CHAPTER - I

INTRODUCTION - Scope of Study - Growth of the Industry under protection and conditions after withdrawal of the protection.

Sugar industry in India is suffering to a considerable extent for a long time due to certain associated problems. The problems are of importance, not being of the same nature and deserve proper probe for their solution which will ultimately bring about or at least expected to result an equilibrium in the industry. Of these problems the one for pricing and distribution bears the greatest importance because of the fact that the interests of the farmer, factory and consumer are suffering. There are certain farmers and factories who do not suffer any appreciable damage, but they are a few in number and constitute only the category of exception.

In as much as sugar is a need for every human being as well as for certain industries including the manufacture of medicines, the production and distribution of sugar in the desirable manner bears a national importance, since production of adequate quantity of sugar and its supply to the consumer at a reasonable price is a national need and the entire process need be manifested as such.

The continuing condition of sugar production and supply to the consumers does not bring a happy situation. The price indicator is on the high trend working through a vicious circle, the cost of consumption runs from high to higher in a continuous process and a remedy is sought of
For this purpose a probe into the matter in order to bring about a solution of the problem is long felt.

The per capita consumption of sugar in India is very low in relation to the other countries of the world. Side by side India produces Sur and Khandsari as a major sweetening agent, the production and consumption of which is relatively high, resulting in relative underconsumption of sugar as a sweetening agent. This is due to high price of sugar i.e., high consumption cost, consumption cost in comparison to the income level of the major part of the Indian population which creates a multiplicity in the national problems through a vicious circle emanating out of the problems associated with the sugar industry. This leads, therefore, to a condition under the impact of which the cost factor of sugar along with all its subsidiary products has to be brought under control so that both the cost of production and the cost of consumption of this essential commodity can be brought under the stretch of a compass and so that its price can be retained somewhat steady maximising the output in the desired direction. *

It is obvious that as the proper pricing of the end product in sugar industry is a present day question, it is essential to examine and measure the employment of materials, labour, utilisation of by-products by their proper manifestation with a view to pull down the wastes to the floor level so that nothing is misemployed or left in the realm of the

* Sugar industry - Problems before it - by M.N. Mitra
cost of production that may lead to a cost reduction vis a vis price reduction. There is, therefore, a scope and need of study of situation for a probe in the matter of pricing and solving the problems related with the sugar industry.

Since 1930 the sugar industry has grown rapidly. This expansion was a direct result of the relation between the tariff policy and agricultural policy of the Government. Before 1932, the Indian sugar industry was constituted in the childhood of the industry by 30 factories with about 15,000 workers producing about 1,60,000 tons of sugar per annum importing about 6,00,000 tonnes at the same time.

In 1932, Govt. of India adopted a protected tariff policy for sugar industry. It was primarily adopted for agricultural welfare reasons in order to protect the sugar cane farmers and to provide an outlet for the production which was, at that time, facing a threat of increased cost due to lower cost of import. Since the production of refined sugar in India commenced only after the first world war on the consideration of the production of sugar cane could be made in abundance. This led to the imposition of protective duty on the imported sugar as per "Sugar industry (Protection) Act 1932." In 1937, the Second Tariff Board was approached to ascertain the extent and continuity of the said Act. The Tariff Board recommended continuance and enhancement of the protective duty as well as for the formation of a control Board since there came a setback in the sugar industry from 1932 to 1936 as a result of which

* Industrial changes in India by George Rosein
the production of sugar cane cultivation area fell down from 4,23,924 acres to 68,613 acres, production of sugar fell down from 2,571,295 tons to 4,55,000 tons and 127 factories became closed though the cane acreage rose from 42 to 56 tonnes and extraction percentage rose from 11.16% to 14.32% during the same period. As a result of the recommendations of the 2nd Tariff Board certain major problems of the sugar industry viz. licensing of factories, fixation of price for cane, Regulation of supply of sugar cane to the factories etc. were promised under the sugar control Board.

From 1932 to 1937 the industry grew at a rapid rate raising the no. of operating factories to 137, the total number of workers in the industry exceeded 75,000, annual production rose to about 10 lakh tons and import declined to 1.4 lakh tons only. The factory production also expanded and the utilisation of cane crop rose from 5% in 1931-32 to 18% in 1938-39 of the total sugar cane produced. By 1938-39 the sugar industry became third among all organised industries in India on the basis of total capital and fourth on the basis of fixed capital. It is thus evident that though the industry faced serious depression following the world wide depression of 1930, steady progress stemmed out both in the fields and in the factories to the best credit to the sugar industry. Following this India could export sugar @ more than 1.5 lakh tons per year. But this progress could not be ascribed as worth while so much as can be claimed as desirable. But the protection granted by the Government gave the industry the desired stimulation so that the no. of operating factories rose to 137 and the production of sugar rose to about 10 lakhs tons
per annum at the end of the world war II.

This was due to the fact that world War II stimulated the demand for refined sugar duly translated to production as such as because the imports fall sharply resulting that the price and the profits increased which forced to bring about control on sugar, Gur and Randsari. The Controls and the political unrest in India reduced the production from 332 lakhs tons 1943-44 to 9 lakh tones in 1946-47. With the advent of India's political independence in 1947 the tariff protections continued but no noticeable progress took place till the beginning of 1950-51 excepting that the total production of sugar increased to 11.34 lakh tons per annum with the number of factories remaining stationary. Immediately before this, while the control on sugar existed the production of sugar though increased but remained below the war time and pre-war peak.

In 1950 Government lifted both the minimum prices for sugar cane and maximum price for sugar allowing the producers at the same time to sell in the open market the sugar produced in excess of the minimum quota imposed by the Government. This stimulated the production of sugar still further raising the production to 15 lakhs tonnes per annum in 1951-52 and to 17 lakh tons in 1952-53. But the lowering of came prices resulted in the overall decline in the production of sugar cane and there by sugar. In order to meet the consequent deficit between the rising demand and the declining output in the country, the import duty was reduced by about 50% in June, 1953 resulting in slight increase in the imports during the years from 1952-1955. But as the minimum cane prices were increased
removing at the same time price controls on refined sugar in 1954, the output of sugar increased to 16 lakh tons. This result rendered the domestic supplies sufficient to meet the domestic demand and further imports were considered unnecessary. On this basis the import duties were raised in 1955 almost to the 1951-52 level. The higher production of sugar after the second world war was, therefore, a result of Government policy and action regarding price controls on sugar cane and refined sugar. The changing price controls also reflected on the output of sugar. Though the Indian sugar production was protected by the Govt., the comparative prices of 1949 indicate that the retail prices of refined sugar in India were significantly higher than the same prevailed in the other producing countries.

Before the promulgation of Sugar Industry (Protection) 1932 Act and immediate after it, the popular sweetening agent most commonly used through and through India were Gur and Khandsari. The age long practice for the production and consumption of sweetening agents were mainly Gur and Khandsari. Due to social and religious taboos most of the orthodox families in India were unwilling to consume refined sugar until the second world war. Due to this reason particularly, the production of refined sugar did not develop in India properly which was also contributed for the use of various chemicals required for the refining of sugar which were mostly imported and considered by the orthodox families as untouchable. As a result, sugar cane cultivation did not develop properly and scientifically as well as production of Gur and Khandsari had the preference which too was unscientific and much of sugar contents and other by products were
lost as wastage. Besides, the Indians are less inclined for the consumption of sweetening materials like sugar and Gur which was also responsible for the growth of Sugar industry in India to the desired level. The per capita consumption of sugar and gur in India were 6.2 lbs. and 17.2 lbs. per annum in 1931-32 which is considerably low in comparison to the other consuming countries of the world. Absence of assessment or any tools of measuring the demand for sugar and capital sickness of the Indian investors was fundamentally responsible for the stagnation in the pattern of production and consumption of sweetening materials in India. In addition, the Indian population was constituted by more than 60% pertaining to relatively poorer class whose food habits did not permit them to consume sufficient quantity of gur since sugar was an item of luxury material and of foreign origin.

Cultivation of sugar cane and production of sweetening materials like gur and Khandsari were restricted in the northern and north western states of India from time immemorial. As a result, there was an overcrowding of sugar factories in Bihar and U.P., ultimately producing about 82% of the total Indian Sugar production. Earlier to this condition a greater portion of the need for sugar was met by imports while the Indian style of producing gur and Khandsari. As the western education entered the social life of the Indians, the taboos that enjoyed a supremacy in the Indian life slowly parted away to a considerable extent particularly in the limits of urban life invoking consumption and demand for refined sugar which led to a slow but gradual growth of sugar industry including the cultivation of sugar cane in certain other states like
Madhya Pradesh, Karnataka in addition to the concentration in Bihar and Uttar Pradesh. The rural life continued the likings for Gur and Khandsari to a considerable extent.

Absence of technological know hows, proper machineries, scientific management etc. and the greed of the investors led to the production of refined sugar at a relatively high cost in comparison to the other sugar manufacturing countries as a result of which the sugar industry in India could not manufacture and sell enough sugar in order to fight out the import of Javanese sugar. This situation continued till the Government adopted a protective tariff policy in 1932 rendering the imported sugar costlier than the Indian sugar. After this the Indian sugar industry marched forward duly accelerated, bearing an impetus by the occasions of world war II and independence of India.

The following table will give a clear picture of the progress during the period of protection and immediately before it.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of factories</th>
<th>Production in Lakh tonnes</th>
<th>Index of gross value added per ton of sugar output</th>
<th>Machine price index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1931</td>
<td>30</td>
<td>1.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1937</td>
<td>137</td>
<td>11.11</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1938</td>
<td>131</td>
<td>9.15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1939</td>
<td>132</td>
<td>9.15</td>
<td>100</td>
<td>114</td>
</tr>
<tr>
<td>1940</td>
<td>138</td>
<td>10.47</td>
<td>60</td>
<td>125</td>
</tr>
<tr>
<td>1944</td>
<td>145</td>
<td>12.01</td>
<td>102</td>
<td>139</td>
</tr>
<tr>
<td>1948</td>
<td>134</td>
<td>10.75</td>
<td>187</td>
<td>204</td>
</tr>
<tr>
<td>1950</td>
<td>139</td>
<td>9.79</td>
<td>201</td>
<td>249</td>
</tr>
<tr>
<td>1952</td>
<td>139</td>
<td>14.89</td>
<td>160</td>
<td>290</td>
</tr>
</tbody>
</table>
Since the partition of India came into force with effect from 15.8.1947, the figures from that time onwards indicate the activities relating to sugar industry within the territory of Indian Union though, however, the figures for the earlier years indicate progress in the industry.

Prior to 1932, when protection was granted, the conditions of sugar industry did not cause any worry. But the 30's depression invited such protection and the need of the same was felt necessary with the advent of World War II.

After independence, the Govt. of India asked the Tariff Board, in July 1949, to examine the need for the continuance of protection of the sugar industry beyond 31.3.1950. The Tariff Board felt that the granting of protection to the sugar industry for a continued period of 18 years had produced an attitude of complacency on the part of the Government, industry, and the cultivators so that they had not taken sufficient steps to improve the overall efficiency of the industry so as to bring down the cost of production. The tariff Board, therefore, recommended that the protection granted in 1932 should not be continued beyond 31.3.1950. This decision of the Tariff Board was amply justified for the reasons that the protection was granted with a view to induce development and the growth of the sugar industry against import of sugar.
from foreign countries and that there were serious complaints against
the sugar industry of malpractices in respect of production, price,
and distribution for which the Government had to set up an enquiring
committee in 1950 for a probe into the complaints.* This committee
tendered a report on 30.12.1950 which influence the decision for the
discontinuance of the protection.

The sugar production after the discontinuance of the
protection did not bring about any adverse result, so far as utilisation
of sugarcane and production of sugar is concerned, as may be evident
from the fact that the production capacity of sugar, which stood at
16.68 lakh tonnes per annum, increased to 32.50 tonnes per annum at
the end of the Third Five Year Plan and that the production of sugar
rose from 11.01 lakh tonnes per annum in 1949 to 36.51 lakh tonnes
per annum in 1965-66 in a continuous process.

Yet, however, the sugar industry was granted another sort
of protection within the country against certain competing industries
by granting reserved areas for the sugar factories which provided an
assured supply of sugar cane to the sugar factories. This protection
is still being enjoyed by the sugar industry. This indirect protection
emerges out of the sugar policy followed by the Govt. from time to time
in pursuance to which the variable factors/cost such as sugar cane price,
labour wages are retained within the acceptable limits of the sugar

* Report on sugar Enquiry Committee 1950.*
factory management and the rates for the same are fixed by the Government. The supply of sugar cane is also ensured to the factories by reserving cane growing areas in the nearness of the factories as a result of which the factory management is not required to face with competitive prices for sugar cane. Furthermore, a certain percent of the sugar production (say 65% or so) is taken over by the Government through levy and the price for the same is also fixed by the Government which includes normal profit. The balance portion of the sugar production is permitted to be sold by the manufacturers in the open market at the available market price which is usually much higher than the levy price. Such an arrangement also enjoys another privilege. A sugar manufacturer has a scope to understate the total sugar output by manipulating the relevant registers and statements which provide the manufacturer with more of sugar for sale in the open market at an extra-ordinary high price.