

PERFORMANCE OF CEMENT INDUSTRY AND DECONTROLS

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Cement is a key infrastructural industry with 5.6 per cent weight in the composite index of infrastructural industries. The growth of this industry is substantially dependent on the growth of real gross domestic product, particularly in the areas of manufacturing, construction, electricity, gas and irrigation. The industry's total turnover is Rs. 14000 crore in addition to the concrete production of about Rs. 40000 crore. The industry is directly employing more than one lakh people. Moreover, usage of one million ton of cement results in downstream employment to one lakh persons for full one year as one ton of cement usage creates employment for 35 man-days. The industry has contributed to the exchequer Rs. 2070 crore as excise duty in 1993-94. The exports which increased to 3 million tons in 1994-95, are expected to go up to 8 million tons by the year 2000. The cement industry has thus acquired a significant place in the economy. The growth of the industry was irregular during the last half century depending on the degree and quality of government controls, fiscal position of the government and the overall state of the national economy. The nature of controls and various aspects of the growth of the industry during the periods of rigid controls, partial decontrol and total decontrol have been examined in this article.

Cement industry had been operating under price control of some form or the other since 1942 till February 1989. Prices payable to different manufacturers and those payable by the final consumers were generally fixed by the Government. Even the distribution had been regulated by statutory authorities.

Era of Rigid Price and Distribution Controls (1942 to 1981)

The price of cement was first controlled in 1942 when F.O.R. (Free on Rail) destination price was fixed on a 'cost plus' basis. During the period from 1946 to 1952, the cost of production of ACC was used as a basis for fixing cement price. Subsequently in the years 1953, 1958 and 1961, the Tariff Commission examined production costs of cement and made price recommendations.

The industry experienced a differential price regime from 1961 to 1969. A basic retention price, i.e., the ex-factory price of bulk cement, was combined with provision for increases for the high cost factories. Although the price and distribution controls on cement were lifted in January 1966, the industry was expected to regulate prices and distribution on a voluntary basis. The controls were reimposed in January 1968 and the system of differential prices continued till April 1969. Retention prices always aimed at

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a reasonable rate of return on capital employed after meeting all fixed and variable costs, though in practice, the targeted profits were seldom realised and there were even losses due to under utilisations, inefficiencies and cost escalations.¹

With a view to improving the efficiency of cement units the Government substituted differential retention prices by uniform retention prices from April 1969. Thus, the high cost units were to earn low profits or incur even losses and low cost units could enjoy better profits. The ten year period from April 1969 to May 1979 experienced a single price regime for cement.

In 1974, Tariff Commission had recommended that cement prices for consumers should continue to be uniform throughout the country. Regarding retention prices it was suggested that though the prevalent uniformity may be continued as a general practice, new cement units may be allowed Rs. 10 per ton extra and substantial expansions in the existing units Rs. 5 per ton extra. An additional Rs. 25 per ton over and above uniform retention price was suggested for certain specified high cost units. They also recommended a special 'rehabilitation allowance' of Rs. 4 per ton and an escalation in the retention price to take care of the rise in major elements of costs. A retention price sufficient to secure a return of 14 per cent on the capital employed, subject to a ceiling of a capital cost of Rs. 650 per ton of cement, was suggested for subsequent new units.² These recommendations of Tariff Commission were very fair as they not only took care of the needs of high cost units but also provided for cost escalation, rehabilitation and a reasonable return on capital employed. However, the Government not only disallowed rehabilitation allowance but also certain other cost increases.³

The Tariff Commission had made detailed recommendations in favour of higher prices for expansions and new units with a view to encourage new investment and facilitating the implementation of letters of intent into actual investment. From October 1977 the retention prices for new units (and the expansion of existing units) provided for a post-tax return of 12 per cent on the net worth, value of which was not to exceed Rs. 230 per ton of installed capacity.⁴

The system of uniform retention prices was criticised on the ground that in some cases cost differentials beyond the control of individual units would earn for them high profits not due to efficiency while others might incur losses without being less efficient. The argument gained substantial strength because of substantial cost differentials⁵ in cement units and their overall low profitability. A High Level Committee was appointed in 1978 under the Chairmanship of Lavraj Kumar (then Chairman BICP) to recommend fair prices payable to the producers after thorough review of cost structure of the cement industry and to make other recommendations for balanced growth of the industry.

Lavraj Committee also recommended a 12 per cent return on investment for new units and expansions. On this basis a retention price of Rs. 296 per ton was continued for new units and expansions. As regards the rest of the

units a system of three tier retention price, based on Lavraj Kumar Committee recommendations was announced on May 3, 1979 to be effective till March 31, 1982. Cement units were categorised into low, medium and high cost units and their retention prices were fixed at Rs. 185, Rs. 205 and Rs. 225 per ton respectively. These prices were based on a 12 per cent post-tax return on net worth limited to Rs. 230 on an investment of Rs. 650 per ton after charging all fixed and variable expenses and at 85 per cent capacity utilisation. Units in hilly areas were granted an additional amount over and above revised retention prices. Lavraj Kumar Committee formula was, in general, welcomed because it provided for reasonable return to cement industry and regular price increases to take care of cost escalation. However, it was criticised for not taking into account current replacement cost of assets for computing cost for price fixation.⁶

This system of three tier retention prices was a mid-way between uniform and differential retention prices based on cost differential in each plant. Within a particular category of low, medium or high cost plants, there was an averaging process for determining retention price for each plant.

Poolings and Uniform Retail Prices

Retail price of cement was maintained at uniform level by pooling of freights, pooling of varying retention prices and import price of cement through Cement Regulation Account operated by the Cement Controller. Higher retention prices to high cost units, hilly area units and new units, and lower retention prices paid to low cost units were all pooled together. Similarly import prices which were about three times the retention prices paid to indigenous producers were pooled in Cement Regulation Account (CRA). In the same way a uniform charge for freight was included in the retail price of cement though the actual freight could be high or low according to the distance of the destination. In the former case producers debited the Cement Regulation Account with the difference and in the latter case credited. The net result of all these poolings was that a uniform f.o.r. destination retail price of cement was announced.

The equalisation of retail prices of cements for all destinations led to a locational concentration of the industry in the South and West where good quality limestone is found. No doubt this resulted in minimisation of cost of production, but the adverse consequence had been non-utilisation of second grade limestone deposits in other areas, higher transport cost for these areas and greater burden on railways.

The pricing of cement which passed through full circle of controls commencing from differential retention prices to uniform retention prices and then back to a limited differential of three tier retention prices, provides a typical example where price controls led to lower profits and stultified growth of cement industry.

Distributional Controls on Cement

In addition to price control, there had also been a control on the distribution of cement under the Cement Control Order of 1967 effective from 1.1.1968. The central allocations were in the charge of the office of the Development Commissioner for Cement. The state governments were empowered within the limits of their allocation to determine the allottees and the quantities to be supplied to them by each of the producers.

Cement was allocated under the Central Government quota and the State Government quota. Each of these categories was sub-divided between reserved categories under rate contract (RC) and other than rate contract (ORC) allocations. In addition to these two categories, the state governments administered the free sale category which referred to sales open to the general public. The central allocations under the RC category were made to Ministries and Central Departments, while allocations under the ORC were made to large and medium scale industries registered with the DGTD or any central sponsoring authorities like the Textile Commissioner, Iron and Steel Controller, etc. The state allocations under the RC category were made to state government departments and undertakings while the allocations under ORC were made to bulk consumers including small scale industries.

The state quota for cement was fixed for the first time in 1973 on the basis of past offtake. The position was periodically reviewed on the basis of the requests received from the state governments, and ad hoc allocations were made wherever necessary. In 1978 it was decided that allocations would be based on consumption in the previous five years, consumption in the previous five quarters and the offtake in the last quarter.

In order to promote development in less developed areas through the allocation system, weightage was given to population, plan schemes of housing for slum dwellers, adivasis, low income groups and water supply schemes for rural areas, in granting ad hoc allocations over and above the basic allocations.

The distribution of cement was progressively taken over by the state governments since 1978. The essential features of the system were that all stockists and dealers were to be appointed and/or licensed by the state governments rather than the cement producers. The quantum of cement to be sold by producers was determined by the state governments, and the sales were either on the basis of the permit system or procedures specified and notified by the concerned state governments.

High Level Committee (1981) and Partial Decontrol of Cement in 1982

In 1981 a High Level Committee was constituted for reviewing the then prevailing system of pricing in the cement industry and incentives for its growth, modernisation and technological progress. Reviewing the situation

three years later, the High Level Committee of 1981 also found that different units in the cement industry in India had widely divergent costs. Their analysis highlighted the divergences in the major elements of costs. While the costs of raising limestone varied from 68.60 per ton of cement to Rs. 12.10 per ton of cement, cost of coal varied from Rs. 54.90 per ton of cement to Rs. 19.70 per ton of cement. The Committee found that 21 per cent of the units costed in 1980-81 were in the cost inefficiency category, 17 per cent were around the normative cost levels, and 62 per cent had better performance than normative cost levels. The Committee also found that except in some of the very distant and outlying plants, no clear pattern emerged as to the reasons for the high or relatively high cost of some units vis-a-vis others. "By and large, old and wet process plants do have high production costs, although the lowest cost wet process plants are fairly close in terms of costs of the cost efficient better managed dry process plants. Nonetheless, locations and management efficiency are, the Committee finds, two of the major factors in the fairly wide variations in the observed (as well as normative) over-all costs of cement production by different units."

In view of the wide differential in the costs of different factories, costed as well as the non-costed, the High Level Committee recommended a three tier price formula for existing factories based on dividing the factories into three categories, i.e., low cost, medium cost and high cost. The prices recommended for the three tiers were Rs. 185, Rs. 205 and Rs. 220 per ton respectively. The overall weighted price for the 53 factories worked out to Rs. 204.32 per ton. This was about Rs. 35.41 higher than the uniform retention price prevailing at that time. The Committee also recommended continuation of the policy (announced in 1977) of giving a higher price of Rs. 226 per ton for new units and substantial expansions.

The Committee's approach to cement pricing can be summarised best in its own words, i.e., "New units must be given the long run marginal cost of cement production in order to ensure continued expansion in the future. For existing units it is essential that the price be such as to cover variable cost of production on the basis of reasonable norms of efficiency and allow for replacement and modernisation. For this purpose it is necessary to use a notional amount as capital servicing cost rather than the return on capital and depreciation on historical cost."

Partial Decontrol

At the same time, the Committee recommended partial decontrol of cement. In their words, "Hereafter, only 20 million tonnes of cement, annually, should be kept under price control. With the installed capacity in 1982 at around 28 million tonnes all existing plants may be required to first supply cement upto 75% of their capacity to the Cement Controller, any production in excess of this percentage being permitted to be sold by them freely in the open market. Free market sales would be free both from distribution control as well as from

the freight pool." The committee also recommended that cost escalations must be allowed on a half-yearly, if not quarterly basis.

While accepting the recommendations of the High Power Committee (also known as Ghosh Committee) and announcing partial decontrol of cement, the intention of the government was that the cement industry should create additional resources to invest in replacements, modernisation and Research & Development etc. It was expected that the cement industry would generate adequate internal resources for modernisation of old units and for converting wet process plants into dry process plants and installation of precalcinators. Subsequent developments in the industry proved that these expectations from the industry were largely met.

The government announced the policy of partial decontrol of cement with effect from February 28, 1982. Under this policy, the then existing cement units which were in commercial production on January 1, 1982 were required to give production equal to 66.6 per cent of their installed capacity as levy cement at controlled price. The new units or the expanded capacity of the existing units which would start commercial production after January 1, 1982 as well as the units which were designated as sick units were required to give production equal to 50 per cent of their installed capacity as levy cement. Production in excess of these limits could be sold by the cement factories as non-levy cement without price and distribution control. To accommodate new units further, they were required to give only 50 per cent of their actual production during the first three months towards their levy obligations. After this trial period, the effective capacity for determination of levy quota of new units was fixed at 75 per cent of their installed capacity in the first year of their operation and at 85 per cent of their installed capacity in the second year of their operation. Thus, a new cement factory was required to surrender as levy quota production equal to 37.5 per cent of its installed capacity in the first year and 42.5 of its installed capacity in the second year. From the third year onwards, the levy quota of 50 per cent was applicable. While non-levy cement was kept out of statutory price control, the Cement Manufacturers' Association agreed to a voluntary price control. In July 1984, the government increased the retention price for levy cement and reduced the levy quota marginally from 66.6 per cent to 65 per cent of installed capacity for existing units and from 50 per cent to 45 per cent of installed capacity for new units. In a subsequent review in June 1985, the levy quota was reduced from 65 per cent of installed capacity to 60 per cent of actual production in the case of old units and from 45 per cent of installed capacity to 40 per cent of actual production in the case of new units and sick units. In a further modification in March 1986, the levy obligation was set at 60 per cent of the actual production upto 100 per cent of the licensed capacity, and 45 per cent beyond 100 per cent and upto 125 per cent. For new units, similarly, the obligation was reduced from 40 per cent to 30 per cent.

A lowering of the proportion to be procured by the government at a prescribed levy price and a corresponding increase in the proportion of the

production available for the open market or non-levy market was designed to raise the average realisation per ton of cement to the producers based on their operations on the levy account as well as in the non-levy market.

Encouragement to Captive Power Generation. In 1982, the industry was advised to use captive power to meet upto 40 per cent of its requirement. To reduce the heavy financial burden of captive power the Government agreed to reduce the levy obligation of cement companies installing captive power plants. The industry had favourably responded to the Government subsidy scheme under which 26 per cent of cement produced by using captive power was set off against the levy obligation imposed on each unit. A substantial captive power creation took place. So much so that certain units in Karnataka, Rajasthan, Andhra Pradesh and Gujarat meet 100 per cent of their power requirement through captive power generation.

Concessions to Cement Industry from 1.3.1982 till Price Decontrol w.e.f. 1.3.1989

Growth of cement industry during 1982-83 to 1986-87 had been very rapid in the history of Indian cement industry due to a number of concessions and facilities provided to the industry including partial decontrol itself. These included (i) a concessional rate of basic customs duty of 10 per cent ad-valorem and auxiliary duty of customs at 5 per cent, (ii) increase in the customs duty on white cement to 60 per cent ad-valorem plus 40 per cent auxiliary customs duty w.e.f. 23-8-1985, (iii) increase in the retention price (payable to cement producers) of levy cement by Rs. 40 per ton on 18-7-84 and further by Rs. 24.50 on 15-12-86, (iv) discontinuation of the contribution by cement units to the Cement Regulation Account w.e.f. 15-12-86 which was prevailing at the rate of Rs. 9 per ton of non-levy cement, (v) encouragement to the schemes of expansions and modernisations through continuous reduction in levy obligations, (vi) reduction in the levy obligation in relation to production beyond 100 per cent and upto 125 per cent of the licensed capacity, (vii) relief to factories using diesel generation sets for power generating etc.

Despite these facilities facilitating industry growth, there were complaints on account of unrealistic norms, delayed price revisions and cost escalations outpacing them, thus eroding profitability of the industry.⁷

The industry sources placed entire blame on the governmental price and distribution controls for declining profits despite increases in capacities and sales. The hike in administered prices and costs totally beyond the control of the manufacturers — steep increases in coal prices, electricity charges and railway freight — were not compensated by any corresponding rise in the cement prices which continued to be depressed till the end of 1989. Shortfalls on levy prices could not be recovered through the sale of non-levy cement because of stiff competition in the market on account of excess of supply over demand, particularly from 1986 till the end of 1989. Due to depressed market

conditions the industry could not benefit much even from the reductions in the levy quota during this period. The prices of even non-levy cement fell below the prices prevailing before and immediately after the introduction of partial decontrol.

Impact of Cement Price Decontrol on 1.3.1989

Total price decontrol w.e.f. 1.3.89 meant that the cement units — irrespective of their year of commencement of production, technology and financial health — were no longer required to sell any portion of their production to the Government at a specified price. They are now free to sell their entire production at a free market price subject to certain distributional controls:

Decontrol of cement prices was brought in at a stage when the country was saddled with excess capacity and poor demand growth. The increased availability and overnight disappearance of demand of about 7 million tons of cement, earlier lifted by the Government under levy category, immediately after decontrol, depressed market prices. In fact, in some of the tenders floated by the Government in 1989, the prices quoted were almost equal to levy prices, primarily with a view to capturing market share.⁸ During 1989, the benefit of decontrol reached the smaller consumers in terms of availability of right quality of cement at site at cheap prices.

Decontrol had regional implications also. Surplus areas like the southern and western regions had maximum dip in prices compared to deficit areas in the north. In Hyderabad, a bag of cement (50 kg.) was sold for as low as Rs. 60 while in northern and eastern regions it could easily fetch Rs. 80 in January and February 1990.

Having discussed the nature and implications of rigid price and distribution controls during 1942 to 1981, partial decontrol during 1982 to 1988 and total decontrol since 1st March 1989, let us examine the performance of the cement industry during these periods in terms of production, distribution of capacity between large and mini cement plants, locational implications, technological improvements, the demand, import and export, contribution to the exchequer, availability to the consumer and the prices of cement.

Capacity, Production and Capacity Utilisation

Growth in cement capacity and production was dismally slow during the period of rigid price and distribution controls. During a full period of three decades between 1950-51 to 1981-82 total cement capacity increased from 3.28 million tons to 29.26 million tons — an addition of 26 million tons in 30 years. Thereafter till 1988-89 the total capacity increased to 59 million tons — a capacity addition of 30 million tons in a period of just seven years of partial decontrol since 1982. After total decontrol since 1.3.1989, total capacity reached 84 million tons in 1994-95 — an addition of 25 million tons in a period of six years. Thus 12 years of partial and total decontrol witnessed

double the capacity expansion compared with that during the 30 years prior to the commencement of the process of decontrol (Table 1).

Nearly same pattern is discernible in the field of production which moved up from 2.95 million tons in 1950-51 to 21 million tons in 1981-82. By 1988-89, the annual production had gone upto 44 million tons which further increased to 61 million tons by 1994-95 (Table 1). The Eighth Plan envisages a capacity of 90 million tons and production of 76 million tons by the terminal year of the plan, thus aiming at overall capacity utilisation of 84.4 per cent in 1996-97. With the expansion in installed capacity, the capacity utilisation has not improved on a sustainable basis due to infrastructural constraints. Improvement in infrastructure lagged behind improvement in capacity expansion.

Capacity utilisation varied not only from year to year but it differed markedly in different sectors, regions/states, processes and in case of plants of different sizes with different industrial groups. Capacity utilisation had generally been much higher in case of private sector units as compared with public sector cement units.⁹

Share of Large and Mini Cement Plants

Liberalisation and decontrol in the cement industry had an adverse impact on the mini cement sector because it is finding it more and more difficult to compete in a liberalised environment in which larger modern plants enjoy a competitive edge in terms of production and other operating costs. While during 1990-91 to 1994-95, the capacity in large cement sector expanded from 60 million tons to 76.6 million tons — an expansion of 28 per cent; in case of mini sector it increased from 5 million tons to 5.7 million tons — an increase of 14 per cent. During the same period, in large sector production increased from 45.7 million tons to 58.4 million tons while in mini sector annual production moved up from 3 million tons to 3.9 million tons. In terms of capacity utilisation the larger plants consistently fared far better than the mini sector plants. Capacity utilisation in the former ranged between 76 per cent to 87 per cent in different years while in the latter it has been between 60 per cent to 68 per cent (Table 2). Lower capacity utilisation and higher energy cost per ton of cement produced placed mini plants at a disadvantage despite certain concessions granted by the government.

Controls and Locational Considerations

During the era of rigid controls till 1982, the cost of transportation was not an important consideration in deciding the location of cement plants, because the freight burden was borne by the freight equalisation fund and not directly by the concerned unit. This resulted in uneconomic location of cement capacities leading to cross movement of cement over long distances¹⁰ and an avoidable excessive burden on scarce resources like wagon capacities, diesel etc.

TABLE 1 : Trend in Capacity, Production and Capacity Utilisation : Cement (1950-51 to 1994-95)

Year	Installed Capacity (in million tons)	Production	Capacity Utilisation (per cent)
1	2	3	4
Era of Rigid Controls			
1950-51	3.28	2.95	90
1951-52	3.75	3.29	88
1952-53	4.01	3.57	89
1953-54	4.38	4.03	92
1954-55	4.62	4.42	96
1955-56	5.02	4.60	92
1956-57	5.81	5.16	89
1957-58	6.96	5.98	86
1958-59	7.89	6.10	77
1959-60	8.48	7.29	86
1960-61	9.30	7.97	86
1961-62	9.47	8.28	87
1962-63	10.00	8.75	89
1963-64	10.50	9.43	90
1964-65	11.24	9.78	87
1965-66	12.00	10.82	90
1966-67	12.56	11.07	88
1967-68	13.78	11.48	83
1968-69	14.98	12.24	82
1969-70	15.98	13.82	86
1970-71	17.61	14.36	82
1971-72	19.56	15.08	77
1972-73	19.76	15.56	79
1973-74	19.76	14.67	74
1974-75	20.06	14.81	74
1975-76	21.16	17.29	82
1976-77	21.46	18.85	88
1977-78	21.91	19.38	88
1978-79	22.55	19.42	86
1979-80	24.29	17.69	73
1980-81	27.92	18.66	67
1981-82	29.26	21.01	72
Partial Decontrol			
1982-83	34.39	23.27	68
1983-84	37.04	27.07	73
1984-85	41.20	30.20	73
1985-86	44.00	33.10	75
1986-87	53.70	36.60	68
1987-88	58.80	39.60	67
1988-89	59.00	44.00	74
Total Decontrol			
1989-90	61.50	45.40	74
1990-91	63.96	48.76	76
1991-92	66.59	53.61	81
1992-93	70.19	54.14	77
1993-94	76.96	57.83	75
1994-95	84.00	61.30	73

Decontrol of cement, first partial in 1982 and then full in 1989, removed the above distortion. Nearness to the market has now emerged as one of the significant factor in locational decisions together with the factors like availability of raw materials and power. This has encouraged split location plants and also location of new export oriented plants near the ports. As a result the capacity of coastal and near coast based cement plants has increased from 7 million tons in 1980 to 20 million tons in 1993. More coastal cement plants are in the pipeline.

Controls and Technological Improvements

During the periods of rigid controls, even inefficient and locationally and technologically inferior units could survive, due to cross subsidisation and acute shortages. For example, during 1950 as much as 97 per cent of the cement capacity was on the orthodox and technologically inferior wet process and only 3 per cent on semi-dry process. There was not a single unit producing with dry process. Ten years later in 1960 only 1 per cent capacity was on dry process and 5 per cent on semi-dry. The rest 94 per cent was on wet process.

After the partial and the total decontrol, all new capacities that have come up during the eighties and the nineties are on dry process. At the time of total decontrol only 1/5th of the total capacity was on wet process. By the turn of the century 100 per cent of the large cement plants will be on technologically superior and cost-effective dry process, mainly due to the forces of domestic and international competition. Moreover, the market forces are forcing the industry to make improvements in the areas of packing, bulk handling, product quality, energy conservation and other production techniques because inefficient units cannot survive in a regime of decontrol ensuring survival of the fittest only. In addition, significant progress has also been achieved in development of pollution control measures.

Cement Consumption/Demand

Total demand for cement grew at a slow pace during the period of rigid controls till 1982, reaching upto only 30 million tons till then. However, during the period of partial decontrol till early 1989 the demand had gone upto 43 million tons and thereafter upto 60 million tons till 1994-95. Thus, the demand growth during 12 years after the commencement of decontrol was more than that during three decades of rigid controls. At present the demand for cement is growing at seven per cent and is expected to grow at eight per cent over the next two years. The incremental capacity coming up in the next two years is about 2.2 million tons while the incremental demand is estimated at 3.9 million tons.

Per capita consumption of cement in India was only 30 kg. in 1982 compared with the world average of 188 kg. It had gone upto 47 kg in 1989

and increased at a faster rate since then to reach 64 kg. in 1994¹¹ compared with the world average of 220 kg. (Table 3). Per capita consumption of cement in India is expected to touch 85 kg. by the turn of the century.

TABLE 3 : Per Capita Consumption of Cement

Year	Per Capita Consumption (kg)	
	India	World
Era of Rigid Controls		
1950	7	55
1960	18	104
1970	26	158
1980	30	203
1981	33	190
Partial Decontrol		
1982	30	188
1983	37	191
1984	39	193
1985	43	200
1986	44	204
1987	47	210
Total Decontrol		
1990	47	210
1991	50	220
1994	64	220

Before the total decontrol of cement about 40 per cent of the cement demand was coming from the governmental sector — both central and state. Due to a tight fiscal situation the government sector has now reduced its offtake to only about 15 per cent of the country's cement output. However this reduction in governmental demand has been compensated by a spurt in private sector demand facilitated by decontrol of cement industry, overall liberalisation of the economy, improvement in economic growth and pickup in construction activity. Moreover during the post decontrol era there is significant improvement in rural sector demand also.

Import/Export Position and Controls

Era of rigid controls was also an era of acute cement shortages and heavy

imports. During four years immediately before partial decontrol (i.e. during 1978-79, 1979-80, 1980-81 and 1981-82) the total import of cement amounted to 5.5 million tons valued at Rs. 305 crore. After partial decontrol in 1982, the cement capacity expanded at a fast rate. As a result cement imports totally disappeared from 1987-88 onwards (Table 4).

A reverse trend started after the partial decontrol in 1982 which got a further boost from full decontrol in early 1989. Till 1982 cement exports were confined to Nepal only and that too in a small way based on economic-cum-political considerations. Since then exports expanded both quantitatively and geographically. From an export of 8000 tons in 1982-83, it increased to 68000 tons in 1988-89. Thereafter exports got a further fillip and touched 3 million tons in 1994-95 (Table 5). The country is now exporting cement to Nepal, Bangladesh, Pakistan, Srilanka, the East, the Middle-East and the gulf region. The high capacity utilisation, stiff internal competition due to supply outpacing demand and a favourable geographical location of the country prompted cement producers to look outwards and make a concerted effort at increasing cement exports. Cement exports can further improve by increasing cost and quality consciousness, improving bulk handling facilities at plants and at ports and providing adequate facilities like storage, loading/unloading at birthing of ships. If current developments are an indication, cement and clinker exports would go up to 5 million tons in 1996-97 and further to 8 million tons by the year 2000.

Contribution to the Exchequer

Excise duty collection from the cement industry has also increased with its decontrol. At the time of partial decontrol in 1981-82 the total annual excise duty collection from the industry was Rs. 169.59 crore which increased to Rs. 950 crore at the time of total decontrol in 1988-89. During 1993-94 the excise duty collection from the industry had risen to Rs. 2070 crore. At present the cement industry is one of the largest contributor of excise revenue to the exchequer. In 1994-95, over 5 per cent of the aggregate excise revenue came from the cement industry.

Controls, Availability and Malpractices

The era of rigid controls was also an era of lot of malpractices which made the consumer and the industry suffer to the advantage of corrupt government officers and unscrupulous middlemen. The unshackling of the cement industry from the clutches of controls and regulations gave an impetus to capacity creation and production expansion. Consequently the shortages disappeared and with this the several corrupt practices that had existed earlier. There are now no waitings, queues and permits. There is no scope for corruption in cement supply as anybody can buy any quantity at any time and use it in any manner.¹³ Customer's sovereignty has now got established

after decontrol. Liberalisation of the industry has also benefited the consumer in terms of quality improvement and availability of a variety of cements. The Bureau of Indian Standards has laid down specifications for high grade of cement. While earlier only one grade of cement was available to the consumers, now a variety of grades are available — grade 33, 43 and 53. There is a proposal to bring in grade 63 cement also. Thus the consumer is an allround gainer from decontrol, but the price he has to pay for these gains needs to be examined.

TABLE 4 : Cement Imports

Year	Imports	
	Quantity (lakh tons)	Value (Rs. crore)
Rigid Controls		
1978-79	11.31	68.90
1979-80	15.47	67.65
1980-81	16.8	95.51
1981-82	11.2	73.04
Partial Decontrol		
1982-83	10.3	68.45
1983-84	16.1	104.56
1984-85	2.9	23.98
1985-86	3.4	27.61
1986-87	2.4	16.93
1987-88	Nil	Nil
1988-89	Nil	Nil
Total Decontrol		
1989-90	Nil	Nil
1990-91	Nil	Nil
1991-92	Nil	Nil
1992-93	Nil	Nil
1993-94	Nil	Nil
1994-95	Nil	Nil

TABLE 5 : Cement Exports

Year	Quantity (lakh tons)
Rigid Controls	
1978-79	0.51
1979-80	0.30
1980-81	0.20
1981-82	0.02
Partial Decontrol	
1982-83	0.08
1983-84	0.10
1984-85	0.28
1985-86	0.48
1986-87	0.29
1987-88	0.02
1988-89	0.68
Total Decontrol	
1989-90	1.55
1990-91	2.66
1991-92	3.58
1992-93	12.00
1993-94	28.00
1994-95	30.00

Decontrol and Cement Prices

Concern is expressed, at times, regarding the impact of decontrol on cement prices. However, a deeper examination into the overall increase in the general price level and the cost escalations in the cement industry suggests that the situation has been, by and large, satisfactory so far, mainly on the strength of demand and supply forces. A vigilance on this front is, always required.

At the time of partial decontrol in 1982, the open market retail price of cement hovered around Rs. 60-61 per bag of 50 kg. Between partial decontrol to total decontrol on 1.3.1989, the open market per bag cement price at stockist godown increased from Rs. 68 to only Rs. 70 in Bombay, Rs. 65 to Rs. 74 in Calcutta, Rs. 65 to Rs. 68 in Delhi and Rs. 68 to Rs. 70 in Madras (Table 6). This price rise had been far less than the rise in the General Wholesale Price Index or the Consumer Price Index.

However, after total decontrol, except during a small period of depressed demand, the rise in cement prices outpaced the rise in general price index. During 1989-90 to 1991-92, the average rate of growth in cement prices was 13.89 per cent per annum as against average annual rate of inflation of 9.86 per cent for the period. During 1995 the per bag cement price has been prevailing at around Rs. 130, i.e., about 100 per cent above that at the time of total decontrol six years back.

The post decontrol rise in price should be viewed in the light of the fact that during 1982 to 1989 only two price hikes were permitted on 17.7.84 and 15.12.86, which only partially compensated for cost hikes. The cost of all major inputs such as price of coal, freight on coal, power rates, royalty rates etc. on the average, had gone up by more than one-and-a-half times during this period. Moreover, the investment cost, which was Rs. 1000 per ton during the mid-80s had gone upto Rs. 1500 in 1988-89 and further to Rs. 4000 per ton in 1994-95 (Table 7).

To save on operating costs and the per ton capacity creation costs, new plants are being established with a capacity of one million ton or more. Small units are at a disadvantage and fear the risk of being weeded out. A watch on cement prices and cartelling by producers acquires added significance because post decontrol period is witnessing a barrier for new entrants except for large multi-product houses which have capacity to survive. Under the circumstances, the role of the industry in the post liberalisation free market and the need for an appropriate mechanism to protect the interests of consumers to ensure fair business practices acquire special significance.¹⁵

Industry continued to increase cement price in spite of BICP's recommendations and government warnings; and inter-regional disparities in cement prices persist even though cement prices are monitored by the Development Commissioner's office and also in the Industry Ministry. If the prices increase beyond a reasonable level, the Development Commissioner's office has the powers to get cement transported to regions having shortage.¹⁶ The Food and Civil Supplies Ministry had responded to the problem of price hikes and price disparities by suggesting introduction of partial price control under which supplies to priority areas and government projects could be made at government fixed prices and the remaining supplies would be allowed at market prices. This suggestion, reversing the decontrol and liberalisation process, was however, rejected. If the process of liberalisation has to gain momentum it is imperative that the consumer should derive the benefits of a competitive market and he is not deprived of these benefits through oligopolistic practices.¹⁷

TABLE 6 : Trend of Open Market Cement Prices and Price to Manufacturer in Four Major Metropolitan Cities during Partial Decontrol Period (Rupees per bag)

Year	Bombay		Calcutta	
	At stockist godown	To manufacturers ex-works	At stockists godown	To manufacturers ex-works
1983	68	46	65	45
1984	64	42	62	39
1985	72	48	71	46
1986	68	43	75	49
1987	70	42	73	45
1988	73	45	78	49
1989	70	41	74	43

Year	Delhi		Madras	
	At stockist godown	To manufacturers ex-works	At stockists godown	To manufacturers ex-works
1983	65	46	68	45
1984	63	43	67	43
1985	67	46	70	45
1986	62	41	70	44
1987	67	44	71	44
1988	70	47	69	42
1989	68	43	70	41

Note : Price to manufacturer at ex-works is computed as prices at stockists godown less excise duty, freight and sales tax.

TABLE 7 : Investment Cost of Creating Cement Capacity¹⁴

Year	Rs. per ton
Mid-80s	1000
1988-89	1500
1991-92	2500
1993-94	3500
1994-95	4000

The cement industry has reached a mature level where the market has adequate supplies and producers are competing against each other offering better quality at domestically competitive prices. These prices are still higher than the international prices due to higher domestic cost of production

primarily on account of high costs of various inputs, most of which fall within the realm of administered prices, and due to occasional carteling by the cement producers. Liberalisation in the infrastructural sectors including the invitation to foreign capital and the plans for massive expansion in the infrastructural activities in the private sector, a big thrust on cement exports and coming up of export oriented units around the ports, augur well for the growth of the cement industry.

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