

Sugar and political power

Part III

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Thanks to a variety of market distortions, the growers of sugarcane are not adequately rewarded for their contribution. They have weak bargaining power relative to the processors. The entire structure of production and market exchange is tilted against the farmer and creates a systematic tendency to under-price their produce. For instance, there is a regular and systematic attempt by sugar mills to delay the crushing of sugarcane. More specifically, the crushing season starts too late and ends too soon.

The timing of crushing season is inherently political. The delay achieves two benefits for the processor. First, it tends to reduce the water content, thereby increasing the relative sugar content in sugar cane. This results in weight loss. Since the price of sugar cane is linked to its weight, the delay helps depress the price. Second, since farmers tend to operate a rotating crop pattern, they are pressured to switch to the next crop (often, wheat in this case). This can quickly lead to desperate and panic selling, compelling the farmer to sell the sugarcane at lower prices. Additionally, as the crushing season is delayed, supplies of sugarcane tend to peak. This again has the effect of pushing down prices.

A more worrying aspect from the farmer's perspective is that even these lower prices that sugarcane fetches for them is paid back with considerable delay. Farmers have to wait for months before their arrears are cleared. Even today, the mills owe nearly Rs25 billion to growers. It is pertinent to mention here the two other market distortions that tend to discriminate the farmer and work against his interests. These are restrictions on processing and zoning. Farmers are not allowed to process sugar cane at the farm level, which could have cut down

costs and introduced greater competition. Even more surprisingly, farmers are also barred from selling sugarcane out of their respective mill zone. Both of these restrictions privilege the mill owners and obstruct free competition.

Despite these glaring distortions, farmers lack any effective voice. They are not allowed to defend their interests by forming unions, which further reduces their bargaining power compared to the considerably more powerful Pakistan Sugar Mills' Association (PSMA). This is one reason why we haven't heard any representative of sugar growers presenting the farmers' perspective in television talk shows. This raw deal for farmers is harmful, not just for growers, but for the rest of the society. It reduces incentives to grow sugarcane, which results in falling production levels and rising prices. Rather than correcting the incentives for domestic farmers, there is a tendency at the official level to favour sugarcane growers of foreign countries by importing raw sugar at higher rates.

The power relations that prevail in sugar markets at the micro level are also reflected in public policy, which tends to better accommodate interests of the influential millers' lobby. Public policy has so far shied away from deep structural reforms that could alter the structure of agrarian incentives and promote greater competition in sugar markets. One would have expected the government to identify and curb collusive and anti-competitive behaviour on the part of sugar mills, and to correct for the array of market failures that beset this industry. It is a testimony to the power of the sugar lobbies that elements responsible for blocking the timely import of sugar have not yet been held accountable.

The focus of official policy has instead been on offering populist, short-term fixes. There is a clear preference for stop-gap arrangements — subsidised provision of sugar through utility stores and sasta Ramadan bazaars, promises of a higher sup-

port price for sugar, and reduction in the GST. The trouble with these measures is that they are all politically neutral, intended to placate public concerns while maintaining status quo. Subsidies and tax reductions impose a significant drain on scarce public resources and ultimately substitute the price problem with a fiscal one. For instance, slashing GST will result in an estimated revenue loss of Rs500 million, which is likely to be covered through future taxes. And given the regressive nature of the tax system, the burden will ultimately fall on the poor.

It is striking that political discourse on the question of sugar has been so sterile. The PPP for its part has singularly failed on its first public test to ensure 'roti, kapra aur makaan'. Apart from a few policy pronouncements and half-hearted measures, the PPP government seems largely unperturbed by the sugar crisis. Shahbaz Sharif's government in Punjab, on the other hand, has displayed a more active concern on this issue. But, here again, we see an attempt by the provincial government to side-step issues of structural reform by focusing exclusively on administrative measures. It is not easy whether one should interpret this as mere political posturing or a desire for deep reform. Only time will tell the difference.

One thing is clear, however. A genuine reform agenda for the sugar industry should bring both economics and politics back into the equation. In particular, the litmus test of future reforms is whether they can rely on economic tools and incentives to promote free and fair competition or fall back on administrative measures. Clearly, the cabinet committee on sugar has a daunting task ahead.

(To be continued)

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