CHAPTER III
HISTORY OF CEMENT INDUSTRY

3.1 Introduction

'Cement' along with steel and electricity is an essential prerequisite for the fast industrialisation and a development of the economy. It is a basic infrastructural industry. Its vital role in the economic development of the economy is considered in innumerable ways in which it is being used in different parts of the world. Besides, its level of consumption is considered an extremely important indicator of the quality of economic life of the people.

With the ushering in of the era of planned economic development in India, this industry has been accorded a significant place in the scheme of priorities for facilitating investment process in the industrial development. However, primarily dominated by the private sector, cement is produced both in public and private sectors. The concept of public sector, as envisaged by the architects of modern India, was that public investment should be made in core sectors where lumpy investments with long gestation periods and relatively lower returns to capital invested, are involved and where private investment would not be readily forthcoming. At the same time, certain guidelines were adopted for the private sector in order to
augment production without encouraging the concentration of economic power. Different policies adopted by the government are the manifestations of these guidelines.

As explained earlier in Chapter II, through industrial licensing policy, the government sought a fair regional diversification of cement factories, and by adopting a cement distribution policy, the government intended to ensure equitable regional distribution of it at fair prices. Price-control policy was adopted taking into account of the oligopolistic market structure of cement industry. Unfortunately, these policies did not provide the desired results; instead they invited severe criticism from various quarters and ultimately paved the way for liberalisation including decontrol.

The gravity and seriousness of these problems ask for a comprehensive study of cement industry. In view of the changing economic policies of the government in general and cement policy in particular especially the increasing reliance being put on private enterprise, it is highly desirable to look at the performance of this industry in public sector units in comparison to that in the private sector units.
There is a sizeable literature available on various aspects of cement industry. It may be worthwhile to look at some of the writings, especially those on diverse aspects of its economic performance. The most important and pioneering work on cement industry is by V.Poddar (1961, 1966), in which he touches almost all aspects, historical, analytical and technical. Then a good deal of analytical literature exists on numerous broad issues such as capital and labour productivity, economies of scale, locational patterns, financial structure, public and private sector.

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performance, size and technology of the firm. Similarly, a good deal of literature is available on demand for and consumption of cement, price structure, capital structure, capacity utilisation and growth strategy. Moreover, IAMR Study, BICP studies, a Report of the Working Group on Cement Industry and DCCI Study also throw up useful insights on specified aspects of cement industry.

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8NCAER (1978), Cement Industry in India-Problems and Prospects, New Delhi;


Despite the availability of such a vast literature on various aspects of cement industry and a background of almost 80 years in its development, research into the performance analysis of cement industry is (to our knowledge) at its initial levels. The reasons for this may be attributed to the scattered industrial units all over the country, the multifaceted investment pattern in the installation and the functioning of cement companies, paucity of data and the insensitivity of the cement manufacturing companies for promoting research. Thus the present investigation, with certain limitations, is an attempt to study the performance of cement industry of India over the years, particularly with respect to public and private sector companies.

3.2 A Historical Profile

Very little was known about cement prior to the eighteenth century. However, there is some evidence of people using this product in the old civilisations of Nile, Greek and Roman in its various forms. Today when the word 'cement' is used, it normally means portland cement which owes its origin in England.¹³

3.2.1 Pre-Independence India

The inception of portland cement industry in India dates back to 1904 when a small cement factory at Washermanpet was pioneered in Madras. The potential capacity of this plant was 10,000 metric tonnes per annum, sea-shells were used as the main raw material. The actual 'cement era', however, started in 1914, when three cement factories were set up. One of them is Indian Cement Company Limited at Porbandar, Gujarat (with a capacity of thousand metric tonnes per annum). Out of the other two, one was established at Katni (M.P.) and the other at Bundi (Rajasthan). All the three companies were set up by the managing agency houses in Bombay (Tata Sons, Macdonald and Company; and Killick, Nixon and Company respectively).

The First World War gave a boost to this industry and by 1924, ten cement companies had come into existence with an installed capacity of 559,800 metric tonnes. The production recorded was, however, fifty percent of the installed capacity (267,965 metric tonnes). It, nevertheless, outstripped the demand.\(^{14}\) The reason for this may be attributed largely to independent and uncoordinated investment of private investors. Each investor overestimated the

market, which was quite natural, in view of the high transport cost, which made a significant component of the total cost of cement.\textsuperscript{15} Moreover, the increased indigenous capacity did not result in the reduction of cement imports. It created a glut in the market and disposal of the product became a serious problem leading to price war. Locational disadvantages accompanied by foreign competition and price war resulted in the demand for protection of cement industry in 1924, however, that was denied.\textsuperscript{16}

The imperial government nevertheless, intervened by referring the working of the cement industry to the Tariff Board. The Tariff Board found that the internal competition was responsible for the problems of the industry and that it was at a special disadvantage in the ports of Calcutta and Bombay, the main consumption centres of the portland cement. Therefore, protection of domestic industry was recommended against the dumping of imported cement at uneconomic prices. This was, however, unacceptable to the government, but it raised the revenue duty on imported cement in 1926, reducing thereby the price advantage of imports in the port markets. Following the recommendations of Tariff Board, manufacturers also co-operated and in 1926, a cartel known as

\textsuperscript{15}A. Bagchi, (1972) \textit{op.cit.} p.355.

Cement Marketing Association (CMA) was assigned the task of fixing a uniform sale price. This organisation was responsible for stabilising the cement prices but it had no control over total production.\(^{17}\) In 1927, Concrete Association of India (CAI) was formed to popularise the use of indigenous cement. The establishment of Cement Marketing Company of India (CMCI) in 1930 to promote and coordinate the sale and distribution of cement at regulated prices, was another step towards manufacturers co-operation. All these organisations resulted in eliminating competition, reducing transport charges, avoiding over-production and increasing the demand for cement by a centralised advertising campaign.\(^{18}\) Due to these measures, there ushered in a state of prosperity for cement industry. New factories were set up and in 1934, the installed capacity rose to 1,488,000 metric tonnes per annum while actual production went up to 741,025 metric tonnes.

The turning point in the history of cement industry of India was the amalgamation of eleven cement companies in 1936, to form the Associated Cement Companies Limited (ACC). The Company, however, soon faced a challenge to its monopolistic position from a


business group in Eastern India - The Dalmia Jain Group. The price fixing was quickly undercut, prices and profits tumbled. Until finally, the ACC and Dalmia-Jain group came to an agreement on price and distribution of cement through the services of CMCI and CAI. In 1939, there were 21 factories of which ACC owned 12, Dalmia group 5, and others 4.

During the Second World War, cement was declared 'an essential commodity' under the Defence of India Rules and was brought under price and distribution controls - an evidence of the direct state intervention for the first time in the history of cement industry. On the eve of independence, there were 23 factories operating in India with a total capacity of 2.2 million metric tonnes against 500,000 metric tonnes in 1923.

Thus the history of the evolution of the cement industry in pre-independent India reveals the development of quasi-monopolistic organisations and agreements resulting from the threats posed by production in excess of actual demand. This history posed certain questions in front of policy makers in a mixed economy of

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19This group comprising of five companies started its operation in 1938 and the total capacity was 2.5 million metric tonnes. While the production was 1.5 million metric tonnes in 1940. See George Rosen, (1958) *Industrial Change in India*, Glencoe, Illinois, p.21.

independent India such as whether there should be an expansion of demand or the curtailment of investment.\textsuperscript{21} This, in fact, became a necessary guiding principal for adopting the future policy towards the industry.

3.2.2 Post-Independent India

Since the partition of the country until date, cement industry has crossed various phases from the point of view of government posture on price and distribution of cement. Broadly, it has passed through two major phases of full control and partial decontrol and is undergoing the third phase of fully decontrolled industry.

At the time of partition of the country, 5 factories - those at Wah, Rohni, Karachi, Dandot and Chhatak - went to Pakistan, leaving 18 factories in India. Consuming centres, on the other hand, remained largely in India. The industry was unable to meet the country's requirements. This yawning gap between total requirements and the total availability of cement forced the government to opt for a cement expansion scheme in 1948. Consequently, the industry was endowed with 22 operating factories with 3.28 million metric tonnes of output capacity in 1950. The capacity reached 22.58 million tonnes in

\textsuperscript{21}A.Bagchi (1972) op.cit., p.358.
1977-78; 63.0 million tonnes in 1990-91 and 69.51 million tonnes in 1993-94.\textsuperscript{22} It registered a very high rate of growth (11.6 percent) in second five-year plan recording a very negligible rate of growth (3.7 percent) in capacity. It was only during the sixth plan period that capacity materialisation gained momentum.

In 1956, the government promulgated cement control order and entrusted State Trading Corporation (STC) with the monopoly of domestic and imported cement distribution. The cement manufacturers set up Cement Manufacturers Association (CMA) in 1961, as a representative of the industry, in order to negotiate with the government, on matters concerning production, pricing, distribution and control. The year 1964 was celebrated as the Golden Jubilee Year of Indian Cement industry followed by the establishment of Cement Corporation of India (CCI), a central government public sector undertaking in 1965. At the end of the third five-year plan (1965-66), there were 38 cement factories in India with 13.0 million tonnes of installed capacity.\textsuperscript{23}

In 1966-67, the government decontrolled the distribution of cement for the first time, under Cement Control Order of 1961. Every


\textsuperscript{23}BICP (1987) op. cit. p.5.
producer was supposed to sell the entire quantity of the produced product to STC at ex-factory retention price determined by government from time to time. The industry was expected to work out a scheme of distribution of cement. In response to this, CMA established an independent sales organisation - Cement Allocation and Co-ordination Organisation (CACO). However, this pattern of voluntary control by the industry did not succeed. The government, consequently, reimposed the control on distribution of cement.

In the early seventies, the industry suffered a serious set back when a high rate of inflation rocketed costs and eroded profits. As discussed in Chapter II, a slow movement towards liberalisation started during this period. Therefore, in this shifting government strands, producers continuously demanded for lifting the control from the price and distribution of the industry. However, till February 1982, the government continued with the policy of full regulation of prices and distribution of cement. The proponents of liberalisation of the industry stated that this regulation of prices and distribution has resulted in the black-marketing, profiteering and low capacity utilisation of cement. The pre-1982 history of cement has been

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characterised by acute shortages, frequent price controls, low capacity utilisation, profiteering, black marketing and ever-elusive targets.\textsuperscript{25}

Going by the majority demand on February 28, 1982, the government announced the policy of partial decontrol of cement. Producers and investors categorically applauded the decision.\textsuperscript{26} Under this new policy, the industry was permitted to sell in the open market after meeting its levy obligations of 66.6 percent (50.0 percent in the case of sick units). The working group reviewing the profitability of 56 companies for the year 1982-83 noticed that under the scheme of partial decontrol, the companies could mobilise additional funds and provide adequate funds for captive power generation, pollution control equipment, modernisation of plants, conversion of wet process kilns into dry process kilns and installation of pre-calcinators.\textsuperscript{27}

Two major technological changes in the industry were observed. Firstly the obsolete wet process technology was replaced by the more modern energy efficient dry process technology and secondly, the average size of the plant increased. Already 75 percent of the processing capacity is now in dry kilns "Prior to the partial

\textsuperscript{25}Zia-Uddin Khairoowala, loc.cit. p.12.
\textsuperscript{27}Facts for You (1985) "Cement Without Cracks", Market Survey, vol.6, February, p.16.
decontrol policy only eight plants in the country had a capacity of over 1 million ton. Today 1 million ton plant is the order of the day.\textsuperscript{28}

Therefore, the industry was quick enough to respond to partial decontrol in 1982 and more than doubled its capacity from 29 millions to 61 million tonnes in just eight years. However, “the capacity was created with such zeal that a large surplus emerged in the market leading to cut-throat competition and negative returns to industry for three years in a row from 1987-88 to 1989-90.”\textsuperscript{29} Thus despite the discernible increase not only in the existing capacity utilisation but also some additions to installed capacity, the performance of the industry under the policy of partial decontrol was not up to the expectations. The prices continued to remain low proving thereby, a great hurdle in undertaking modernisation and expansion programmes.

As we know, the performance of any industry depends upon a number of endogenous and exogenous factors. Change in the policy was not sufficient for such an ailing industry, for the industry was believed to be suffering from some inherent snags.\textsuperscript{30} It could not

\begin{itemize}
\item \textsuperscript{29} Express Investment Week (1991) Vol.1, no.9, February 18-24, pp.13-14.
\item \textsuperscript{30} P.S. Saxena, loc.cit. p.15.
\end{itemize}
overcome exogenous forces such as infrastructural problems of railway equipment, power shortages and transportation problems.

The annual report of Cement Corporation of India graded this industry as a recession hit industry.\textsuperscript{31} It argued that the cement factories continue to suffer because of three major external bottlenecks that were beyond the control of industry viz., transportation, supply of sub-standard coal and erratic power availability.\textsuperscript{32} There was a strong case for the demand for full decontrol of cement in order to transform the industry into a viable and prosperous sector.\textsuperscript{33}

Consequent to the intense lobbying by the Indian industry bourgeoisie coupled with the much evident mood of the state, it announced a switchover to a policy of full decontrol of cement pricing and distribution in February 1989. With this, the industry was left to fend for itself on all the fronts including the generation of demand. However, during this period, immediately after the withdrawal of the state, the industry was plagued with the sluggish demand. The justification for this was provided by the decline in construction activity.

\textsuperscript{31}Annual Report, Cement Corporation of India (1986-87) New Delhi, P.5.
\textsuperscript{32}Ibid, pp.5-6.
and the higher tax and transport burden. Moreover, the state was charged of controlling around 70 percent of the cost of production.

There was a significant component of pent-up demand in cement industry, caused by various controls. The industry, however, experienced a jolt in 1992-93, when the demand for cement which has been growing rapidly throughout the eighties, suddenly slumped from 53.32 million tonnes in 1991-92 to 52.89 million tonnes in 1992-93. The fact that industry was no longer supply constrained (as it was until 1982) but rather demand constrained became evident. This happened mainly because of the slowdown in the growth rates of the economy, recession in the industry and cutting down of the development expenditure, to achieve the reduced target of budget deficit. On the growth of the industry in view of changing policies, the eighth five-year plan stated, "the gradual decontrol of cement has resulted in progressive increase in cement production as well as upgradation of technology. The country has now emerged as an exporter of cement." However, the recent scenario reveals that the phase of boom in the industry because of total decontrol is fading


36Report Eighth Five Year Plan, op.cit., p.120.
now. The rates of growth that were quite high in the early nineties have started showing a downturn. "It is clear that if the cement industry's cup of woes are full now, it is not due to lack of demand - rather it is an outcome of excess capacity." The year 1995-96 recorded 12.64 million tonnes of additional capacities. The point to note here, however, is that not only there is excess capacity, but that this capacity is concentrated in few regions such as M.P., Rajasthan and Gujarat, increasing thereby regional imbalances.

In brief, the performance of cement industry after partial decontrol in 1982 is characterised by generally competitive and capacity enhancing outcomes. The structure of the industry changed significantly after partial decontrol. It observed multiplication of manufacturers and the creation of large magnitudes of relatively technologically superior capacity. Combined with this was the tendency of real prices and profits to decline. The behaviour of these two performance indicators reinforces that total decontrol has served to increase the competitiveness in cement industry. It has transformed from a relatively oligopolistic structure to a relatively competitive one and thereby making it difficult for the firms to opt for collusive arrangements.

Nonetheless, a core industry like cement depends on the overall performance of the economy. The truth is that, input costs are rising such as freight, diesel and power causing rising cost of production. On the other hand, supply is more than demand and still there is expansion of capacities\(^{39}\). Therefore, two opposite trends are emerging. However, in the forthcoming years when the industry has come of age, it is mainly cost cutting devices and operating efficiency that will determine the fate of its performance.\(^{40}\)

3.3 Policy Strands

Growth of an industry is conjectured to depend upon its earning capacity, which is greatly influenced by government policy towards it or the general industrial policy of the government. According to Devine, "Industrial policy is envisaged by the government involving state intervention at the level of specific industries, designed to bring about directly or indirectly a desired outcome that would not otherwise occur."\(^{41}\)

\(^{39}\) Express Investment Week (1997) loc.cit.
As is clear from the historical sketch, the cement industry has been subjected to government intervention on many fronts such as production, location, distribution and pricing. Controls on the expansion and location of the industry are regarded as a part of planned development strategy to reduce sectoral and regional imbalances. Control exercised on its pricing and distribution are being sought in order to ensure an equitable distribution and availability of cement at fair price. While the controls on any front influence the performance and earning capacity of an industry, the regulation of price structure of cement industry is the most important fiscal device in the hands of the state as a mode of intervention towards the desired direction.

In fixing a price for the industry, the government's avowed objective generally is to determine a fair price for the industry without imposing an unbearable strain on the consumers. It should generate enough funds for its growth and should remain viable, preventing, at the same time excessive profiteering by it. The history of cement industry is a classic example of such dilemmas. It is not easy to satisfy these mutually conflicting objectives. The situation becomes more complicated when manufacturing units in the industry comprise heterogeneous manufacturing processes, widely differing cost

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schedules, scales of production and use of varying scales of raw material with different input prices.\textsuperscript{43} Nevertheless, an important reason for regulating prices has been that at least until 1982, the demand for cement has always outstripped supply. Moreover, a major share of cement production is being consumed in the construction of state sponsored investment projects, any hike in cement prices would lead to sizeable increase in cost of production.\textsuperscript{44}

The industry has always been alleged of running counter to its interests and objectives and the manufacturers has asked from time to time for revision of pricing policy. It is their demands that, in fact, have culminated in the partial decontrol of cement in 1982 and ultimately to its full decontrol in 1989. Keeping in view, the objectives of such price controls, its limitations and then decontrol of cement, this section seeks to review government policy towards cement industry.

It was not until the first world war that cement production in India commenced on a large scale. On the eve of the first world war, it was sold between Rs.45 and 50 per tonne. During the war, prices escalated enormously, attracting new entrants, and thereby bringing down the prices. In May 1924, cement was delivered at Rs.36.75 per

\textsuperscript{43}NCAER (1978) \textit{op.cit.}, p.152.

\textsuperscript{44}\textit{Ibid}, p.153.
These prices were totally unremunerative and there was a demand for providing protection to the cement industry. The case was referred to the First Indian Tariff Board.

The Tariff Board recommended that if assistance is to be given, it should be by means of bounties or subsidies to domestic manufacturers rather than by imposing custom duties on imports. Fair price for cement was assessed at Rs.53 per tonne for Calcutta and Rs.57 per tonne for Bombay. The Government of India did not accept these recommendations. However, many co-operatives among manufacturers emerged in order to regulate selling prices. The whole history of cement prices can be divided into following periods.

3.3.1 Pre-Independence Period (1926-46)

This period was characterised by normal interaction of the forces of demand and supply. Industry was coping up with the problems of fierce competition and price war. Under the leadership of Cement Marketing Association (CMA) in 1926, two levels of prices were adopted. The technique was to fix lower f.o.r. (free on rail) destination price for the port towns, where imported cement could

\[^{45}\text{Poddar (1962) op.cit., p.80.}\]
compete and higher delivered destination price for interior areas, where imported cement could not penetrate without paying transport cost. This pricing-technique proved quite effective. Imports declined. There was remarkable increase in the number of domestic units, productive capacity and expansion of domestic output as well as market.

It was with the entrance of Dalmia-Jain Group in 1938 that price war really started. Prices came down to Rs.43 per tonne (in Calcutta) to Rs.30 per tonne (in Bombay) in October 1938. However, an agreement was reached in January 1942 and prices increased to Rs.44 per tonne.

From August 1942 to September 1946, controls were imposed on prices and distribution of cement for the first time under the defence of India rules. The prices were fixed for government supplies on cost plus basis and for public, it was Rs.48 per tonne. In January 1943, it was increased to Rs.60 per tonne that continued until 1946, with a few changes here and there.

3.3.2 Post-Independence Period-I (1946-65)

During this period, as a sequel to the steep rise in the cost of coal, gunny bags, labour and freight charges, the cement prices were subject to revision. It was raised to Rs.65 per tonne in January 1947 and to Rs.87.50 in December 1947. 1951-56 onwards, selling price of cement was divided into packing charges plus unpacked cement. The price of unpacked cement was Rs.71 per tonne f.o.r. destination price plus Rs.26 per tonne as a rental cost of packing.

In July 1956, the STC was entrusted with the task of cement distribution in order to ensure not only its availability but also equitable distribution. The system of "freight pooling was introduced and a uniform price of Rs.102.50 per tonne (f.o.r. destination price) was fixed." Despite criticism, this policy was considered a step towards regional development. A study group headed by S.S. Marathe in 1977 recommended that existing freight equalisation scheme should be phased out over a period of time as it has little effect on generating employment activity in backward regions and for commodities of mass consumption, freight equalisation will not make a significant difference.

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47 The price payable to producers was fixed on ex-works basis for unpacked cement excluding selling commission. After adding to such ex-works price further elements such as selling commission, average freight packing charges and excise duty, a uniform price was determined. In order to arrive at a uniform sale price for whole country, the freight element was averaged and added to the price so determined.
in final price paid by the consumer.\(^{48}\) Pandey, Chairman of National Transport Committee suggested that "freight equalisation is not the only instrument to achieve balanced regional development. Other measures such as licensing policy, appropriate fiscal and credit policy, the provision of effective infrastructure are equally important."\(^{49}\) Following the recommendations of this committee, the government therefore, decided to do away with freight equalisation in respect of various commodities including cement.\(^{50}\)

In view of the escalating costs of inputs, another reference was made in 1957 to the Tariff Commission for fresh examination of costs. This time, the price fixed by the commission was based on ex-works basis rather than f.o.r. destination basis.\(^{51}\) In 1960, the Tariff Commission recommended two ex-works price for 19 different units ranging between Rs.67.50 to Rs.103.00 per tonne. According to the Commission, "The recommendation of different prices was in view of the need for planned expansion of the industry to keep pace with


\(^{49}\)Ibid.


continuously rising demand in the country and fulfil the target of the plan.\textsuperscript{52}

3.3.3 Post-Independence Period-II (1966-82)

Due to continuous complaints of the manufacturers regarding price control, government was compelled to review the mechanism of controls and regulations on cement. Pressurised by the subsequent financial resources crunch, the state for the first time decided to do away with the system of controls, however, for a shorter period with effect from January 1, 1966. This was, however, done for a shorter period. With this, all the controls were removed and the system of allocation through STC was abandoned. This arrangement, however, did not work, the government reintroduced controls from January 1, 1968.

This time the task was entrusted with the Cement Corporation of India (CCI). Nevertheless, due to certain legal problems, a senior officer designated as cement controller had to be appointed. The new retention price, which ranged from Rs.90 to Rs.129.75 per tonne, was fixed. The country was divided into four regions. Each region being

looked after by a regional cement officer. The year 1969 witnessed a uniform retention price of Rs.100 fixed by the government.\textsuperscript{53}

Since the Commission's last detailed inquiry in 1961, the circumstances of the industry changed significantly. Its capacity increased considerably. New and modernised plants were set up; dependence on imported equipment was being reduced. This expansion could not keep pace with the growth in demand for cement. Moreover, owing to high costs occasioned by inadequate infrastructural equipment, the government required a comprehensive review of the industry. "As the circumstances and the cost structure of the industry have undergone a change by now, it is high time that a de novo comprehensive review of the problems of the industry was initiated to revitalise this basic industry."\textsuperscript{54}

This task was once again assigned to the Tariff Commission, which in its report (March 1974) recommended a uniform retention price of Rs.136.00 per tonne, with escalation formulae for automatic mid-term revision in the price to absorb variation in major elements of costs viz., wages and D.A., price of coal, power tariff, freight on coal and limestone. The price included a rehabilitation allowance of

\textsuperscript{53}Report BICP, op.cit. p.27.

Rs.400 per tonne as a compelling necessity. The Commission argued that the main attraction of a uniform price was that it had a built-in provision to encourage efficiency, cost economies and increased productivity. It taxed the decreasing returns units and subsidised those operating under increasing returns. Thus it urged high cost units to seek economies and provided a measure of reward to those units, which were actually able to achieve them.

The government modified the recommendations of the commission and fixed a uniform retention price at Rs.134.00 per tonne. Commenting on this price fixture, the President of CMA pointed out, "Since 1974, i.e., the time when the uniform retention price was introduced, the cement industry had lost as much as Rs.60 crores, owing to deficiencies and delays in neutralisation of cost escalations."

Taking into account the importance of industry in a developing economy and the need to attain self-sufficiency in cement in the shortest possible time along with the objective of availability of cement

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56 Ibid, p.165.
at fair price to consumers, in April 1978, the government appointed a high level committee under the chairmanship of Lavraj Kumar. It suggested a new price structure based on the following parameters:  

- (a) capacity utilisation at 85 percent
- (b) various elements of cost on the basis of latest known actuals
- (c) a post-tax return of 12 percent return on net worth after providing for servicing of debt and working capital requirements.

Based on the recommendations of high level committee, the government replaced the uniform retention price with effect from 3rd May by a three-tier system of retention price of Rs.188, Rs.205, Rs.220 per tonne for the existing low cost, medium cost as well as high cost units, and a special price of Rs.296.00 per tonne for new units. This formula was, however, severely criticised.

Notwithstanding the demand for higher retention price due to escalating costs, the pricing system suggested by high level Committee was more or less in operation till March 31, 1982. In April 1981, the union government constituted a high level committee under the chairmanship of A.K.Ghosh, Chairman of the Bureau of Industrial

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59Report BICP, op. cit.
### Table 3.1
Retention Price Admissible to Cement Industry
(From 1-11-1961)

<table>
<thead>
<tr>
<th>Period</th>
<th>Retention Price per tonne of Cement (Rs.)</th>
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<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Three Tier Price System</td>
<td></td>
</tr>
<tr>
<td>1-11-1961 to 31-5-1963</td>
<td>69.50/72.50/75.00</td>
</tr>
<tr>
<td>1-6-1963 to 30-6-1964</td>
<td>72.50/75.25/77.75</td>
</tr>
<tr>
<td>1-7-1964 to 31-5-1965</td>
<td>73.50/76.50/79.00</td>
</tr>
<tr>
<td>1-6-1965 to 31-12-1966</td>
<td>77.50/80.50/83.00</td>
</tr>
<tr>
<td>1-1-1967 to 15-4-1969</td>
<td>90.50/93.50/96.05</td>
</tr>
<tr>
<td>Uniform Pricing System</td>
<td></td>
</tr>
<tr>
<td>16-4-1969 to 14-9-1973</td>
<td>100.00</td>
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<tr>
<td>15-9-1973 to 1-8-1974</td>
<td>110.00</td>
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<td>2-8-1974 to 14-9-1974</td>
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<td>15-9-1974 to 30-9-1975</td>
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<td>1-10-1975 to 30-6-1976</td>
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<td>1-7-1976 to 31-10-1976</td>
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<td>1-10-1977 to 2-7-1978</td>
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<td>3-7-1978 to 6-12-1978</td>
<td>165.82</td>
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<tr>
<td>7-12-1978 to 2-5-1979</td>
<td>168.91</td>
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<tr>
<td>Three Tier Price System</td>
<td></td>
</tr>
<tr>
<td>From 3-5-1979 for existing units</td>
<td>188/205/220</td>
</tr>
<tr>
<td>for expansion/new units</td>
<td>296</td>
</tr>
<tr>
<td>From 3-5-1980 for existing units</td>
<td>198.65/218.65/233.65</td>
</tr>
<tr>
<td>for expansion/new units</td>
<td>309.65</td>
</tr>
<tr>
<td>From 3-5-1981 for existing units</td>
<td>233.39/253.39/268.39</td>
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<tr>
<td>for expansion/new units</td>
<td>344.39</td>
</tr>
<tr>
<td>Uniform Pricing System for Levy Cement after Partial Decontrol</td>
<td></td>
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<tr>
<td>From 28-2-1982 Rs. 335/- per tonne of OPC and PSC</td>
<td></td>
</tr>
<tr>
<td>Rs. 320/- per tonne of PPC</td>
<td></td>
</tr>
<tr>
<td>From 18-7-1984 Rs. 375/- per tonne of OPC and PSC</td>
<td></td>
</tr>
<tr>
<td>Rs. 360/- per tonne of PPC</td>
<td></td>
</tr>
<tr>
<td>From 15-12-1986 Rs. 399.50 per tonne of OPC and PSC</td>
<td></td>
</tr>
<tr>
<td>Rs. 384.50 per tonne of PPC</td>
<td></td>
</tr>
<tr>
<td>From 7-9-1988 Rs. 446.50 per tonne of OPC and PSC</td>
<td></td>
</tr>
<tr>
<td>Rs. 431.50 per tonne of PPC</td>
<td></td>
</tr>
</tbody>
</table>


Note: OPC for Ordinary Portland Cement; PSC for Portland Slag Cement and PPC for Portland Pozzolana Cement.
Costs and Prices to review and suggest a policy for rational and satisfactory development of cement industry. The committee suggested a dual pricing system: a single retention price of Rs.335 per tonne of ordinary portland cement (OPC) and Rs.320 per tonne of portland pozzalana cement (PPC). (See Table 3.1)

Thus from time to time, the cement industry has been referred to the Tariff Commissions and high level committees for the recommendations on cost and price structure. So far, four Tariff Commission studies (1953, 1958, 1961 and 1973-74) and two high-level committee studies had been conducted. These studies had dealt with price structure in view of the escalating costs from time to time. The Commission suggested a three-tier price system until 1969, followed by a uniform retention price till 1979 and again a three tier price system till 1982. It was followed by dual pricing system till 1988.

3.3.4 Post-Independence Period III (1982-89)

The period 1982-89 witnessed a turning point in the history of cement industry. In view of the demands for decontrol from different quarters of Industry, the government announced a policy of partial decontrol on February 28, 1982. Under this new dispensation, factories set up before January 1982 were required to surrender 66.6
percent (50 percent in case of sick units) of installed capacity as levy cement for distribution under the controlled price regime. Production more than levy cement quota was open for sale in free market.

The ex-factory retention price of neat cement was fixed uniformly at Rs.335 per tonne for ordinary portland cement and Rs.320 per tonne for portland pozzolana cement. The corresponding f.o.r. price was Rs.440 and Rs.425 per tonne respectively. However, in order to compensate the hike in freight charges, the prices of levy cement were increased accompanied by reduction in levy quota. It was reduced to 65 percent (45 percent in case of sick units) of the installed capacity in July 1984 and further to 60 percent (40 percent in case of sick units) in June 1985.

This dual pricing system had the objective of reducing regional imbalances over time and providing cement to consumers at fair prices as also to clear the way for modernisation and expansion of industry at a much faster pace. During this period, a matter of serious concern to the government was that not only the number of entrants and the installed capacity were increasing, the prices were also increasing. The manufacturers offered many explanations such

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60 For new units commencing production after January 1, 1982 levy cement quota was fixed at 37.5 percent in the first year, 42.5 percent in the second year and 50 percent thereafter.

as the hike in the prices of coal, steel and transportation and increasing number of power cuts.

Then came the demand for full decontrol. The reasons given were many. Some of them are "the rising cement production and the capacity of the industry to cope up with the increasing demand, the growing competition among the manufacturers, corruption and nepotism among bureaucrats in order to exploit the existing levy and non-levy quota." The argument was that however, nobel may be the objectives, price control is hardly the means to achieve them. It invariably leads to hoarding and black-marketing. Thus, the case for total decontrol was forcefully built.

3.3.5 Post independence period- IV (1989 onwards)

The new industrial policy announced in July 1991, did not include cement industry in the list of 18 industries (later reduced to 6) requiring industrial licensing. In fact, when the long awaited ‘total decontrol of cement industry’ policy was announced by the government in 1989; prices started picking up. However, this rise had

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been gradual until March 1990. The price rise was more in northern and eastern region. This was due to the non-availability of adequate number of wagons for quick transportation of cement to these deficit areas. Price of non-levy cement including taxes was as given in Table 3.2 from December 1989 to April 1997. The table shows that from 1993 to 1997, there is notable jump in prices in the four metropolitan cities of India. In 1997, the highest price per 50 kg. bag of cement was observed in Bombay followed by Madras, Delhi and Calcutta respectively.

<table>
<thead>
<tr>
<th>Months</th>
<th>Delhi</th>
<th>Bombay</th>
<th>Calcutta</th>
<th>Madras</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1989</td>
<td>71-74</td>
<td>83-86</td>
<td>82-86</td>
<td>69-74</td>
</tr>
<tr>
<td>April 1990</td>
<td>92-95</td>
<td>90-92</td>
<td>92-95</td>
<td>82-85</td>
</tr>
<tr>
<td>April 1993*</td>
<td>125-150</td>
<td>125-144</td>
<td>119-137</td>
<td>123-141</td>
</tr>
<tr>
<td>April 1997**</td>
<td>136-139</td>
<td>162-165</td>
<td>130-135</td>
<td>140-165</td>
</tr>
</tbody>
</table>

Source: Industry Ministry, quoted in *PTI Economic Service Briefs*, May 1, 1990, p.41;  
*ICICI estimates  
** "Industry" et al. in Express Investment Week (1997) *loc.cit.* p21

The table shows that despite time to time interventions\(^6\), the overall price of per 50 kg. bag of cement is rising in all the metropolitan cities since December 1989.

\(^6\) *PNB Monthly Review, loc.cit.*, p.626
3.4 Conclusion

In sum, the policy of the government towards cement industry represents a history of the controls of diverse nature. The price control occupies a significant place among them. Except for a short period in the sixties and during the post-1989 years, the industry has undergone control of one or the other type. Based on the available evidence, a strong impression prevails that the imposition of such controls has proved to be a tax on efficiency, on innovations and an incentive for profligacy and corruption. The removal of such controls, on the other hand, opened the way for technological upgradation and gradually turning the industry into a more competitive and efficient one. In other words, the option of the policy makers to curtail investment through various controls has proved to be a hindrance for the development of the Industry. It was only with the realisation of the change in the policy thrust towards expanding the level of consumption that the industry was expected to function efficiently.

However, the case of cement industry is a classical one. Traditionally, price is a function of demand and supply, but demand too is a function of price. When the price of a commodity increases beyond a particular level, consumers tend to check their consumption in anticipation of an expected decline in price. At macro level, such a
decision coupled with the unforeseen events result in recession. Once such a situation emerges, producers are forced to reduce their selling prices but in vain, and people continue to defer their consumption, expecting the prices to go down further. Consequently, the economy and the industry go down into a deeper recession. This is the case of Indian cement industry, after 1989 when it was left to fend for itself in the open market. Since then while the costs have risen leading to price hike, there is reduction in the demand for cement particularly from government. On the other hand, due to expansion of capacities, supply is rising and profit margins are under pressure.