STATE TRADING IN CEMENT

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"We are neither omniscient nor infallible, nor are we so rigidly wedded to any course of action as not to alter it if it becomes apparent to us that we are mistaken.

"It is for this reason that we continuously welcome the people of India and our friends abroad telling us when and where they think we are going wrong."

T. T. Krishnamachari
Finance Minister, India

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You must all have been taken aback by the sudden descent upon us of STATE TRADING in Cement. So here, first of all, are some relevant facts to enable you to answer a few preliminary questions.

The recent record of the Industry as a whole has been impressive. In 1950 the total production of Indian cement was 26.1 lakh tons. In 1955 it was 44.7 lakh tons.

It does not need anyone to tell you that cement production cannot be stepped up overnight. It requires careful planning, anxious control over costs, and sustained execution spread over a number of years to set up even one new Cement Works or to expand significantly the capacity of an existing Cement Works. There are limits even to all-out efforts, in terms of time and resources, of money, technical man-power and directive effort.

Also, as regards the increased production achieved during the First Five-Year Plan, there were limits of prudence, set by the magnitude of *the demand estimated at the commencement of the Plan by the best brains in the country* (and that includes Government's own estimates), namely, that India's requirements by 1955-56 would be only of the order of 45 to 50 lakh tons. *This target was fully achieved by the Industry.*

The selling price of cement has for years been controlled by Government. The control was exercised in four parts : first, the ex-works price for unpacked cement, with a separate allowance in it for distribution costs, was controlled after meticulous cost examination undertaken periodically; at the same time, the packing charges were also separately controlled and revised every three months; next, an allowance for freight was made on the basis of *average freight*, whatever the destination; and finally, as regards the Cement sold in retail by Stockists and Dealers, while their commission was borne by the producers, their loadings for "on cost" and profits were controlled by State Governments. So much for price control.

Then, as regards the allocation of the entire cement produced —"who should get how much of what was produced ?"— there was, and still is, a very complicated three-tier arrangement of "Central Allocation," "State Allocation" and "Individual Allocation" all of which, the ACC and the CMI have helped Government to evolve, and which they have worked for the Government for years with outstanding efficiency and at no cost to Government. The upshot of all this

has been that the Central Government and its various Departments, the State Governments and their various Departments, the Major Projects of the first Five-Year Plan, and the various Public Authorities and quasi-public authorities, all of these, between them, got the lion's share of the available cement. The major industries came a very poor second best. Last of all came the poor "ordinary consumer," consisting of the small businessman, industrialist or professional man and the small "common man" dreaming longingly of cement for building or repairing his own house in towns and villages. And so arose the "cement hunger" that has been such a distressing feature during the past three years and which threatens to continue for three more years.

Well, let us look at that monster squarely in the face. Despite the country-wide net-work of Stockists and Dealers estimated to number over 10,000 in the aggregate—there probably does exist some black-marketing in cement. But let us be clear about causes and effects, before we come to blame or praise. The *first cause* is acute shortage resulting from: (*a*) underestimating in 1950 the needs of the country in 1956; (*b*) the voracious, but necessary demands of the "public sector"; (*c*) the unfulfilled urgent demands of the "private sector"; and (*d*) the cement starvation of the "common man." The *second cause* is the low price of the cement compared with what the consumer is prepared to pay to satisfy his urgent demands. The *third cause* is more subtle but probably most important; and that is, that had cement prices been fixed generously *or* been allowed to rise gradually, the producers of cement (including *newcomers* especially) would have been encouraged to produce even more cement than they did over the past five years because they would then have thought that the *the risk of producing more cement than might be required by 1955-56 was worth taking.*

The *final cause* of black marketing is the existence of a source of supply. Now here we have the curious position that although all the available cement is fully allocated to known consumers, although the supplies released to direct small consumers through Stockists and Dealers are comparatively small *and* although the entire production of cement is thus fully accounted for, yet in most places it is said that "you can always get as much cement as you want at a price." There is an answer to this paradox, of course. And it is, undoubtedly, that most of the cement that finds its way into the black market comes *not from the small consumer,* nor even from the miserable quantities allowed to Stockists and Dealers for retail sales, but from the lakhs of tons ostensibly consumed in Government and quasi-Government and other public projects. If you want to verify this obvious inference from known facts or to study the mechanism of this organised leakage, make some enquiries yourself in the light of this pointer.

The conclusions to be drawn are plain. The price of cement is carefully and *effectively* controlled. The allocation of cement is also carefully and *effectively* controlled. The distribution of cement is, moreover, already well organised. And while this whole scheme has worked with remarkable efficiency over very many years, some black-marketing undoubtedly exists. But it is the result of economic forces or stresses inherent in the situation. *To the extent that it can be prevented by price control or by an efficient allocation and distribution machinery, this is being done already;* but to the extent that it is dependent (as all black-marketing always is) upon sources of supply, all suspicions (amounting to reasonable certainty) point to directions over which the Cement Industry has no control and for which the blame lies elsewhere.

The question arises: "Why then have the Government decided in favour of State Trading in Cement ?"

Now, I am anxious to be fair in answering this question. I shall therefore endeavour to deal with it as an intelligent citizen, with some special knowledge of the subject. And I shall therefore begin by stating, first, the basic elements of the problem and, next, the objectives which the Government had in view in resorting to State Trading. Only then will the stage be set for a critical approach to two important issues, namely, what were the views of the Cement Industry about the problem and the objectives as the Government saw them ? And, if State Trading was not the proper answer, was any other equally good solution available?

Let us begin, then, with an analysis of the problem with which the Government were faced.

A. The "Cement Gap"

Ever since the War there has always been a "Cement Gap," *i.e.*, a shortage of cement compared with the priority demands for it at the controlled price. That indeed was why the price *and* the allocation of cement had to be controlled. There were, of course, occasional spells of sufficiency; but not for long. In a sense, therefore, the "Cement Gap" has always been with us for the past ten years. In early 1956, however, it became apparent to Government that the gap had widened to an alarming extent by the sudden increase in demand towards the end of the First Five-Year Plan. This was occasioned by the special efforts which all Governments, Railways and other public authorities and bodies, and also major industries, were making to reach the completion of their targets *within* the First Five-Year Plan period or as soon thereafter as possible. More important still, there were grave apprehensions that the Cement Gap would not merely persist but widen further over the next few years *pari passu* with the starting of various works under the Second Five-Year Plan in all sectors at a tempo quicker than that at which similar works under the First Plan got off the mark. Estimates of the extent of the existing and prospective

Cement Gap, and of the likely period of its duration, varied from a gap of 5 lakh to 10 lakh tons lasting from 3 to 5 years. But the existence of a substantial gap, even for the fulfilment of urgent demands, which would last for some years was beyond question.

B. The Need to Import Cement

It soon became clear also that with the best will in the world, indigenous production could not be stepped up overnight, however high the ultimate target might be set for achievement by 1961. That left only two alternatives: either to do without more cement and so to carry on with a wider cement gap than we were accustomed to : or to import cement. To examine in detail the relative merits of these two alternatives here would be beyond the scope of this article. It should suffice to say that the first alternative involved drastic limitations on the scope of the Second Five-Year Plan at critical points, whereas the second implied an unforeseen and heavy drain on the already strained foreign exchange resources of the country. The Government preferred the second alternative, namely, to import cement to the minimum extent necessary for meeting the *essential needs* of the country, in the light of the basic targets of the Second Five-Year Plan on the one hand, and the projected targets of indigenous cement production and the time required to fulfil them, on the other. Quite properly, the exact quantities to be imported and the duration of such imports were matters left over for decision from year to year.

C. The High Price of Imported Cement :

When they got down to "brass tacks," however the Government soon found that the *cost of imported cement to the consumer,* delivered at the rail-head nearest to destination, *might be as high as Rs. 50/- per ton above the price of indigenous cement.* While this constituted a high tribute to the Indian Cement Industry, the fact remained that imported cement not merely involved a strain on the foreign exchange resources of the country, which the Government were prepared to face, but also a serious degree of price discrimination between consumers of Indian Cement and those to whom foreign cement might be allotted which, because of its unfairness, would lead to an indignant outcry which the Government could *not* face. Various avenues of importing foreign cements at the cheapest possible price and on the most favourable terms were therefore explored; and while this led to a decision to arrange imports from the Iron Curtain countries (who were prepared, apparently to dump cement in this country at almost any price to serve their own political ends) the disparity in the price to the consumer of the order of Rs. 40/- to Rs. 45/- per ton persisted. Here was a problem of great complexity which had also to be resolved.

D. Strain on the Transport System

Another problem, not directly connected with the "Cement Gap," was the increasing strain on the transport system. The Railway administration in

India had done a magnificent job of recovering from the "under nourishment" of the War years and of progress and development during the First Five-Year Plan. By 1955-56, however, they had begun to feel the strain of carrying the ever increasing traffic of men and materials generated in all sectors of the economy and in all parts of the country by the incredibly swift fulfilment of most of the targets towards the end of the First Plan period. Every significant addition to traffic from 1956 onwards was, therefore, going to be a matter of anxious concern to the Railways, the Government and Industry at large. In this context the decision to import large quantities of cement also raised a transport problem of significant dimensions.

So much for the main elements of the problem. I believe anyone who reads even this somewhat simplified analysis of it will agree that the Government were indeed faced with a formidable problem. In finding a solution to it, the Government set for themselves three basic objectives. These may be stated quite simply as follows:

(i) There was need to import substantial quantities of high priced cement so as to narrow down the "Cement Gap" for essential needs.

(ii) There was need to equalise the selling prices of indigenous and foreign cements, (at any rate at all rail-head destinations throughout India), which in turn involved the fixation of a higher "equalised" selling price for indigenous cement to subsidise a considerably lower "equalised" selling price for imported cement.

(iii) There was need to "rationalise" all cement movements by rail so as to move the maximum quantity at a minimum load on the Railway system, and, in particular so as to avoid all "cross movements."

With these objectives in view, the Government set out to solve the problem by ordering that with effect from 1st July, 1956, all cement producers shall sell all their cement *ex Works* to the State Trading Corporation ; and that all subsequent movement and sales of cement—*i.e.*, all "trading" in cement—would be for and on account of the Corporation. And so the country was embarked on State Trading in Cement by one stroke of the pen.

Stated in the simplest terms, State Trading in Cement as enforced since July 1, 1956, is easy to describe. **All** cement producers are required from that date to sell their **entire** production of cement **ex Works** to the State Trading Corporation (referred to hereafter as "S. T. C.") at a controlled price computed exactly as in the month immediatley preceding the advent of State Trading. Moreover, as the S. T. C. had no countrywide distributive organisation at all, it was agreed that the existing distributive organs of the producers (e. g. the C. M. I. in the case of A. C. C.)

should continue to undertake the actual distribution of cement exactly as before but acting as the Agents of S. T. C. on the same terms as before. In the case of the A. C. C., this worked out as follows :—

Components of Price	**Controlled Price on 30-6-1956** Per Ton	**Controlled Price on 1-7-1956** Per Ton
Unpacked Cement ..	Rs. 54 8 0	Rs. 54 8 0
Distribution Charges (to C.M.I.)	1 8 0	1 8 0
Excise Duty ..	5 0 0	5 0 0
	61 0 0	61 0 0
ADD: Packing Charges	13 4 0	13 3 0
	Rs. 74 4 0	Rs. 74 3 0

Since the distribution of cement, though actually undertaken by the existing distributive organisations of the producers, was to be for and on account of the S. T. C., the addition of "freight average" @ Rs. 15/- per ton which was formerly allowed to the producers in their "delivered price" of cement, was naturally eliminated, because freight would hereafter be borne, not by the producers, but by the S. T. C. Finally, it was decided that the delivered price of cement which the S. T. C. would charge to the consumer would be Rs. 102-8-0 per ton at all destination rail-heads in India, (with the exception of stations in Assam and certain stations in West Bengal) **this being the "equalised price" for both Indian and foreign cements.**

This meant that on the basis of even Rs. 15-4-0 as the **average** freight incidence for delivery at a rail-head destination anywhere in India, **the S. T. C. came out with a clean profit of Rs. 13/- on every ton of ACC Cement.** And with the recent downward revision of the ex-Works prices payable to all other producers (except two), I estimate that in 1957 the S. T. C. will make a profit of about Rs. 750 lakhs on the sale of Indian cement (@ Rs. 12-8-0 per ton on 60 lakh tons). Against this must be set off a loss of about Rs. 300 lakhs on the sale of imported cement, thus leaving a **net profit** of Rs. 4.5 crores per annum for the S. T. C.

But I am anticipating a little and must go back to the beginning; for you will ask, quite rightly, what about problem of the "cement gap" and of resolving it in terms of certain objectives?

Well, I can answer that in just one short paragraph! The industry certainly recognised the acute and growing disparity between the quantity of cement produced and that required for essential purposes under the Second Five-Year Plan. Indeed, since for those who are alert, coming events cast their shadows ahead, the ACC spotted the relentless approach of the cement gap long ahead of the Government. And when the Government also recognised the existence of that problem, it was again the ACC who first formulated for Government not merely the objectives to be aimed at in finding a solution, but also a tentative approach to the solution itself.

These are important facts, of special significance to those who are engaged in the production and distribution of cement. It is not merely that we recognised and admitted the existence of the "cement-gap", but that we did our duty in first spotting it; it is not merely that in the discussions with Government concerning this matter we agreed that certain primary objectives should be secured in resolving this problem, but that we did our duty in formulating those objectives ourselves as essential in the highest public interest; and it is, again, not merely that we criticised (and still criticise) the solution propounded by Government, but that we did our duty in ourselves suggesting various alternative solutions of equal, if not superior, validity. Here is what we suggested: that the cement gap should be filled to the minimum extent necessary by importing cement; that so far as the distribution of imported cement was concerned, **we** (ACC/CMI) would take on the job **at cost**; that since, even so, imported cement would cost very much more to the consumer than indigenous cement, there should be enforced **price equalisation without profit,** i. e. that the price of Indian cement should be raised by just so much as may be necessary to meet losses on the sale of imported cement at a common "delivered price" applicable to both; that this could be done in various ways, e.g. through a "price equalisation pool" (which could be voluntary, or statutory, or as a "Trust Fund") **or** by raising the Excise Duty on Indian Cement and paying a subsidy thereoutof to meet the loss on the sale of imported cement, **or** by levying a "price equalisation cess" on Indian cement; and so on. Finally, as regards the actual physical distribution of cement, we offered to evolve a pattern of distribution not merely consumerwise, as hitherto, but also geographically, so that in fulfilling the allocations to meet essential demands there should be involved the most convenient and minimum rail movement.

To these suggestions the Government reacted strangely. They accepted everything we proposed except only the crux of the matter. They decided that trading in cement should be taken over by Government and that price equalisation should be operated through the State Trading Corporation.

The Government's reasons for this preference for State Trading remain a mystery to this day, at any rate to me. Publicly, they have offered none that are convincing. So let us examine the matter on its merits. It was agreed there was an urgent problem to be resolved; it was also agreed that any solution to be acceptable must achieve certain agreed objectives; it was not denied that the various alternative solutions offered by the industry as regards the machinery for price equalisation could and would solve the problem and achieve those objectives. So far there was common ground. What could not be agreed, however, was the **practicability** of the alternative mechanisms for price equalisation suggested by the Industry. As to this I can only say that there was nothing in any of the alternatives we

suggested which made **all of them** impracticable or unenforceable, statutorily if need be, in view of the Government's unquestioned capacity to get any legislation through Parliament overnight. I venture, indeed, to assert with full knowledge of the facts and circumstances, **and** with a full sense of responsibility, that none of the solutions we suggested (in preference to State Trading) was impracticable in itself or less effective for achieving the ends in view than State Trading.

That leaves two final questions to be answered. Firstly, why, in these circumstances, did Government prefer State Trading? And secondly, **reversing the problem,** if State Trading was also an effective solution, why does the Industry object to it?

As regards the first question, one can only make a guess; and anybody's guess would be as good as mine. Here is mine. Having set up the State Trading Corporation, the Government found "easy meat" in Cement Trading. No risks; nothing much to be actually done; only profits to be made. And as it certainly afforded an effective solution to the problem of the Cement Gap and of price equalisation between indigenous and imported cement, the public was not likely to object.

Turning now to the second question, the answer lies in one word: **democracy,** which means *inter alia* certain fundamental rights of the subject as against the State. One such right is the freedom to trade. The mere fact that State Trading **can** resolve a given problem in terms of agreed objectives is not enough to justify its adoption if other solutions of equal, superior, or even (let me say) of slightly inferior validity, but not involving State interference, are available. The objection to State Trading in cement becomes, in these circumstances, fundamental. Moreover, it lops off an essential function, namely the sales function, from a basic productive industry laboriously built up over the years by Free Enterprise, thereby causing grave, albeit unintended injury to it in a vital spot. State Trading in cement also runs counter to the declared policies of Government itself as enunciated in the Industrial Policy Resolution early this year in which an admirable balance was struck between State Enterprise and Free Enterprise. The continual maintenance of such a balance is of the very essence of a socialist pattern of society if it is to be built on the foundations of a democratic constitution. State Trading in cement has gravely disturbed that balance.

(*Based on a series of articles in "A. C.C. Topics".*)