | Decontrol (from Sept. '61) | 4.34 | 127 | 145 |
| 1962-63 | Decontrol (upto Apr. '63) | 4.34 | 127 | 118 |
| 1963-64 | Complete Control | 4.69 | 136 | 207 |
| 1964-65 | " " | 5.36 | 150 | 215 |
| 1965-66 | " " | 5.36 | 162 | 169 |
| 1966-67 | " " | 5.68 | 161 | 187 |
| 1967-68 | Partial Decontrol | 7.37 | 177 | 426 |
| 1968-69 | " " | 7.37 | 200 | 480 |
| 1969-70 | " " | 7.37 | 199 | 241 |
| 1970-71 | " " | 7.37 | 197 | 204 |
| 1971-72 | Decontrol from May '71 Voluntary Decontrol from Jan. '72 | 7.37 | 204 | 300 |
| 1972-73 | Partial Decontrol(from July '72) | 8.00 | 257 | 414 |
| 1973-74 | Partial Decontrol | 8.00 | 270 | 442 |
| 1974-75 | " " | 8.50 | 296 | 441 |
| 1975-76 | " " | 8.50 | - | |

Source: 1. Tariff Commission, Report on Cost Structure and Fair Price Payable to the Sugar Industry, 1973.
2. A.P.C., Report on Sugar Cane Price Policy for Various Seasons from 1967-68 to 1974-75.
3. Ministry of Food & Agriculture, Bulletin of Food Statistics - Various Issues.

3.2 Starting from 1932, when the state intervened for the first time in the sugar economy through the Sugar Industry Protection Act, right through to this day various regimes of price and distribution have been in operation. From 1957-58 till 1966-67, however, Complete Control over sugar prices and distribution prevailed (excepting in 1961-62 and 1962-63 when no controls existed).

3.3 These changes from time to time in governmental policy have been nothing but short-term solutions to recurring crises of either excess supply or shortage. In times of acute scarcity the government has been intervening to check any "undue" price rise and in times of excess production the expressed aim has been to prevent prices from falling to unremunerative levels. Be this as it may, the Government has not so far evolved a long-term policy with the explicit purpose of preventing the continued occurrence of periodic excess and shortages.
Table 3.2 shows the cyclical movement of sugarcane and sugar production (the trend over time being a rising one) and also the movements in cane acreage. It can be seen, in particular, that the decade 1964-65 to 1974-75 was characterised by upswings in production followed by downswings in a fairly systematic manner.

3.4 This systematic cycle is now a theoretically recognised and an empirically verified fact. Several studies have established that there is some sort of a 'cobweb' phenomenon in the cane acreage cycles, [1] however little has been done in practice to rectify this phenomenon. The Sugar Enquiry Commission (1965) had recommended in it's Report that a system of buffer stocks' in sugar be introduced so that both the "short-term instability" and the "long run imbalances" in the growth of the industry could be rectified [2]. The Commission had identified the 'adhoc' measures of the government as being the main hurdles in the way of a comprehensive solution being sought to the recurring problem of shortages and surpluses of sugar. "In fact 'adhocism' has been one of the worst man-made causes of the instability faced by the industry. In the absence of a well thought out comprehensive long term policy, decisions taken in regard to prices, production, controls and licencing have only too often been

---

1/ See Dharm Narain, "Impact of Price Movements on Areas Under Selected Crops in India, 1900-1939". Ph.D. Thesis submitted to the University of Delhi (1962); Dayanatha Jha and G.C.Maji - "Cobweb Phenomenon and Fluctuations in Sugarcane Acreage in North Bihar". I.J.A.E. July - September 1974; Dayanatha Jha and G.S.Ram - "Instability in Sugarcane Acreage - an inter-regional analysis" - ibid; P.C.Joshi, "The Sugar Cycle: A Diagnosis", Sankhya, Vol.35, 1974.

2/ p.168-169, Report of the Sugar Enquiry Commission, 1965. Ministry of Food and Agriculture, Govt. of India.

**Table 3.2: All-India Sugarcane Acreage, Production and Sugar Production, 1950-51 to 1974-75**

| Year | Area under Sugarcane (in 000 acres) | Production of Sugarcane (in lakh tonnes) | Production of Sugar (in lakh tonnes) |
|---|---|---|---|
| 1950-51 | 4217 | 548.2 | 11.0 |
| 1951-52 | 4792 | 392.3 | 14.7 |
| 1952-53 | 4272 | 490.0 | 12.8 |
| 1953-54 | 3485 | 431.8 | 9.8 |
| 1954-55 | 3994 | 560.3 | 15.7 |
| 1955-56 | 4564 | 583.8 | 18.3 |
| 1956-57 | 5057 | 659.4 | 19.9 |
| 1957-58 | 5080 | 669.5 | 19.5 |
| 1958-59 | 4803 | 693.5 | 18.9 |
| 1959-60 | 5220 | 740.2 | 23.8 |
| 1960-61 | 5968 | 1100.0 | 30.2 |
| 1961-62 | 6366 | 1039.7 | 27.3 |
| 1962-63 | 5540 | 919.1 | 21.4 |
| 1963-64 | 5557 | 1042.3 | 25.7 |
| 1964-65 | 6432 | 1219.1 | 32.3 |
| 1965-66 | 7008 | 1239.9 | 35.4 |
| 1966-67 | 5687 | 928.3 | 21.5 |
| 1967-68 | 5057 | 955.0 | 22.5 |
| 1968-69 | 6257 | 1246.7 | 35.6 |
| 1969-70 | 6792 | 1350.2 | 42.6 |
| 1970-71 | 6462 | 1263.7 | 37.4 |
| 1971-72 | 5907 | 1135.7 | 31.1 |
| 1972-73 | 6058 | 1248.7 | 38.7 |
| 1973-74 | 6800 | 1408.1 | 39.5 |
| 1974-75 (P) | 6848 | 1401.9 | 47.9 |

(P) = Provisional

**Source:** Co-operative Sugar Directory and Year Book (1975), New Delhi.

influenced by competing interests." 3/

3.5 The buffer stock policy, as envisaged by the Commission, would have helped in reducing the adverse impact of the fluctuations in cane acreage and prices on the farmer and on sugar prices. While the government has not yet given serious thought to implementing this policy it has, from time to time, merely responded to any impending crisis (in production) by altering the regime of price and distribution in sugar 4/.

3.6 In this context we propose to examine the Regime of Partial Decontrol introduced in 1967-68 which remained practically unchanged till today, (excepting for one and a half year in between), and see whether or not it has in fact stabilised the sugar economy. Partial Decontrol was essentially a product of two considerations which had weighed the most with policy makers.

---

3/ p.159, ibid. The Tariff Commission also stated, "During the course of the public enquiry as well as through the various submissions, divergent and often critical views have been expressed on the Government's Sugar Policy. It was alleged that frequent changes in the policy resulted in uncertainty which affected alike the industry, the cane growers and the consumers. It was, therefore, urged that the governments should evolve a long-term policy which would enable the industry to formulate its programme of development in a planned manner based on the price it would obtain for its sugar" - p.64, Report of the Tariff Commission (1973) on Cost Structure and Fair Price Payable to the Sugar Industry.

4/ In this context we were told by Dr.S.R.Sen, formerly Chairman of the Sugar Enquiry Commission that as far as he knew the industry was not very enthusiastic about the buffer stock policy, "for its own reasons".

On the one hand the government wanted to assure a 'decent' price of sugar for the vocal and politically important urban consumer (who, as we saw in Chapter One, is also a significantly larger consumer of sugar vis-a-vis his rural counterpart); and, on the other hand, the industry had to be assured reasonable profits, that is, open-market prices had to be attractive (since a part of the total output is sold through the free market).

3.7 For example, the latter consideration weighed heavily in 1966-67 when sugarcane acreage was very low and cane production slumped resulting in escalation of cane prices 5/. Sugar producers were handicapped since they could not afford to pay higher prices for cane given the control on sugar prices; this led, therefore, to large-scale diversion of cane to gur and khandsari (see Table 3.3).

3.8 Thus an ostensible reason was provided for doing away with the existing regime of Complete Control which was clearly not serving the interests of the industry. Since Complete decontrol was not fully favoured by the government (given the need

---

5/ See Table 3.2; Production of sugar fell from 35.4 l.t. in 1965-66 to 21.5 l.t. in 1966-67 and, with the introduction of Partial Decontrol, rose steeply back to 35.6 l.t. in 1968-69.

Table 3.3: Utilisation of Sugarcane, All-India

(Percentages)

| Year | For Sugar | For Gur & Khandsari | For Seed, Feed and Chewing |
|---|---|---|---|
| 1960-61 | 28.2 | 59.4 | 12.5 |
| 1961-62 | 26.9 | 60.4 | 12.2 |
| 1962-63 | 22.6 | 65.3 | 12.1 |
| 1963-64 | 24.7 | 63.3 | 12.0 |
| 1964-65 | 27.4 | 60.7 | 11.9 |
| 1965-66 | 29.4 | 58.8 | 11.8 |
| 1966-67 | 23.3 | 64.7 | 12.0 |
| 1967-68 | 23.7 | 64.5 | 11.8 |
| 1968-69 | 30.2 | 58.0 | 11.8 |
| 1969-70 | 33.9 | 54.0 | 12.1 |
| 1970-71 | 30.2 | 57.8 | 12.0 |
| 1971-72 | 27.3 | 60.8 | 11.9 |
| 1972-73 | 32.4 | 55.6 | 12.0 |
| 1973-74 | 30.0 | 58.3 | 11.7 |
| 1975-75(P) | 34.5 | 53.6 | 11.9 |

(P) = Provisional

Source: Co-Operative Sugar Directory and Year Book, 1975 (New Delhi)

to make sugar available at a 'reasonable' price to the urban consumer) a via media solution was found in the form of Partial Decontrol.

3.9 The Agricultural Prices Commission aptly summed up the new policy in these words, "The consumer has been provided his basic requirement of sugar at a fair price and yet, through the provision of a free market in the commodity, the sugar industry has been allowed the flexibility - not available in a regime of Complete Control - of paying for cane a price higher than the minimum statutory price so as to enable it to complete with Gur and Khandsari"[6].

3.10 From our discussion in Chapter One it should be obvious that the first advantage (of partial decontrol) accrues mainly, if not only, to the 'vocal' urban consumers who alone are covered by the Public Distribution System. As for the second advantage, i.e. the possibility of the manufacturer paying a higher price for cane, it should be noted that this question arises only in periods of acute cane shortage when gur and khandsari producers can edge out the sugar factories. This is because the gur and khandsari markets are not regulated while sugar market is - which means that the former can shift the burden of a higher cane price fully on to the consumer while the latter can do this only in respect of 35 to 40 percent of their output.

3.11 However, it has been shown elsewhere [7] that more often than not cane growers supply their cane first to the sugar

6/ p.1. Report on Price Policy for Sugarcane for 1971-72 Season, A.P.C. (New Delhi).

7/ See P.C. Joshi, "The Sugar Cycle: A Diagnosis", Sankhya, Vol.35, 1974.

factories and then only to Gur and Khandsari producers; there are several reasons for this 8/.

3.12 It is argued that except when there is an acute shortage of cane, the statutory minimum price of cane is invariably higher than the price in the unregulated market, (i.e. the Farm (Harvest) Price, see Table 3.4) and sugarcane growers try to sell as much cane as possible to the sugar mills. Accordingly it is the off-take of cane by the factories at the minimum price which determines, along with the size of the cane crop, the amount of cane available for being crushed for making gur.

---

8/ Some of them are: firstly, Sugar factories offer a secure market where a minimum price is assured; secondly, most small growers are indebted to factories, specially in U.P.; thirdly, in some states the Sugar Co-operatives are controlled by growers; fourthly, in some places factories have reserved areas growing cane around the factory which are required to supply this cane to the factory. Finally and most importantly, the Khandsari units are small-scale units which cannot afford to complete in the long-run with Sugar factories and so lose out to them.

Table 3.4: The Farm (Harvest) Price and Statutory Minimum Price of Cane (Rs.per Qntl.)

| Year | Statutory Minimum Price | Farm (Harvest) Price in U.P. |
|---|---|---|
| 1957-58 | 3.85 | 3.62 |
| 1958-59 | 3.85 | 3.64 |
| 1959-60 | 3.85 | 3.62 |
| 1960-61 | 4.34 | 4.05 |
| 1961-62 | 4.34 | 3.81 |
| 1962-63 | 4.34 | 3.86 |
| 1969-70 | 7.37 | 6.77 |
| 1970-71 | 7.37 | 6.87 |

Note: We are using the U.P. Harvest Price for two reasons: One, U.P. is the most important sugar cane and sugar producing state. Two U.P. is a typical example of the Indian sugar economy where the cane growers are essentially small or medium sized growers and the factories wield considerable power over them.

Source: 1. Reports of the A.P.C. on Sugarcane Price Policy, various years

2. Farm (Harvest) Prices of Principle Groups, Directorate of Economics and Statistics, Government of India.

3.13 Further, it has been argued elsewhere [9] that, "Gur producers cannot ordinarily pay as high a price for sugar-cane as is paid by the sugar industry. That the cane farmers usually obtain a much better price from sugar factories also becomes evident from the behaviour of the ratio of the price of gur to the statutory minimum cane price, which fluctuates rather widely from year to year, and rises to comparatively high levels in periods of cane shortage. If the prices realised by farmers did not differ much this ratio would have turned out to be much more stable."

3.14 Hence it is difficult to believe that the grower will really be offered a price higher than the statutory minimum price (except, ofcourse, in years of acute cane shortage) by the

---

9/ P.C.Joshi, op.cit; it may also be noted that the co-efficient of variation of the Statutory Minimum Price for cane for the period 1950-51 to 1974-75 was only 30 percent, while for open-market sugar prices this was 37 percent and for gur prices it was 56 percent. This strengthens the point made by Joshi in para 3.13 above.

factories even when high profits are being made by the latter from sale of sugar on the open-market [10].

3.15 Here it may be pertinent to note that while the Agricultural Prices Commission had hoped that under Partial Decontrol "the minimum price for cane ....... in conjunction with a judicious policy pertaining to the releases of sugar, should go a considerable way in moderating the range of oscillations in sugarcane acreage," [11] we find in fact that this has not been achieved at least in the case of the area under small and medium holdings. Data on cane acreage show that the co-efficient of variation of area, which can be taken as a rought measure of oscillations in acreage, fell from 12.2 percent during the period

---

10/ We do not wish to say that this is true of the entire country because in states like Maharashtra where sugarcane is cultivated by big farmers who also control co-operative factories the grower may be getting a very good price (see Chapter 2). But our argument is surely true of most other states, specially the North Indian States. Secondly, in this context it may be interesting to draw a comparison between this situation and the one in wheat where, given the power of the big farmer lobby, the procurement price has in effect become a support price. See N.Krishnaji: 'State Intervention and Foodgrain Prices', Social Scientist, 30-31 Jan.-Feb. 1975, for a detailed discussion on this. The nature of the 'minimum price', therefore, is closely linked to the nature of the peasantry that dominates any particular crop.

11/ A.P.C. Report on Sugarcane Price Policy for 1972-73, p.4.

1959-60 to 1966-67 (the eight years prior to partial decontrol) to 9.04 percent during 1967-68 to 1974-75 (the eight years under partial decontrol), for India as a whole; but this was not the case in states like U.P. and Bihar where small and medium holdings dominate. In fact in U.P. the co-efficient of variation (for cane acreage) has increased from 8.4 percent to 10.9 percent and in Bihar it has increased from 8.7 percent to 10.4 percent between these two time periods.

3.16 On the contrary in Maharashtra, a state dominated by big farmers, the coefficient of variation for cane acreage has fallen from 14.7 percent to 13 percent in this period. Stability in acreage thus seems to have been achieved only in areas where the bigger cane growers dominate the scene. The "assurance of a minimum cane price" and the "judicious release policy" have very obviously not affected the interests of the small and medium farmers whose economic position does not seem to have improved significantly during the regime of partial decontrol.

3.17 The next question we wish to examine is whether the rise in sugar prices during the regime of partial decontrol is due to higher cane prices, higher cost of production or an excess demand for sugar.

3.18 The data on prices of cane and sugar show that between 1967-68 and 1975-76 the minimum price of cane rose by only 15.3 percent while the open-market price of sugar rose by 30 percent. The latter cannot be explained away as being due to a higher cost of production since firstly, the price of cane has not risen substantially (and cane cost constitutes 70 percent of the total cost of production of sugar),[12] secondly, the Tariff Commission Reports show that between 1966-67 and 1971-72 it is only the cost of fuel and wages that has substantially gone up. Both these (excluding salaries) would constitute only about 10 percent of the total cost.

---

12/ The cost of production of sugar may be divided into the following components. (Share in percentages)

| | | |
|---|---|---|
| 1. | Cane charges ..... | 72.4 |
| 2. | Salaries and Wages ..... | 10.5 |
| 3. | Power, Fuel and Stores ..... | 2.7 |
| 4. | Repairs and maintenance..... | 3.4 |
| 5. | Other Overheads ..... | 2.7 |
| 6. | Depreciation ..... | 5.6 |
| 7. | Packing ..... | 2.7 |
| 8. | Total Net Average cost per Qunl. ..... | 100.0 |

Source: Report of the Tariff Commission (1969) on Cost structure of Sugar Industry and Fair Price Payable.

3.19 A more recent study of cost of production of sugar [13] has estimated this to be about 204.25 per quintal and the wholesale open-market price was estimated (assuming a 12 per-cent rate of return and including excise duty) as being Rs.353 per quintal. We believe this may be an exaggerated estimate since the price taken for cane is the price as quoted by factories (which is above the minimum price of cane). As our earlier analysis suggests there is no a priori reason to suggest that this price was paid. In fact it is known that factories quote having paid very high prices for cane while they actually pay only the minimum price. And given the weight of cane charges in the cost of production of sugar the price of cane becomes a significant variable. However, even if the above estimate were acceptable it does not still justify the current level of prices on the open-market.

3.20 Thirdly, the recovery percent of cane has not fallen significantly to support the view that more cane is required for a given quantity of sugar.

3.21 The rise in sugar prices during 1967-68 and 1974-75 cannot also be explained as being due to a fall in availability

---

13/ 'Sugar Industry - High Cost Structure; Econ.Times 4th Oct. 1977, p.5.

Table 3.5: All-India Average Recovery of Sugar Percent Cane

| Year | Recovery Percent | Year | Recovery Percent |
|---|---|---|---|
| 1965-66 | 9.7 | 1970-71 | 9.8 |
| 1966-67 | 9.9 | 1971-72 | 10.0 |
| 1967-68 | 9.9 | 1972-73 | 9.6 |
| 1968-69 | 9.4 | 1973-74 | 9.3 |
| 1969-70 | 9.3 | 1974-75 | 9.9 |

Source: Co-operative Sugar Directory and Year Book, 1975.

or production of sugar since this has not been the case. Per capita Total availability has risen significantly from an average of 7.8 kgs. per year during 1967-70 to 8.5 kgs. per year during 1972-75.

Table 3.6: Per Capita Total Availability and Per Capita Production of Sugar

(kgs. per annum)

| Year | Per Capita Total Availability | Per Capita Production | Year | Per Capita Total availability | Per Capita Production |
|---|---|---|---|---|---|
| 1967-68 | 5.4 | 4.4 | 1971-72 | 8.1 | 5.5 |
| 1968-69 | 7.6 | 6.8 | 1972-73 | 7.8 | 6.7 |
| 1969-70 | 10.3 | 7.9 | 1973-74 | 8.2 | 6.7 |
| 1970-71 | 10.6 | 6.8 | 1974-75 | 9.5 | 8.0 |

Total Availability = Production - Exports + Imports + Carry-over stocks Production relates to what is produced during the Sugar Year.

Source: Same as for Table 3.5

We also see that per capita production has risen substantially from an average of 6.4 kgs. per year for 1967-70 to 7.1 kgs. per year for 1972-75 (see Table 3.6).

3.22 Finally, the available estimates of sugar consumption suggest that there is no upward pressure on prices from the demand side either. The Report of the National Commission on Agriculture (Part III) has estimated the growth rate in per capita total consumer expenditure between 1968-69 and 1974-75 to be around 2.56 percent per annum. Given the expenditure elasticity of demand for sugar as 1.65 for rural areas and 1.11 for urban areas 14/ the rate of growth of demand should work out to be 4.2 percent per annum for rural areas and 2.8 percent per annum for urban areas, or a national average of about 3.5 percent per annum. During this period production however increased at the rate of 5.8 percent per annum. A purely supply and demand analysis would thus suggest that prices should in fact have fallen. On the contrary during this period open-market prices rose by about 10.6 percent in urban areas alone and by 8.0 percent in rural and urban areas combined.

14/ The expenditure elasticities of sugar and the annual growth rate of per capita consumer expenditure have been taken from Part III of the Report of the National Commission on Agriculture (1976) Government of India. The annual growth rates of production and prices have been computed from Table 3.1 and 4.1.

3.23 Hence factors such as production or availability or the general cost or demand cannot adequately explain the price rise of the magnitude witnessed during the period of partial decontrol. The causal factors seem to lie elsewhere.

3.24 In concluding this part of our discussion it may be interesting to recall the nature of price movements in the 1950's, and contrast that with our contemporary experience. In the 1950's, the early years after independence, when government was seriously maintaining a control over the functioning of the economy so as to ensure price stability, rapid growth and adequate availability of all essential commodities, the movement of foodgrains and non-foodgrain prices was within fairly reasonable limits (see Table 7). Sugar prices were no exception to this general rule and in fact registered a fall in the mid-50's.

3.25 From 1952-53 to 1956-57 the entire sugar output was sold in the open-market - under complete decontrol - and yet prices remained stable given fairly good supplies. But from 1967-68 to 1975-76 - a period of partial decontrol - when per capita production and availability were rising, the price of

**Table 3.7: Index Numbers of Wholesale Prices - Some Groups of Commodities**

| Year | Cereals | Pulses | Sugar and Allied Products |
|---|---|---|---|
| 1952-53 | 100 | 100 | 100 |
| 1953-54 | 89 | 72 | 118 |
| 1954-55 | 68 | 49 | 85 |
| 1955-56 | 88 | 77 | 92 |
| 1956-57 | 99 | 83 | 92 |
| 1957-58 | 96 | 80 | 113 |
| 1958-59 | 101 | 101 | 128 |
| 1969-70 | 206 | 248 | 155 |
| 1970-71 | 194 | 227 | 188 |
| 1971-72 | 209 | 284 | 253 |
| 1972-73 | 241 | 353 | 270 |
| 1973-74 | 309 | 454 | 269 |
| 1974-75 | 386 | 457 | 299 |
| 1975-76 | 288 | 348 | 291 |

Base for 1952-59 Prices is 1952-53 = 100
Base for 1969-76 Prices is 1961-62 = 100

Source: R.B.I. Bulletins, July 1960 and 1976.

sugar rose steeply. Indeed the price of many commodities (see Table 3.7) and in most cases they rose even during periods of comportable supplies [15].

3.26 Any explanation of the behaviour of sugar prices cannot hence be based merely on an analysis of the forces of

---

15/ See N.Krishnaji, "Wheat Price Movements - An Analysis", E.P.W. June 30, 1973 and Prabhat Patnaik, "Current Inflation in India", Social Scientist, Issue 30-31, Jan-Feb., 1975.

supply and demand. In fact such an analysis may be misleading given the extent of state intervention in the sugar economy. It is essential that the full implications of any regime be first spelt out and only then evaluated in terms of the movements of prices, production, releases and exports of sugar.

# CHAPTER 4

## THE REGIME OF PARTIAL DECONTROL - EXPERIENCE AND ACHIEVEMENTS

4.1 The Regime of Partial decontrol came into existence in November 1967 at a time when sugarcane and sugar production had reached a very low trough and, consequently, cane prices were ruling very high. Partial decontrol, it was thought, would, on the one hand, help the industry in making 'reasonable' profits from the sales on the open-market and, on the other, allow them to pay the higher price that cane was then commanding. And through this policy, it was hoped, the production of sugarcane and sugar could be stepped up.

4.2 As Table I shows such a purpose was indeed served in as much as the production of sugar went up from 22.48 lakh tonnes in 1967-68 to 35.59 lakh tonnes in 1968-69 and 42.62 lakh tonnes in 1969-70 1/.

---

1/ Thereafter production stagnated till 1973-74, the reasons for which are discussed later in this chapter.

**Table 4.1: Some Statistics of the Sugar Economy - All-India (in Lakh Tonnes) and Rs. per quintal)**

| Year | Production | Consumption | Carry over stocks as on 1st Oct. | Exports | Open Market wholesale prices | Per Capita consumption kgs/annum |
|---|---|---|---|---|---|---|
| 1961-62 | 27.29 | - | 14.82 | - | - | 5.7 |
| 1962-63 | 21.39 | - | 12.56 | - | - | 5.4 |
| 1963-64 | 25.73 | - | 3.27 | - | - | 4.9 |
| 1964-65 | 32.32 | - | 3.31 | - | - | 5.1 |
| 1965-66 | 35.41 | - | 8.59 | - | - | 5.7 |
| 1966-67 | 21.51 | 25.95 | 12.16 | 2.35 | - | 5.2 |
| 1967-68 | 22.48 | 22.11 | 5.37 | 1.39 | 331 | 4.3 |
| 1968-69 | 35.59 | 26.04 | 4.35 | 0.79 | 282 | 4.9 |
| 1969-70 | 42.62 | 32.61 | 13.06 | 2.17 | 180 | 6.1 |
| 1970-71 | 37.40 | 40.25 | 20.90 | 3.95 | 183 | 7.3 |
| 1971-72 | 38.13 | 37.80 | 14.10 | 1.44 | 284 | 6.7 |
| 1972-73 | 38.73 | 35.11 | 5.99 | 0.97 | 328 | 6.1 |
| 1973-74 | 39.48 | 35.19 | 8.64 | 4.15 | 423 | 6.0 |
| 1974-75 | 47.97 | 34.57 | 8.78 | 9.24 | 462 | 5.9 |
| 1975-76(P) | 42.62 | 36.90 | 12.94 | 10.21 | 448 | 6.1 |

(P) Provisional

Source: 1. Sugar Situation, May 1977, Directorate of E & S, Government of India. (Min. of Agri. & Irrigation)

2. A.P.C. Reports on Price Policy for Sugar Cane (Different Years).

4.3 This was partly caused by a steep increase in acreage under cane (from 5057 thousand acres in 1967-68 to 6257 thousand acres in 1968-69 and further to 6792 thousand acres in 1969-70, see Table 3.2), following the increase in the statutory minimum cane price from Rs.5.68 per quintal in 1966-67 to Rs.7.37 per quintal in 1967-68. And this was also caused partly by the fact that non-levy sugar could be sold at a higher price on the open-market during this period.

4.4 However given the fact that the regime started with high prices it was only natural that the incentive given for increasing production would ultimately lead to a softening in prices. Such a fall did occur and open-market wholesale prices of sugar fell from Rs.331 per quintal in 1967-68 to Rs.180 per quintal in 1969-70 2/ .

4.5 This is not to say that the government did not intervene in the market or in the industry during this period. Firstly, the monthly releases of sugar continued to be controlled by the Government; secondly, sugar exports were stepped up from

---

2/ This and other wholesale prices quoted are the average of annual average prices prevailing in the five major markets, namely, Bombay, Calcutta, Delhi, Kanpur and Madras, as given in '<u>Indian Sugar</u>' April 1977, Journal of the Indian Sugar Manufacturers Association (New Delhi).

0.79 lakh tonnes (l.t.) in 1968-69 to 3.95 lakh tonnes in 1970-71 (inspite of the fact that international prices were generally lower than domestic cost of production; for example in 1968 the international price in the Carribean and Brazilian ports was around Rs.30.75 per quintal while the production cost in India was around Rs.96.20 per quintal) 3/. Finally, there was a continuous accumulation of stocks, which rose from 4.34 l.t. at the end of 1967-68 to 13.06 l.t. at the end of 1968-69 and to 20.9 l.t. at the end of 1969-70.

4.6 Therefore much of the price fall in the earlier period of the present regime occurred inspite of efforts made

---

3/ See APC Report on Price Policy for Sugarcane for 1969-70 season for data on International Prices and Report of the Tariff Commission on Cost Structure and Fair Price Payable to Sugar Industry (1969) for data on cost of production. The export of sugar is being treated here as an 'interference' in the sugar economy because the government subsidises these exports in order to meet the difference between international and domestic prices. If it were not for the government subsidy the industry could not have exported under normal market conditions. We should not however exaggerate the role of exports in this period since exports did fall by 1971-72 to 1.44 l.t. However, the point is, this all the more aggravated the situation prevailing in the country, where total availability was continuously rising and, inspite of stock accumulation, exports etc. domestic price was rapidly falling.

to counter it and seemed to have been almost inevitable. To quote the APC Report on Sugarcane Price Policy for the 1972-73 season, "Despite a lower production of sugar at 37.4 l.t. in 1970-71, the magnitude of the stock with the factories was not only proving a source of embarassment for the authorities but, by prompting them to resort to liberal releases of the commodity, was also making for an anomolous situation in which the price of sugar in the free-market tended to drop below its controlled price." 4/

4.7 It was in this situation that the Government decided to abandon partial decontrol and go in for complete decontrol. The regime of complete decontrol lasted for just about an year (May 1971 to May 1972) but proved to be extremely rewarding for the industry and the traders. Open Market prices of sugar soamd up from around Rs.138 per quintal in 1970-71 to about Rs.280 per quintal in 1971-72. (a 55 per cent increase) despite the fact that the production of sugar in 1971-72 was more than that in 1970-71. Quite obviously this was achieved through restricted releases of sugar because we see (Table 4.1)

---

4/ It is quite possible that this was due to a saturation of domestic demand at the existing prices and the existing pattern of distribution. May be it was the case that domestic demand could not be generated in the short run and hence the fall in prices.

that sugar released for internal consumption, which was far below what was 'available' (Availability = production plus stocks minus exports) in each of these years, fell from 40.25 l.t. in 1970-71 to 37.8 l.t. in 1971-72. Consequently per capita consumption also fell (see Table 4.1) from 7.3 kgs. per annum to 6.7 kgs. per annum between these two years.

4.8 Having resolved the crisis of over-production in this manner the government reverted to the regime of Partial Decontrol in June 1972. Ever since then production has gradually increased while releases for internal consumption and consequently per capita consumption have remained almost stagnant (at least till 1974-75). The differences between the two has gone either into increasing exports or into stock accumulation. The net result of this phenomenon has been the secular rise in the open-market prices of sugar 5/.

---

5/ However moderate fall in prices in 1975-76 may be attributed to two main reasons: firstly, 1974-75 had witnessed the largest ever production of sugar which was around 47 lakh tonnes, secondly, The National Emergency which was declared in June 1975 resulted in a general fall in prices in the earlier phase of the Emergency. Prices once again picked up by the end of 1976 when sugar was sold at Rs.500 and above per quintal.

4.9 In this context a short discussion of the policy of monthly releases of sugar by the government for internal consumption may be useful for a clearer understanding of the nature of State intervention. From time to time government has been fixing the free-sale and levy quotas for sugar released for internal consumption. Table 4.2 gives the ratios of these two since 1967-68.

Table 4.2: Ratio of Levy Sugar to Free-sale Sugar in the Total Releases of Sugar for internal Consumption

(Percentage)

| Year | Officially announced Ratio (Levy:Free) (1) | Actually observed Ratio (Levy: Free) (2) |
|---|---|---|
| 1967-68 | 60:40 | 59:41 |
| 1968-69 | 70:30 | 63:37 |
| 1969-70 | 70:30 | 67:33 |
| 1970-71 (Oct. 1970 - May 1971) | 60:40 | 55:55 |
| 1971-72 (July - Sept. 1972) | 60:40 | 64:36 |
| 1972-73 | 70:30 | 67:33 |
| 1974-75 | 65:35 | 70:30 |
| 1975-76 | 65:35 | 70:30 |

Source: 1. 'Sugar Situation' May 1977, Economics and Statistics Advisor, Ministry of Agriculture and Irrigation, Government of India.
2. 'Indian Sugar', April 1977, Journal of India Sugar Mills Association (New Delhi).

4.10 The levy quota is procured from the factory either by State Governments or by the Food Corporation of India [6/]. It is procurred at the levy price fixed from time to time by the Government of India formerly on the basis of the recommendations of the Tariff Commission and in recent years on that of the Bureau of Industrial Costs and Prices. The All-India weighted average of the Levy-prices for all regions works out to about Rs.168 per quintal (excluding excise duty) and the price at which it is distributed through the Fair Price Shops is presently around Rs.215 per quintal (that is, Rs.2.15 per kg.)

4.11 As for the free-sale quota, each factory is allowed to sell a certain fixed quota (the reciprocal of the levy quota) to authorised wholesale dealers for sale on the open-market. The Government only announces the amount that can be released for free-sale and there is no compulsion that this amount be in fact lifted. So what is actually sold on the free-market reflects to a certain extent the existing

---

6/ States covered by the FCI are: A.P., Assam, Bihar, Kerala, M.P., Meghalaya, Mizoram, Orissa, U.P., W.Bengal, Chandigarh, Delhi, J & K., Arunachal Pradesh, Andamans and Lakshadeep; The other States are covered by their respective state Government Civil Supplies Departments.

price situation. It should be noted however, that the government itself has been altering the ratio from time to time in response to changes in prices and production.

4.12 What Table 4.2 tells us is that there is nothing sacrosanct about official quota allocations. If free-sale quota has always been above what was stipulated (till 1973-74) it was because in the earlier period (of falling price) the massive stock accumulation must have forced dealers to part with large stocks even at unremunerative prices 7/. But in the latter period (of rising prices) the excess sale on the open market reflects the natural response of dealers and manufacturers to cash in on the very favourable prices. In 1974-75 and 1975-76 we observe that what was sold on the open market was less than the quota allotment. This may have been due to two reasons: firstly, large amounts of sugar meant for internal consumption were diverted to foreign markets to meet the tremendous spurt in

---

7/ Partly this may have been necessitated by the fact that Bank credit was not easily forthcoming. Bank borrowings as a percentage of inventories increased from 62.3 per cent in 1967-68 to 65.8 per cent in 1968-69 and fell to 65.3 per cent in 1969-70. In other words, it remained almost static. It was only in 1970-71 that it went up to 80 percent and we see that by then prices stabilised (see Table 4.1) and 1971-72 onwards the upward price spiral started. See (R.B.I. Bulletins, July 1973, April 1974, February 1975).

the export demand for sugar [8/]. Secondly, the fear that prices may fall, following the bumper output of 1974-75, may have cautioned industry and dealers thus dampening offtake into the open market. In fact in this period stock accumulation picked up once again and was at 8.78 l.t. at the beginning of 1974-75 and 12.94 l.t. at the beginning of 1975-76.

4.13 On the basis of the data presented in Table 4.2 we have argued that there is a divergence between what is officially fixed as 'Free-Sale quota and what is being actually sold on the open market. Another significant aspect of sugar availability on the open and controlled markets which cannot be substantiated by concrete data is the large-scale diversion of levy sugar onto the open-market by dealers and consumers.

---

[8/] In 1974-75 and 1975-76 sugar exports increased and sugar was the largest single foreign exchange earner for India following the acute shortage of sugar in the world economy on account of a poor cane crop in Cuba and Brazil and a poor beet crop in Europe. The world price of sugar in the London Market went up from £100 per ton to £600 per ton in 1974-75. (See Deepak Nayyar, "India's Export performance in the 1970's", Economic and Political Weekly, May 15, 1976 for a detailed discussion of the performance of sugar exports in the 1970's) and India used this opportunity to expand exports by squeezing domestic consumption (as is reflected in Cols. 2,3 and 7 of Table 4.1 above).

4.14 In a recent statement [9] the Union Minister of State for Agriculture and Irrigation admitted that in States like U.P., Bihar, M.P. and Rajasthan, not even 10 per cent of the sugar meant for rural areas ever reaches them. Further, he observed, "Levy sugar has become one of the biggest sources of corruption and the amount involved in the racket was Rs.150 crores to Rs.200 crores." [10]

4.15 At much smaller levels the petty Fair Price shops traders are equally involved in this racket. They buy at a price little above the levy price the sugar allotted to ration card holders who do not wish to consume sugar but would prefer to sell it in exchange for rice, wheat or just cash, and sell the sugar on the open-market. Sometimes poor consumers themselves sell it to households or tea shops. It is difficult to say, however, to what extent the practice prevails and whether it significantly alters the price

---

9/ The Hindu, p.1., Col.7, 26-9-1977.

10/ In extensive discussions with officials in the Directorate of Sugar (Govt. of India) we were told of the many ways in which levy sugar finds it's way into the open-market. The Officer also confessed that measures to counter this racket have had marginal impact given the magnitude of the problem.

movements [11].

4.16 To sum up, after the initial unsettling years of 1968-69 and 1969-70 when the industry was faced with an unprecedented volume of production and stocks forcing prices down, the sugar economy has been controlled fairly "efficiently" so as to maintain prices at a high level. The movements in monthly releases and exports (not forgetting stocks) have amply corroborated the hypothesis that, inspite of comfortable production the open-market prices have been consistantly rising. Secondly, despite the fact that nearly two-thirds of the total outpur is sold through the Public Distribution System the open-market dependence of the average urban and rural consumer is still fairly high.

---

[11] A micro-level study by Leela Gulati, (Rationing in a Peri-Urban Community, Economic and Political Weekly March 12, 1977 shows that, "..one can either surrender the sugar entitlement (on the ration card) in part or full, to the ration shop itself (but this is illegal), or draw the whole sugar ration and then sell it in part or full (which is not illegal) to a tea shop or even to some households in the neighbourhood". Ration shops are also know to replace crystal sugar with Khandasari Sugar (which is cheaper) and sell the costlier (and more profitable) crystal sugar on the open-market.

# CHAPTER 5

## SUGAR POLICY - 1977-78

5.1 As we have seen, in Chapter 3, one of the major achievements during the Regime of Partial Decontrol has been the significant increase in production over the last decade or so. By 1976-77 sugar production reached a record level of 48 lakh tonnes and the projection for 1977-78 has been put around 52 lakh tonnes 1/.

5.2 An important question arises in this context. If demand for sugar is not as easily forthcoming as is required in order to absorb the existing production then how long can the open-market price of sugar be maintained at a level that is remunerative to the manufacturer and the dealer? Let us first examine the present state of the sugar economy.

5.3 This situation in 1976-77 has been to a large extent a repetition of an earlier experience, namely, the experience of the early 'Seventies. In 1971-72 production was fairly

---

1/ 'Sugar Industry - Cost Structure', Econ. Times Research Bureau, E.T. 4 Oct. 1977.

comfortable, (at 38 lakh tonnes), while carry-over stocks from the previous year were very high, (at 14 lakh tonnes) and exports had dwindled down from 3.95 lakh tonnes in 1970-71 to 1.44 lakh tonnes in 1971-72.

5.4 Under these circumstances, on the one hand, further stock accumulation would have been very difficult given the perishable nature of sugar and the scarce availability of credit to finance stock accumulation, and on the other hand, export prospects were not very promising. (This was discussed at length in Chapter 4).

5.5 The (immediate) impact of all this was on the price of open-market sugar which fell from Rs.282 per quintal in 1968-69 to Rs.180 in 1969-70 and remained at that level through 1970-71. As stated in the previous Chapter the immediate solution sought for this crisis was to do away with partial decontrol and go in for complete decontrol. Prices immediately firmed up and by 1971-72 prices on the open-market were ruling around Rs.284 per quintal - a level that prevailed in 1968-69 when per capita consumption was 4.9 kgs. per annum as compared to 6.1 kgs. per annum in 1971-72 (see Table 4.1).

5.6 Let us contrast this with the more recent experience. In 1976-77 production reached a comfortable peak of 48 lakh tonnes, stocks accumulated to about 13.5 lakh tonnes and export prospects were bleak (with international prices very low exports fell from 12 lakh tonnes in 1976-76 to 4 lakh tonnes in 1976-77) 2/.

5.7 Given such a situation the expectation of a domestic price fall was beginning to be realised and prices fell from around Rs.450 in 1975-76 to about Rs.422 in 1976-77. Under these circumstances the solution that the industry would have sought should become immediately obvious to us.

5.8 Representatives of the industry put forward a strong plea in a national daily 3/ for the Decontrol of sugar prices from the beginning of the 1977-78 season. Indeed the government seemed to be well convinced by their plea because both the Union Minister of State for Agriculture and the Prime Minister hinted that such a policy may be announced. The former told the Andhra Pradesh Sugarcane Growers Federation that, "The dual pricing policy for sugar would go in the new

---

2/ 'Co-operative Sugar' - Editorial, p.1. (Monthly Journal of the N.F.C.S.F. Ltd., New Delhi.

3/ See 'Industry and Engineering', p.9. Indian Express, 21st Sept. 1977.

policy under formulation,[4]" and the latter stated on the very next day that the, "Union Government wanted to remove all unnecessary controls as 'they lead to corruption'. The Centre would like to remove the control on sugar, as the country was having enough production."[5]

5.9 What would have been the consequences of such a policy for the economy as a whole and for the sugar economy in particular? Firstly, the open-market price of sugar may have fallen but surely the levy sugar price would have risen [6]. Secondly, given the magnitude of the price rise [7] the consumer Price Index would have registered a significant

---

4/ See p.1, Col.7, the Hindu, 26th Sept. 1977.

5/ See p.1, Col.1, The Hindu, 27th Sept. 1977.

6/ One estimate put this rise at around 45 percent, that is, from Rs.2.15 per kg to Rs.3.25 per kg which is less than the prevailing open-market price in major urban markets (see Indian Express, 21st Sept. 1977, p.9)

7/ An important point to be noted here is that the decontrol of sugar will have an adverse impact on the general price level. A simple exercise should prove this. Of every quintal of sugar 65 kgs are sold as levy sugar at Rs.2.15 per quintal while 35 kgs are sold as free sugar at (on an average) Rs.4.00 per kg. which means the combined price would be (Rs.2.15 x 0.65 + Rs.4 x 0.35) = kg.2.86 per kg. On the other hand, an estimate by the industry, surely a conservative one, (see Economic Times, 8th Oct. 1977 p.1) put the uniform price that will prevail after decontrol at Rs.3.25 per kg. This means there will be an immediate increase in the price of sugar by 14 percent. As far as the C.P.I is concerned the relevant price of sugar then will not be Rs.2.15 but will be Rs.3.25 - a 45 percent increase.

rise since the price of sugar used in computing the C.P.I is the levy sugar price and not the open-market price. Thirdly, the lack of any regulation on the sugar industry would have affected the gur and khandsari units adversely. These units which consume 70 percent of the total output of cane would have been faced with depressingly low prices and therefore could not have competed with the sugar manufacturers. It is reported that the Ministry of Agriculture also felt that decontrol would have deprived the farmer of a guaranteed remunerative price 8/.

5.10 Surely a price rise (which is estimated to be about 45 percent; see footnote 7) is not welcome as far as the government is concerned. It is an apprehension on this front, in the context of repeated promises by the government to bring down the prices of all essential commodities, which must have been the single important factor that motivated the government's decision not to decontrol sugar prices 9/.

---

8/ p. 1 Col.2 - 5, Financial Express, 11th October, 1977.

9/ - ibid.

5.11 In the light of past experience, it is difficult to believe that this policy will or can continue for long without opposition from the industry and the trade. Our analysis thus far clearly suggests that representatives of the sugar industry can successfully exert pressure on the government to evolve policies consistent with their interests [10].

---

[10] As it is we know that the Cabinet itself was sharply divided on the question of sugar policy. Just a couple of days before the present policy was announced it was reported (see Economic Times, 8th Oct. 1977 p.1, col.6), "The Union Cabinet is understood to be sharply divided over the new sugar policy. While some of the ministers, mostly hailing from states where sucrose content is low and the sugar factories, being old are less compatible, are pressing for total decontrol, others are fervently pleading for the continuance of the current policy. Most of the former belong to the erstwhile B.L.D. and Jana Sangh. Some of the Ministers of the former Congress (O), CFD and Socialists like Mr.Fernandes are at best prepared for only a marginal change in the present policy." The present policy, therefore, stands on uncertain and delicate grounds.

## CONCLUSION

5.12 The sugar policy of the government of India during the regime of partial decontrol has clearly been in the interests of the industry and the trade. To some extent the big growers, who control co-operative factories, have also benefitted; but by and large the small and medium growers and the consumers have not been able to seek protection of their interests through this policy.

5.13 In this context an observation by Lenin pertaining to Czarist Russia's sugar economy may be also relevant in characterising the nature of Sugar Policy in India today, "....... in the case of the Sugar Syndicate the government controlled sugar production by introducing restrictions on home consumption through rationing and taxing sugar sold on the home market. In addition, the government introduced a system of rebates on sugar exports. As a result, Russian sugar was sold in London 61.3 percent cheaper than at home. It goes without saying that it was only by means of state-controlled production and regulation in the interests of the landowners [11] and the sugar factory owners, or to be more precise, through sugar starvation engineered by factory owners with the direct assistance of the government, that it was possible to squeeze the consumer so hard and guarantee fantastically high profits to the sugar industry." [12]

---

11/ This will not hold true for India as a whole, while it will be true as far as some of the Co-operatives are concerned.

12/ Lenin, as quoted by S.L. Vygodsky; "Lenin: The Great Theoretician" (Progress Publishers), 1970, p.97.