



सत्यमेव जयते

REPORT OF THE COMMITTEE ON STATE TRADING

1950

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CHAPTER I

INTRODUCTORY

1. The Committee on State Trading was appointed by the Government of India in the Ministry of Commerce by their Resolution No. 11-TP(P) (1)/49, dated the 8th October 1949, with the following terms of reference:-

"Whether, having regard to present day conditions and future trends of India's international trade, it would be of advantage to set up a State-owned or State-sponsored organization for handling any sector of the foreign trade of the country. If so, what the structure of the organization should be and what the field and scope of the activities of the organization should be".

The Committee was constituted as follows:-

Chairman

Dr. Panjabrao Shamrao Deshmukh, M.P.

Members

1. Shri Prabhudayal Himatsingka, M.P.
2. Shri H. V. Kamath, M.P.
3. Shri B. P. Jhunjhunwala, M.P.
4. Shri S. V. Krishna Moorthy Rao.
5. Shri R. N. Goenka, M.P.
6. Shri N. Dandekar, I.C.S.,

Joint Secretary to the Government of India,
Ministry of States.

Consequent on his transfer to the Scindia Steam Navigation Company, Ltd., Bombay, Shri Dandekar had to resign his membership with effect from the 19th November 1949, when the Committee had just commenced examination of witnesses. No appointment was made in his place.

2. The Committee was originally expected to carry out a fairly quick examination of the problem and submit its Report by the end of November 1949. It soon became evident, however, that the problem was far too complex to admit of a summary examination and that it was necessary to examine a much larger number of witnesses than was originally thought sufficient.

The Committee had, therefore, to take more time to prepare its Report. The Committee first met on the 11th October 1949, and issued a Questionnaire (*vide* Appendix II) on the 19th October 1949, fixing the 31st October 1949 as the last date for sending replies. As it was represented that this date did not allow sufficient time for the consideration of the Questionnaire, the date was later extended to the 21st November 1949. The Committee received in all 100 replies to its Questionnaire and examined 101 witnesses. The Committee also had informal discussions with certain officers of the Government of India and the Reserve Bank of India. A list of the witnesses examined by the Committee and of the persons and associations from whom replies to the Questionnaire were received will be found in Appendices III and IV. The Committee visited Calcutta, Bombay and Madras for examination of some of the witnesses. The total number of meetings held by the Committee was 60. The representatives of the Federation of Indian Chambers of Commerce and Industry and the Associated Chambers of Commerce sat with the Committee while witnesses were being examined.

History of the Proposal

3. The idea of setting up an agency to handle foreign trade, first mooted during the war, has remained a live issue ever since, though the background against which it is projected has been continually shifting. The suggestion for setting up such an agency for handling the export trade was first made during the war by the Indian Commercial community who apprehended that the operations of the United Kingdom Commercial Corporation in India would deprive Indian nationals not only of the profits of the export trade; but also of the benefits of trade contacts in certain countries. Their stand was that if in the abnormal circumstances of war it was difficult for the normal trade channels to function, the Government of India should set up an Indian agency to undertake the handling of trade with those countries where private exporters could not operate. The suggestion was also supported on the ground that an organization of this character would be eminently fitted to deal with foreign purchasing missions which were operating in India at that time and which were believed to have canalised trade into specific directions not always to the advantage of Indian nationals and depressed prices by their bulk purchases. For various reasons, however, the question was not vigorously pursued at that time.

4. The cessation of hostilities and the winding up of the U.K.C.C. pushed the idea of having a corporation or a Government-sponsored agency

to handle the export trade somewhat into the background. Towards the end of 1947 and the early part of 1948, however, the subject was brought up again, because of the substantial profits that were being made at that time in certain lines by Indian exporters. It was pointed out that while other countries were charging India very high and even discriminatory prices for the foodgrains imported by her, the Government of India, by leaving the export trade to private traders, had not only allowed substantial profits to be pocketed by them but let slip the opportunity of charging the maximum possible price that the foreign markets would bear. The matter was examined in the Ministries of Commerce, Industry and Supply and Finance, and subsequently, export duties on cloth, manganese, oilseeds and vegetable oils - the last three in the Finance Act of 1948 - were levied, largely on the ground of the wide disparity existing between internal prices and export prices.

5. In March 1948, the matter was brought up in the Central Legislature on a cut moved by Shri R. N. Goenka. One of the arguments urged was that Government with a heavy bill to foot for foodgrains should not allow the very wide margin of profits between the prices obtaining in this country and outside to go to the trade, but should set up a Corporation to tap at least a portion of the difference with a view to augmenting Government's resources. The then Commerce Minister, Shri C. H. Bhabha, in his reply stated that the matter was under Government's consideration and that a decision would be taken shortly.

6. There was a further shift in the economic background owing to the effects of the rise in prices in India after decontrol and the increasing price resistance encountered by some of our exports in the foreign markets. In the context of the anti-inflationary measures, that were recommended to Government by certain interests in the latter half of 1948, the Sub-Committee of the Cabinet directed an examination to be made of the possibilities of setting up an organization for controlling the export and import trade in certain commodities and intercepting the profits therein for the taxpayer. Meanwhile, the excessive rise in the prices of East African cotton imported into India had directed attention to the large margin between the prices which had been negotiated by the Government of India under a bulk purchase arrangement and the actual market price in India, and led to the suggestion that Government should step in and take over imported cotton under that deal. The Economic Committee of the Cabinet considered the proposal but came to the conclusion that it should not be proceeded with.

7. In March 1949, Shri K. C. Neogy, the then Commerce Minister, in the course of discussion on the demands for grants for his Ministry, said that Government had undertaken what might be called state trading in some cases during the previous few months. He added: "From all points of view we are anxious to have the question of state trading on the basis of a State Corporation examined in some detail. As a result of an examination we may find it possible to have an organization for the purpose of undertaking trade in certain specified commodities with reference to certain specified countries. It is my intention to have a Committee set up as soon as possible and associate certain members of the House with the Committee. Certain features that I have noticed in cases of bilateral trade agreements seem to indicate the necessity of State intervention in some manner without leaving the implementation of these agreements entirely in the hands of the trade".

8. Later in April 1949, at the direction of the Cabinet, the proposal to set up a Corporation in order to undertake the export of cotton piece-goods to hard currency countries was brought under examination in the Ministry of Commerce. The object was, not to absorb the profits of the trade but to retain our hold on foreign markets even by incurring loss, if necessary. The conclusion reached was that the proposal was not feasible.

The changes in the economic situation as a result of the devaluation of the rupee in September 1949 have again brought the issue to the fore. Devaluation may lead in certain lines of export to a rise in internal prices rather than a fall in international prices of a commodity and may thus cause large profits to accrue to trade. In regard to such lines, it has been suggested that state trading can be introduced to intercept the whole or a part of the profits. Similarly, in regard to imports from certain countries which would now be priced higher (*e.g.* imports from Pakistan), it has been suggested that a state trading organization can operate to make purchases in bulk at reasonable prices.

It will thus be seen that the context in which state trading has been proposed has varied considerably from time to time and a fresh examination of the subject has become necessary against the background of international and internal economic and commercial conditions prevailing today.

Approach to the Problem

9. State trading is capable of being defined in various ways. On a narrower definition, state trading may be deemed to include only such import or export transactions of a State-owned or State-controlled agency as involve purchases of products by such agency with a view to their commercial re-sale, or with a view to their use in the production of goods for commercial sale. A wider view of it, however, may also include purchases of stores for governmental use or re-sales of surplus stores originally purchased for governmental use. There is nothing in the Committee's terms of reference which precludes the adoption of the wider connotation of state trading. However, it must be recognised that these two types of transactions have special characteristics of their own and raise problems which are substantially different in character. State trading in the sense of stores purchase or disposals forms part of the normal activities of Government and is governed by a policy evolved over a series of years. On the other hand, the policy in regard to state trading, in the sense of commercial purchases or sales, is yet to be formulated. Partly because of the limitations of time and partly because of the urgency of formulating a policy with regard to the commercial activities of Government, the Committee has not been able to examine the question of stores purchase or disposals in all its aspects and has, therefore, confined its examination to state trading in the narrower sense. It is recommended that the question of stores purchase and disposals be taken up for separate examination.

10. It will be observed that the Committee's terms of reference are limited to the problems relating to state trading in the realm of foreign trade. This limitation has often proved a serious handicap to the Committee in carrying out its investigations, because it will be readily conceded that in many cases the success or failure of state trading in the sphere of foreign trade may be materially influenced by the extent of control exercised by the State over the country's internal economy. The latter, however, raises wider issues of economic policy which some other body will have to tackle in due course. In view of this, as well as the anxiety expressed by Government to have a report from the Committee as early as possible, the Committee did not consider it advisable to suggest to Government a widening of its terms of reference. The Committee has, however, taken the liberty to discuss the inter-relation between state trading in the realm of foreign trade and control over internal economy at appropriate places in this Report.

11. The Committee has given its earnest consideration to the suggestions made in a Memorandum prepared some time ago by some members of the Congress Party in the Legislature, namely, Shri R. N. Goenka, Shri M. L. Saxena, Shri B. P. Jhunjhunwala, Shri Deshbandhu Gupta and Shri M. A. Ayyangar. The Memorandum suggested the creation of a statutory Corporation and described its functions in the following terms:-

"The Corporation, if agreed upon to be formed, should in the first instance deal and function as a monopolist in certain items of the foreign trade of India, such as export of cotton and jute textiles, vegetable oils and oil seeds, tea and coffee, hides and skins, mica, manganese and various articles produced by our cottage industries, and also the import of articles such as food, fertilizers, machinery, including stores and supplies for the railways, heavy chemicals, hardware, iron and steel. Both imports and exports of the said items must be through the Corporation, whether of capital or consumer goods, Government stores or bullion. Only then would it be possible so to arrange and organise the trade, as would procure in as much quantity as is needed and can possibly be procured, all the capital goods without which the plans for development and expansion of the national economy cannot be implemented. Only then would it be possible to obtain all the very essential consumer goods, as well as find the most profitable markets for our exports, as would meet in the largest measure the demand for the same for nearly a decade, in this country as well as abroad. And, finally, only then would it be possible to rationalise foreign exchanges."

The various points raised in the Memorandum, which were also made by certain witnesses who gave evidence before the Committee, have been discussed at appropriate places in the Report. Considering the present economic situation in the country and having regard to the difficulties and risks involved in certain forms of state trading, the Committee has thought it appropriate to recommend a more modest scheme which, it believes, would be sufficient to meet the immediate requirements of the situation. The measures recommended by the Committee are sufficiently elastic to permit their adaptation to changing circumstances.

CHAPTER II

MAIN FEATURES OF THE FOREIGN TRADE SITUATION

12. One of the most significant features of India's postwar economy is the sharp upward trend which has been noticed during the last five years in the foreign trade of the country. In 1948-49, India's foreign trade amounted to Rs. 1121.00 crores, made up of Rs. 453.21 crores worth of exports, and Rs. 667.79 crores worth of imports. Prior to the outbreak of war *i.e.* in 1938-39, undivided India had a foreign trade of Rs. 325.38 crores consisting of Rs. 169.83 crores worth of exports, and Rs. 155.55 crores worth of imports. Prior to Partition, in 1946-47 the foreign trade of undivided India amounted to Rs. 656.36 crores, with exports at Rs. 320.78 crores, and imports at Rs. 335.58 crores. Table I gives figures for the foreign trade of India since 1937-38 (*i.e.* since the separation of Burma):-

TABLE I

Foreign Trade of India since 1937-38

(Private merchandise and Government stores)

	(In lakhs of rupees)		
	Imports	Exports (including Re-exports)	Total
1937-38	177,22	189,76	366,98
1938-39	155,55	169,83	325,38
1939-40	168,97	215,95	384,92
1940-41	161,29	200,43	361,72
1941-42	174,75	254,45	429,20
1942-43	116,71	195,18	311,89
1943-44	132,73	211,09	343,82
1944-45	231,94	228,98	460,92
1945-46	293,22	266,43	559,65
1946-47	335,58	320,78	656,36

TABLE I (contd.)

	(In lakhs of rupees)		
	Imports	Exports (including Re-exports)	Total
1947-48*	533,69	408,24	941,93
1948-49**	667,79	453,21	1121,00

* The figures exclude the direct foreign sea-borne trade of Sind and East Bengal with effect from the 1st and the 15th August respectively. They do not include India's sea-borne trade with Pakistan upto February 1948. Also a sum of Rs. 87,81 lakhs has been added to the recorded figure of sea-borne trade on account of the unrecorded imports of foodgrains during the year.

** The import figure for the year 1948-49 has been obtained by adding to the recorded figure of sea-borne trade (a) a sum of Rs. 64,79 lakhs on account of the unrecorded imports of foodgrains during the year, and (b) another sum of Rs. 85,00 lakhs on account of estimated imports from Pakistan by over-land routes.

The export figure for the year 1948-49 includes a sum of Rs. 30,39 lakhs, being the value of exports to Pakistan by land.

The above figures relate only to the value of trade. The quantum of trade is always a matter of estimate, since the recorded trade returns do not give the tonnages for some of the commodities entering into the export or the import trade. Some estimates of the quantum of trade are, however, available and these are given in Table II.

TABLE II

Quantum of Trade

Year	Quantum of	
	Exports	Imports
	Rupees (Crores)	Rupees (Crores)
1927-28	291.9 (100.0)	254.7 (100.0)
1937-38	301.0 (103.1)	243.7 (95.7)
1938-39	295.5 (101.2)	226.0 (88.7)
1939-40	308.9 (105.8)	230.5 (90.5)

TABLE II (contd.)

Year	Quantum of	
	Exports	Imports
	Rupees (Crores)	Rupees (Crores)
1940-41	260.3 (89.2)	183.8 (72.2)
1941-42	276.8 (94.8)	167.6 (65.8)
1942-43	184.8 (63.3)	84.9 (33.3)
1943-44	158.8 (54.4)	89.4 (35.1)
1944-45	156.3 (53.5)	160.4 (63.0)
1945-46	182.3 (62.5)	177.1 (69.5)
1946-47	189.5 (64.9)	162.3 (63.7)
1947-48	192.7 (66.0)	196.2 (77.0)
1948-49	178.9 (61.3)	216.0 (84.8)

N.B.—As a result of Partition, the merging of Government stores with private merchandise and the amalgamation of the trade statistics of Kathiawar and Travancore with those of India, the figures for 1947-48 onwards are not comparable with those of the base year 1927-28. No adjustments on these accounts have been made in the above figures.

The composition and direction of India's foreign trade have undergone many changes in recent years. Tables III (a and b), IV and V show for the pre-war year, the pre-partition year, and 1948-49 (a) the principal commodities entering into imports and exports, (b) a broad analysis of imports and exports by economic groups, and (c) the currency-wise distribution of imports and exports:-

[Tables III (a and b), IV and V are given
on pages 10, 11, 12 and 13 respectively.]

TABLE III (a)
Imports of Principal Commodities

(In lakhs of rupees)

Principal Commodities	1938 - 39		1946 - 47		1948 - 49	
	Value	Percentage of total imports	Value	Percentage of total imports	Value	Percentage of total imports
1. Grain, pulses and flour.....	13,76	9.0	19,03	6.5	1,31,47	19.7
2. Cotton and cotton goods -						
(a) Raw cotton.....	8,51	5.6	25,93	9.0	64,48	9.7
(b) Cotton manufactures.....	14,15	9.3	4,12	1.4	17,07	2.6
3. Machinery and millwork.....	19,05	12.5	31,07	10.8	76,66	11.5
4. Raw jute.....	-	-	-	-	71,24	10.7
5. Oils.....	15,62	10.0	32,55	11.3	33,30	5.7
6. Metals and ores.....	10,87	7.1	20,97	7.2	33,31	5.0
7. Vehicles.....	6,68	4.4	16,58	5.8	32,68	4.9
8. Chemicals and chemical preparations.....	3,05	2.0	7,46	2.6	20,55	3.1
9. Instruments, apparatus, appliances and parts thereof.....	5,85	3.8	12,37	4.3	18,87	2.8
10. Paper and pasteboard...	3,23	2.1	7,27	2.5	13,97	2.1
11. Artificial silk.....	2,24	1.4	11,82	4.1	13,92	2.1
12. Dyeing and tanning substances.....	3,14	2.0	10,21	3.5	13,41	2.0
13. Drugs and medicines ...	2,21	1.5	5,74	2.0	8,11	1.2
14. Fruits and vegetables..	1,34	0.9	4,14	1.4	8,18	1.2
15. Woollen manufactures...	2,20	1.5	5,63	2.0	7,18	1.1
16. Provisions and oilman's stores.....	2,48	1.7	3,56	1.2	7,05	1.0
17. Spices.....	2,63	1.7	4,82	1.7	6,89	1.0
18. Cutlery and hardware...	2,83	1.9	4,57	1.6	6,42	0.9
19. Wool, raw.....	62	0.4	2,04	0.7	3,18	0.5
20. Gums, resin and lac....	38	0.2	1,06	0.4	2,36	0.4
21. Silk, raw, and silk manufactures.....	1,94	1.3	3,90	1.4	2,25	0.3
22. Paints and painters' materials.....	89	0.6	1,45	0.5	2,25	0.3
23. Liquors.....	2,11	1.4	3,63	1.3	2,11	0.3
24. Tea chests.....	90	0.6	1,39	0.5	1,89	0.3
25. Glass and glassware	1,25	0.8	1,47	0.5	1,65	0.2
26. Stationery.....	67	0.5	2,76	1.0	1,11	0.2
27. Precious stones.....	1,15	0.8	3,68	1.3	78	0.1
28. Other articles.....	22,61	15.0	39,21	13.5	61,09	9.1
Total Imports	152,36	100.0	288,43	100.0	667,79	100.0

Notes:- (1) Figures for 1948-49 include (a) the known excess of imports of foodgrains (Rs. 64,79 lakhs) over the figures recorded in the sea-borne Trade Accounts, (b) land frontier trade with Pakistan, and (c) Government stores.

(2) Figures for 1938-39 and 1946-47 do not include Government stores.

TABLE III (b)

Exports of Principal Commodities (Indian Merchandise)

(In lakhs of rupees)

Articles	1938-39		1946-47		1948-49	
	Value	Percentage of total exports.	Value	Percentage of total exports.	Value	Percentage of total exports.
1. Raw jute and jute goods-						
(a) Jute goods.....	26,26	16.1	69,88	23.52	147,53	33.3
(b) Raw jute.....	13,40	8.2	19,13	6.42	24,35	5.5
2. Tea.....	23,29	14.3	34,56	11.60	64,22	14.5
3. Raw cotton and cotton manufactures-						
(A) Cotton manufactures	7,12	4.3	27,72	9.31	43,22	9.7
(b) Raw cotton and cotton waste..	24,67	15.2	27,98	9.39	19,15	4.4
4. Oils, mostly vegetable oils.....	1,03	0.6	3,86	1.30	14,79	3.4
5. Hides and skins tanned or dressed and leather..	5,28	3.2	18,86	6.33	12,85	2.9
6. Tobacco.....	2,76	1.7	7,18	2.41	12,16	2.6
7. Lac.....	1,27	0.8	11,19	3.75	8,68	1.9
8. Spices.....	79	0.5	4,49	1.51	7,33	1.6
9. Seeds (including nuts for oils).....	15,09	9.3	4,05	1.36	7,16	1.5
10. Fruits and vegetables...	2,27	1.4	7,01	2.35	7,42	1.6
11. Mica.....	1,14	0.7	3,00	1.01	5,92	1.3
12. Hides and skins (raw or undressed).....	3,85	2.4	8,49	2.85	5,59	1.2
13. Raw wool and woollen manufactures.....	3,85	2.4	9,18	3.08	4,26	0.9
14. Coir manufactures.....	96	0.6	5,78	1.94	4,47	1.0
15. Metals, ores and minerals	4,91	3.0	2,91	0.98	4,42	1.0
16. Grain, pulses and flour.	7,74	4.8	13	-	5	-
17. Others.....	17,11	10.5	32,27	10.89	52,35	11.7
Total Exports	162,79	100.0	297,67	100.00	445,92	100.0

Notes:- (1) Sea-borne exports in 1948-49 were valued at Rs. 415,53 lakhs. To this figure Rs. 30,39 lakhs have been added, being the value of exports to Pakistan by land.

(2) Figures for 1938-39 and 1946-47 do not include Government stores.

TABLE IV
Analysis of Imports and Exports by Economic Groups
 (Figures in brackets show percentages of the Total)

Economic Groups	Value of Imports into India Rs. lakhs			Value of Exports from India Rs. lakhs		
	1938-39	1946-47	1948-49	1938-39	1946-47	1948-49
1. Food, drink and tobacco...	24,00 (15.7)	38,74 (13.4)	161,73 (24.3)	39,14 (24.0)	58,16 (19.5)	95,96 (21.5)
2. Raw materials and produce and articles mainly un- manufactured.....	33,18 (21.8)	74,96 (26.0)	206,16 (30.8)	73,29 (45.0)	92,25 (31.0)	103,75 (23.3)
3. Articles wholly or mainly manufactured.....	92,79 (61.0)	167,58 (58.1)	295,27 (44.2)	47,61 (29.3)	142,78 (48.0)	237,23 (53.2)
4. Living animals.....	31 (0.2)	27 (0.1)	10 -	8 -	7 -	24 -
5. Postal articles and baggage not specified.....	2,08 (1.3)	6,88 (2.4)	4,53* (0.7)	2,67 (1.7)	4,41 (1.5)	8,74** (2.0)
	152,36 (100.0)	288,43 (100.0)	667,79 (100.0)	162,79 (100.0)	297,67 (100.0)	445,92 (100.0)

Notes:- (1) See footnotes under Table I.

(2) Figures relate to trade in private merchandise only, except those for the year 1948-49 which include Government stores.

(3) Exports do not include re-exports.

* Certain unspecified land-borne imports from Pakistan valued at Rs. 67 lakhs are included.

** Certain unspecified land-borne exports to Pakistan valued at Rs. 718 lakhs are included.

TABLE V

Currency-wise Distribution of India's Trade

(Figures in brackets show percentage of the total)

(In crores of rupees)

	1938-39			1946-47			1948-49		
	Exports	Imports (including Balance re-exports)		Exports	Imports (including Balance re-exports)		Exports	Imports (including Balance re-exports)	
1. Soft currency countries.	110 (72)	120 (71)	+ 10	216 (75)	210 (66)	-6	499 (75)	331 (73)	-168
(a) Commonwealth countries excluding Canada.	88 (58)	89 (53)	+ 1	150 (52)	152 (48)	+2	336 (50)	240 (53)	-96
(b) Other soft currency countries.	22 (14)	31 (18)	+ 9	66 (23)	58 (18)	-8	163 (25)	91 (20)	-72
2. Dollar and Hard currency countries.	42 (28)	49 (29)	+ 7	72 (25)	109 (34)	+37	169 (25)	122 (27)	-47
Total value of trade.	152 (100)	169 (100)	+17	288 (100)	319 (100)	+31	668 (100)	453 (100)	-215

Note:- 1. The following countries are classified as dollar and hard currency countries:-

- (i) The whole of the continent of North, Central and South America and adjacent islands, but excluding Brazil, Chile, Uruguay and Peru and the European Possessions.
- (ii) Belgium and her possessions.
- (iii) Portugal and her possessions, but excluding Portuguese India, and
- (iv) Germany, Switzerland and Japan.

2. Figures for 1938-39 and 1946-47 do not include Government stores; but those for 1948-49 are inclusive of (a) Government stores, (b) unrecorded imports of food and (c) India's trade with Pakistan by over-land routes.

Table IV calls for special attention. It will be seen that mainly because of changes in the internal economy, the importance of manufactured articles has been increasing in our export trade and decreasing in our import trade, while that of foodstuffs and raw materials has been showing an opposite trend. India is now a large importer of foodstuffs and raw materials. As regards Table V which gives the distribution of India's foreign trade, it is necessary to point out that the present distribution is to a considerable extent due to historical factors. The Eastern countries constitute our natural markets and our manufactured articles should find a growing outlet in them. With the progress of industrialisation, our export trade with the Eastern countries should show a steady expansion.

13. The following table shows the balance of trade prewar, before Partition, and for the latest year:-

TABLE VI
Balance of Trade in Merchandise
(Inclusive of Government stores)

	(In lakhs of rupees)		
	Imports	Exports (including re-exports)	Balance of trade
1938-39*	155,55	169,83	+14,28
1946-47*	335,58	320,78	-14,80
1948-49**	667,79	453,21	-214,58

* For undivided India. ** See footnotes under Table I.

This table brings out the substantial adverse balance which India has developed recently in her trade relations with the outside world. Estimates of India's balance of payments for some recent years are given in Tables VII (a and b).

TABLE VII (a)
Overall Balance of Payments

(In crores of rupees)				
<i>Goods and Services</i>	1939 (1)	1946	1947 (2)	1948 (2)
Exports (F.O.B.)	185.8	346.8	473.5	433.7
Imports (C.I.F.)	-178.6	-388.8	-534.7	-544.5
Trade Balance:	7.2	-42.0	-61.2	-110.8
Non-monetary Gold	23.9	-.5	-14.3	-.1
Investment Income	-27.1	1.3	5.4	-17.8
Government	-13.7	42.3	-20.7	-12.4
Other	-5.4	-27.9	-39.1	8.3
Total	-15.7	-26.8	-129.9	-132.8
<i>Other Non-compensatory Transactions</i>	-10.7	-44.8	-73.4	10.8
<i>Errors and omissions</i>	12.1	12.9	91.9	-6.1
Surplus or Deficit	-14.3	-58.7	-111.4	-128.1

(1) Year ending 31st March.

(2) Figures for 1947 relate to undivided India. Those for 1948 relate to Dominion of India but they do not include transactions with Pakistan.

TABLE VII (b)
Regional Classification of India's Balance of Payments for 1948

(In crores of rupees)				
	Hard Currency countries	Sterling Area	Other	Total
Merchandise	-29.9	-72.9	-0.1	-102.9
Services	-14.6	-11.2	-12.6	-38.5
Unclassified	-4.1	-12.0	-0.6	-8.6
Total Deficit	-48.6	-72.1	-12.1	-132.8

The deficit in the balance of payments constitutes a serious weakness in our economy. This deficit, if continued, might hamstring all our strenuous endeavours to develop industry and agriculture. Since trade is by far the most important constituent of the balance of payments, the Committee considers that all efforts must be concentrated on limiting the country's adverse balance of trade to what can be financed out of the annual releases of the sterling balances. Further, since the sterling balances represent our capital assets, the amounts available from them should as far as possible, be spent on the maintenance and development of the capital equipment of the country, and hence the objective should be to balance the trade and, if possible, to develop a surplus in the trade, so far as commodities required for current consumption are concerned.

14. The adverse balance of trade is primarily the result of two factors: (a) the quantum of trade, and (b) prices. It will be seen from the figures given in Table II that the decline in the quantum of imports has been much smaller than that in the quantum of exports. Several factors have been responsible for this change, but, among others, the following would appear to be the more important, namely, (a) Partition, involving a diminution of our food and raw material resources, (b) the growth of population, leading to an increase in imports of food and raw materials, and (c) inflation, leading to an all-round increase in demand both for goods produced at home and for those imported from abroad. These basic factors have brought about an increase in the quantum of imports and a decrease in the quantum of exports. So far as imports are concerned, a quantitative restriction of imports provides an immediate short-term remedy, but it is generally recognised that a permanent solution of the balance of payments problem lies in an expansion of exports. State trading by itself can be of little use in remedying the basic factors which have brought about a decline in the quantum of exports, but it cannot be denied that there are several other contributory factors in the present situation to which attention was drawn by the Export Promotion Committee, as well as by a number of witnesses who appeared before this Committee, and the Committee has to consider whether state trading should be employed to deal with these contributory factors. The principal contributory factors operating to keep our exports at a low level, to which the Committee's attention was drawn, were the following, namely, (a) speculation and profiteering in export commodities, (b) the failure of exporters to maintain quality standards and little or no enforcement by Government of such standards as have been

fixed, (c) the prevalence of various malpractices in the export trade, and (d) the failure of private traders to develop the export trade with the dollar area to the maximum possible extent. We have examined later in the Report whether state trading should be employed to deal with these evils.

15. As regards prices, the following table shows the comparative trend of import and export prices:-

TABLE VIII
Index Numbers of Declared Values of Imports and Exports
(1938 = 100)

	Declared Values	
	Imports	Exports
1938	100.0	100.0
1939	99.7	108.1
1940	124.0	131.5
1941	146.1	142.5
1942	179.7	171.3
1943	202.9	224.5
1944	184.1	236.4
1945	192.0	237.6
1946	245.5	260.6
1947 (1)	293.5	336.6
1948 (2)	348.6	420.1
1949 (3)	342.2	412.6

(1) Average for seven months, January to July.

(2) Average for nine months, April to December.

(3) Average for nine months, January to September.

As in the case of the quantum of trade, the chief explanation of the changes in import and export prices is provided by certain basic factors, such as the relative degrees of inflation and scarcity in this and other countries. State trading by itself cannot materially or directly influence these factors. Nevertheless, in the matter of prices also, it has been represented to the Committee that the situation is aggravated by certain other factors, the principal among them being (a) the inability of private traders under a competitive system to charge differential prices according to the conditions of demand and supply in various markets, (b) the lack of adequate attention to the quality of exports and to their grading and standardisation, which results

in lower prices being recovered in foreign markets, (c) over-invoicing of imports (particularly of essential goods from the dollar areas), and under-invoicing of exports (*e.g.*, jute goods), and (d) the growing trend towards monopolistic buying (*e.g.*, tea by United Kingdom) and monopolistic selling (*e.g.*, wheat by Australia, Canada, etc.) in foreign countries, which compels us in certain lines to buy at a higher price and to sell at a lower price than would otherwise be possible. It has to be considered whether state trading can and should be used to deal with these factors.

16. The above analysis of India's foreign trade position would not be complete without some reference to those features of the world trade situation which have a bearing on the problem of state trading. Autarchy and totalitarian methods have not vanished from the earth with the defeat of Nazi Germany; rather, regimentation or at any rate, strict control of foreign trade, is coming into vogue to an increasing extent all over the world. Such regimentation is not designed merely to deal with the temporary difficulties created by the balance of payments problem. A purposive direction of foreign trade with a view to promoting the best utilization of the available resources, has become the keynote of economic policy in many countries. One of the principal objectives of the commercial policies of almost of all the leading nations of the world is to mobilise their bargaining capacity to the fullest possible extent, so as to improve their terms of trade with other countries. The most detailed form of state regulation, whether for the purpose of coordinating trade with national planning, or for the purpose of striking the best possible bargain with foreign countries, is to be found in countries like Soviet Russia, Czechoslovakia, other Eastern European countries under the Russian influence, and some of the Latin American countries like Argentina. In these countries, most of the foreign trade is conducted through state-owned or state-controlled organizations. With the spread of communism to China, the proportion of world trade conducted through state-controlled agencies has further increased. In communist countries, state trading in the realm of international trade is only a corollary to state trading in the internal sphere and forms part of an integrated economy. In Argentina, where the bulk of domestic production enters into foreign trade, the IAPI (Instituto Argentino de Promocion del Intercambio) confines its activities mainly to foreign trade. Even in countries whose economies are wholly or mainly based on private enterprise, monopolies, whether private or created by the State, play a

large part in foreign trade. The Wheat Boards in Australia and Canada, for example, control the entire exports of the commodity in those countries. The UKCC was largely a state trading organization, though its activities were primarily governed by non-commercial considerations. Although this particular organization is no longer in existence, a considerable amount of state trading is still being done in the United Kingdom. For example, raw cotton, tea, non-ferrous metals and foodgrains are imported into the United Kingdom entirely through state agencies under bulk purchase arrangements with the supplying countries. It is understood that as much as 50 per cent of the total imports into the United Kingdom are now handled by Government agencies. The export groups in the U.K. are non-official organizations, but they provide a mechanism through which a selective control can be exercised over the export trade. Even the United States Government, despite its avowed faith in the free functioning of private enterprise, engages in extensive trading operations through its agencies like the Commodity Credit Corporation and the Reconstruction Finance Corporation. Such operations are undertaken for a variety of purposes such as stabilization of agricultural prices, the procurement of supplies for foreign governments, and stock-piles. In Canada, the Canadian Commercial Corporation, besides procuring supplies required by the Ministry of Defence, sponsors negotiations on behalf of Canadian traders and procures supplies to be delivered against loans to foreign countries.

17. Thus, state trading is being practised in many countries, although to a varying extent. In countries like the U.S.A. and Canada, a limited measure of state trading has not been found incompatible with economic policies otherwise designed to foster private enterprise. It must not be assumed, however, that the difference between these countries and others where totalitarian policies are pursued is only one of degree. In the former group of countries, state trading, as a rule, is looked upon with disfavour, and an extensive use of state trading by any other country is likely to produce an adverse reaction in those countries. This possibility should be borne in mind while considering the desirability of adopting state trading as a general policy, especially if the maintenance of harmonious economic relations with these countries is regarded as of any importance. So far as India is concerned, the present direction of her foreign trade indicates her growing interest in developing closer economic relations with North America. It is true that with the recent accession of China to the communist group of nations, the countries which conduct their

foreign trade exclusively through government agencies now represent by far the major part of the world population, but from the point of view of world trade, these countries do not enjoy the same degree of importance. The following table shows the percentage shares of Soviet Russia, Czechoslovakia, China and Argentina as compared with the United Kingdom, the other Commonwealth countries and the U. S. A. in world trade.

TABLE IX

Share of Certain State Trading Countries in Total World Trade (Imports and Exports), Compared with that of Certain Other Countries

	1938		1947	
	In millions of U.S.Dollars	As percentage of World Trade	In millions of U.S.Dollars	As percentage of World Trade
A. 1. Soviet Russia.....	723	1.49	N.A.	--
2. Czechoslovakia....	646	1.33	1,150	1.14
3. China.....	871	1.80	666	0.66
4. Argentina.....	881	1.82	2,905	2.88
Total for these countries.....	3,121	6.44	4,721*	4.68*
B. 1. United Kingdom....	6,496	13.39	11,576	11.47
2. Other Commonwealth countries†.....	6,551	13.51	15,935	15.79
3. U.S.A.	5,202	10.72	21,371	21.18
Total for these countries.....	18,249	37.62	48,882	48.44
Total World Trade.	48,500	100.00	100,900	100.00

N.A.= Not available.

* Excluding Soviet Russia.

† Only Canada, India, Pakistan, Australia, New Zealand, Union of South Africa, Ireland, Ceylon, Tanganyika, Anglo-Egyptian Sudan.

It will be seen that the aforesaid state trading countries were responsible for only 6 per cent. of the pre-war world trade as compared with 38 per cent. contributed by the other countries mentioned above. These latter countries also account for the bulk of India's own foreign trade as may be seen from the table given below:-

TABLE X

Share of Certain State Trading Countries in India's Foreign Trade (Imports, Exports, and Re-exports) as Compared with that of Certain Other Countries in 1948-49*

	In lakhs of Rupees.	As percentage of the total.
A. 1. Soviet Russia.....	7,99	0.8
2. Czechoslovakia.....	4,28	0.4
3. China.....	6,89	0.7
4. Argentina.....	23,36	2.2
Total for these countries	<u>42,52</u>	<u>4.1</u>
B. 1. United Kingdom.....	250,39	23.8
2. Other Commonwealth countries including Pakistan.	329,13	31.2
3. U.S.A.	174,88	16.6
Total for these countries	<u>754,40</u>	<u>71.6</u>
Total foreign trade of India.....	<u>1056,21</u>	<u>100.0</u>

* The figures in this table do not include the unrecorded imports of foodgrains during the year 1948-49, but they include India's imports from and exports to Pakistan by over-land routes.

18. Since the end of the last World War, India has had to enter into bilateral trade agreements with many countries. The details of many of these agreements have been given in the Ministry of Commerce publication, "India's Trade Agreements with other countries", and need not be recapitulated here. Some of these agreements are of the nature of barter agreements, namely, those concluded with Soviet Russia and Argentina. The

special circumstances affecting trade with these two countries have necessitated resort to the barter type of agreement. Barter agreements are necessary with countries which conduct their entire foreign trade through state monopolies and utilise such monopolies to realise prices for their products irrespective of world prices of similar or competing products. The evidence tendered before the Committee shows that the implementation of barter agreements of this type has, by no means, been easy, particularly because of the difficulty in procuring the exact qualities and types specified in the agreements. The Committee is of the opinion that partly for avoiding such difficulties and partly for avoiding any unnecessary interference with the established channels of trade, barter agreements should be resorted to only in exceptional circumstances and that in all other cases, the normal type of agreement should be the one in which the two parties only commit themselves to license specified quantities of goods for export or import. Such agreements were concluded in the past for a variety of reasons, the most important among them being (i) the procurement of scarce commodities and of commodities which, though not scarce in the world as a whole, were in short supply outside the hard currency areas, (ii) the promotion of exports and (iii) the establishment of direct trade connections. Recently, the supply position of many commodities has considerably eased and hence, to that extent, the need for concluding bilateral trade agreements has diminished. Such agreements will, however, continue to be necessary for a considerable length of time. The Committee understands that in some cases, the agreements have failed to yield the desired results, because of the failure of private traders to take advantage of the import and export opportunities provided by such agreements. The remedy for this lies in improving our commercial intelligence machinery and in so adapting the procedure for negotiating such agreements as to take due account of the prices and qualities of the commodities concerned and the state of demand and supply in respect of them. The Committee does not think that state trading is necessary, as a rule, for implementing commodity agreements which do not involve barter deals, but there may be cases in which a state trading corporation will be useful both in providing Government with the necessary knowledge of the market situation in respect of certain commodities and also in remedying the failure of private enterprise to take advantage of such agreements especially where such failure is likely to be injurious to the country's economy. The readiness of the State to intervene, if necessary and practicable, for implementing an agreement is bound to create greater confidence in other

countries about the value of such agreements. Such intervention may not be necessary or practicable in all cases, especially when the failure of private traders to import or export the quantities specified in the agreements is due to good and sound reasons, but the existence of an organization which can intervene, when it is necessary and practicable to do so, will, in any case, be useful.

19. The Committee proposes to discuss the case for state trading for imports and exports separately in the first instance. There are certain considerations which are equally applicable to state trading for both imports and exports. These will be discussed later. Among the problems which arise in connection with state trading, those relating to the organization and working of a state trading organization are by far the most important. We think, however, that it would facilitate discussion if we were to concentrate attention, first, on the intrinsic merits and demerits of state trading (in respect of imports and exports separately) and then turn to the problems of organization.

20. In considering the intrinsic merits and demerits of state trading, whether in relation to imports or exports, we propose, for convenience of discussion, to divide the task into three parts. In the first place, we propose to discuss the types of cases in which state trading is at all practicable without undue commercial risk. Secondly, we shall examine whether in those cases it is necessary or desirable to resort to state trading. This *a priori* examination will then be followed by a more detailed analysis of the position in regard to the principal articles of import and export.

CHAPTER III

STATE TRADING IN IMPORTS

21. If the State is to take over the import trade in any commodity, it must be able to make a reasonably accurate forecast of the domestic demand for the commodity. This may give rise to serious difficulties in an economy in which the bulk of production and distribution is in private hands. *Prima facie*, it might appear that the estimation of the import demand for an essential commodity, or one which is in aggregate short supply, need not present any serious difficulty. If the importing organization, however, is not to be left with large unsold stocks, it must be able to estimate the demand for the commodity concerned, not merely in the aggregate, but also in respect of its individual qualities and varieties. At any

particular moment, there may be a big demand for some qualities and varieties and no demand for others. There is an acute shortage of steel in India, and yet it has been alleged that the steel imported by Government consists partly of types and qualities for which the demand in India is not sufficiently large to absorb the quantity imported. The demand for individual qualities and varieties of an article also depends on prices. Under a system of decentralised and competitive imports, the importer is in closer touch with the market than a centralised importing organization could be and the free functioning of the price mechanism affords a fairly reliable index to the changing demand and supply position of the various commodities and their types and qualities. The Committee considers that these objections are valid over a large part of the import trade and although an exact determination by the State of the volume and prices of imports theoretically affords certain advantages, such determination is in fact likely to entail serious financial risks. In the case of a large number of commodities, the balance of advantage lies in leaving the actual volume of imports to be determined by competitive forces, subject to such limits as the State may wish to impose on imports for exchange or other considerations.

22. While the above conclusion holds good for a large part of the import trade, there are cases in which it is possible to overcome the difficulties pointed out above and to reap the advantages of state trading. It has been alleged that the centralised buying of cotton in the United Kingdom has resulted in mills in that country being compelled to buy unsuitable types and qualities. A similar complaint, however, has not been heard in India with regard to the East African cotton imported through Government. The explanation is to be found in the fact that the centralised buying of cotton in India is confined only to the East African cotton and is carried out in close co-operation with the consuming industry which is well organized. This leads us to think that the difficulties referred to above can be minimised where centralised buying is confined to a few selected types and where it is possible to make a fairly reliable estimate of the demand for such types, owing to the existence of a centralised organization of consuming interests. This condition does not obtain, *e.g.*, in the case of textiles and steel in general, though it may obtain in the case of particular varieties of steel. In the case of certain essential commodities *e.g.*, foodgrains, the shortage is so great and the demand so inelastic that there is no serious danger of any large quantity being found

unsaleable, irrespective of its quality. In the case of certain consumer goods which are badly needed in this country, *e.g.*, bicycles and automobiles, it may be possible to limit imports to only a few types and still sell all the quantity imported and, within certain limits, at the prices dictated. Government's experiment in importing Japanese textiles was a failure, because textiles were not so scarce as to compel consumers to buy anything offered to them. Nor was there any possibility of imports being underwritten by a consumers' organization.

23. It is possible, therefore, to distinguish certain types of cases as illustrative of those in which state trading in imports may not be subject to undue commercial risk, though this does not mean that it will necessarily be desirable; for example,

- (a) where state trading is limited to one or two types or varieties, the demand for which can be estimated with a fair degree of accuracy (*e.g.*, East African cotton);
- (b) where such estimation of demand is facilitated by the existence of a centralised body of consuming interests which is in a position to pool orders or even to underwrite imports (*e.g.*, East African cotton);
- (c) where the internal demand is so great in relation to the supply likely to be available and where the nature of the market is such that it is possible to limit imports to a few varieties so as to facilitate bulk handling, without incurring the risk of having unsold stocks (*e.g.*, vehicles); and
- (d) where the shortage is so great and the demand so inelastic that there is a virtual certainty of offtake for almost any type or variety (*e.g.*, foodgrains).

As regards (b) above, the Committee feels that if Government were to encourage the development of co-operative societies of consumers, it will create conditions in which state trading will be found increasingly feasible. This point has been dealt with more fully in paragraph 103.

24. We may now proceed to examine conditions in which state trading in imports may be desirable. The demand for state trading arises from the general recognition of the need for the planning of our foreign trade.

India already has serious balance of payments difficulties and in the absence of planning, these difficulties are likely to be aggravated. Moreover, any plan for the economic development of the country capable of making a perceptible impression on the living conditions of our large and growing population will have to be of a substantial magnitude and will call for careful conservation of all the available resources, whether financial or material. Such conservation of resources will necessarily entail regulation of imports. Regulation of imports involves: (a) a rigorous restriction of imports of non-essential articles, (b) action to maintain imports of essential commodities at the desired level, (c) a detailed control over the direction of imports, (d) action to secure the best possible terms from exporting countries, and (e) since, in all probability, imports of most commodities will be below requirements, some measure of internal control to ensure an equitable distribution of available imports at reasonable prices. To this must be added another important objective, namely, to use the import trade as a means of adding to the revenues of the State. The essential commodities referred to in (b) above include foodgrains and fertilizers in respect of which Government is under a definite commitment to keep the population adequately supplied. So far as restriction of imports of non-essential commodities is concerned, it is possible that this can be achieved through a rational system of import control. Unfortunately, however, the existing system of import control has many defects and allows considerable scope for speculative trading. Violent fluctuations have occurred in our import trade during the last two or three years, particularly during the period when the Open General Licence No. XI was in operation. The issue of that Open General Licence was a serious error of judgment on the part of the controlling authorities which has already cost the country crores of rupees worth of foreign exchange. Frequent changes of policy, inadequate appreciation of the needs of trade, reckless issue of licences to persons not possessing the necessary experience in the import trade, over-centralisation resulting in inordinate delays in the disposal of applications, lack of adequate attention to organizational matters creating a state of virtual chaos in administration, lack of co-ordination between the various Government departments concerned and the opportunities for corruption and favouritism which arise in such circumstances, have already made the whole system of import control the subject of bitter criticism from the public. The Committee is strongly of opinion that the rationalisation of the

import control policy and procedure is one of the most urgent problems which deserve Government's attention. In particular, steps must be taken to prevent a repetition of the kind of miscalculation which took place in issuing the Open General Licence XI.

The Committee feels that if Government were to adopt the practice of not placing any article on an Open General Licence, even when it is possible to do so on purely exchange considerations, until after an interim period of liberal licensing designed to restore normal market conditions, so far as that commodity is concerned, the chances of large speculative imports taking place would be greatly minimised. Once normal market conditions have been restored, profit margins will be reduced to reasonable proportions and there will then be no strong incentive to bring in unduly large imports, even if the commodity is subsequently placed on an Open General Licence.

25. The Committee is doubtful, however, whether the other objectives referred to above could be equally effectively served through the existing system in all circumstances. Where even essential commodities are subject to regulation, it is necessary to ensure that the minimum quantities provided in the import programme will in fact be imported. The fixation of monetary ceilings, however, does not ensure that the monetary ceilings will actually be used, and even where they are fully used, the quantity imported may be seriously reduced, if the prices of imports undergo a sharp upward change after the ceilings have been fixed. Since we have to maintain equilibrium not merely in the over-all balance of payments, but also in the balance of payments with individual currency areas, and particularly with the dollar areas, we have to endeavour, as a short-term measure, to divert our imports to soft currency sources to the maximum possible extent. Even this may not be fully achieved, if imports were left entirely to private hands. Private importers, if left entirely to themselves, tend to concentrate on the traditional sources of supply, or sources which to them offer the maximum profit. Even when new sources of supply are discovered among the soft currency countries, the inertia and the natural difficulties involved in establishing new business connections prevent private traders from tapping such sources. One of the arguments advanced in favour of the joint U.K. - India bulk purchase of East African cotton is that, in the

absence of such buying, other competing countries would have secured a part, probably a substantial part of this cotton, and U.K. and India would have had to get their requirements from dollar sources to that extent.

26. The Committee believes that many of these short-comings of the present system can be remedied by state trading which can be used to maintain imports of essential commodities at the desired level, or to ensure the maximum utilisation of supplies available from soft currency sources. It is true that state trading in certain articles is likely to be unduly risky but as pointed out in paragraph 23 above, it is possible to eliminate or control the risk in certain cases, and the Committee feels that in such cases state trading should be undertaken to remedy the acknowledged defects of the present system. Government is already doing state trading in foodgrains and the Committee thinks that it should be continued so long as foodgrains continue to be imported. Where, for the reasons already pointed out, state trading is likely to be unduly risky, the remedy for the defects in the present system has to be devised in other ways. If a state trading corporation is brought into existence, it may not take over the entire trade in an essential commodity if that is likely to be a risky venture, but it may intervene only to the extent to which private importers fail to maintain the desired level of imports. Similarly, the direction of imports could be materially influenced by improving the existing system of commercial intelligence so as to bring to the notice of private importers the trading opportunities available in various currency areas.

27. Prices of imports which were already high have risen further after devaluation and it is necessary to explore all available means of keeping the cost of imports as low as possible. The high prices of imports are an important factor in the balance of payments situation. It has been suggested to the Committee that bulk buying offers one way of keeping down import costs. During the war, the United Kingdom made considerable use of bulk buying methods and a substantial proportion of the U.K.'s food and raw material requirements is still obtained under bulk purchase arrangements with supplying countries. Some of these arrangements involve long-term commitments in regard to price, while in others, prices are allowed to vary according to world market conditions. During the war and the early post-war period, these bulk purchase arrangements yielded the desired results. The U.K. obtained

her requirements somewhat below world prices, while the supplying countries benefited by the stability afforded by a guaranteed market at a guaranteed price. Recently, however, these arrangements have come in for a considerable amount of criticism, particularly from the Conservative Party, on the ground that the prices paid have been higher than world prices. This criticism has been levelled particularly against the bulk purchase arrangements in regard to non-ferrous metals.

28. The Committee has given careful consideration to the utility of bulk purchase methods in the case of India. Bulk purchase or centralised buying may yield a two-fold benefit: it may either influence world prices in certain cases, or may at least result in some saving in the costs of procurement. Centralised buying, for example, eliminates middlemen's commissions and secures to the country discounts usually available on large purchases. In the case of certain commodities, the fact that this country is one of the principal buyers in the world market may enable it to utilise centralised buying to keep import prices at a reasonable level. Raw jute is a case in point. Since raw jute constitutes an important element in our balance of trade with Pakistan, making up about two thirds of India's imports from that country, it is necessary that imports of that commodity should continue to be under some measure of centralised control. Government is at present exercising some measure of control over the import prices of raw jute through the Indian Jute Mills' Association. A system of centralised buying is, however, likely to be more effective, and the Committee recommends that the I.J.M.A. should be requested to adopt such a system. If there is evidence that centralised buying by the I.J.M.A. is operating to the detriment of the raw jute growers in the country or to the national interest in general, Government should be prepared to replace it by centralised buying under its own auspices.

29. In the case of many commodities India's collective buying capacity is a fairly important factor in the world market. India with her big population affords a large market for many commodities entering into world trade, and it has been suggested that if the aggregate buying power of this large market were to be centralised in the hands of a single agency, such agency can, through a judicious exercise of that power, secure the country's import requirements at more favourable prices. In selecting articles for centralised buying, however, care

must be taken to see that the articles selected are intrinsically suitable for state trading. If, in the light of the considerations stressed in para. 23 above, state trading in any commodity is likely to be risky, any possible advantage in regard to price resulting from centralised buying may be counterbalanced by the risks involved in state trading itself. Moreover, in the case of commodities which are in short supply all over the world, the ability of a single importing country to influence world prices is limited. The Committee understands that despite the existence of centralised buying in this country in respect of foodgrains and fertilisers, it has not been possible to secure any material price advantage with regard to these commodities. The supplying countries have been taking full advantage of the present shortage and dictating terms to the consuming countries. The Committee feels, however, that even in such cases it would be difficult to say whether the position might not have been worse, if there had been no centralised buying and if private traders had been allowed to compete for the limited supplies available in the world market. To some extent, the dissatisfaction about the prices paid by Government in their centralised buying operations is due to the manner in which those operations were carried out. Several witnesses who appeared before the Committee cited instances in which announcements by Government of their intention to buy large quantities abroad, or to send Purchase Missions for this purpose, were immediately followed by a rise in prices in the supplying countries (e.g., in the case of Belgian steel). In the opinion of this Committee, it was injudicious to make such announcements. If at times Government departments have failed to exercise the necessary prudence and foresight in carrying out their bulk purchase operations, that should not be regarded as a condemnation of the bulk purchase system itself. It only shows that Government departments are not suited to the task and that such operations, if they are to yield the desired results, need to be entrusted to a corporation acting strictly on commercial principles.

30. While emphasizing the possible price advantage resulting from centralised buying, the Committee does not wish to minimise the risks involved in any indiscriminate application of the principle. It is important to bear in mind that under a system of centralised buying, the function of anticipating world trends is centralised in

the hands of a single agency, instead of being divided among a number of competing traders, and that such agency may not be able to exercise this function effectively in all circumstances. If an import monopoly is to effect its purchases on the best possible terms, it must be fully informed of the present and prospective supply position of the commodity concerned in the world as a whole and of the requirements of competing buyers in other countries. If the commodity is likely to be less scarce in the near future, it will be in the interest of the import monopoly to defer its purchases. Alternatively if the scarcity is going to increase, it may be necessary to accelerate the purchases. World conditions in respect of many commodities often change so rapidly as to make it exceedingly difficult for any single agency to anticipate them correctly every time. The criticism made against the U.K. Ministry of Food for entering into certain long-term contracts at prices which were subsequently found to be higher than world prices, or the criticism against the Indian Ministry of Industry and Supply for paying too high a price for steel are instances in point. The high prices were probably justified by the conditions prevailing at the time when the contracts were entered into, and if they were subsequently found to be too high, it was because of a change in world conditions which the buying agency could not anticipate. The rapidity with which the world wheat situation changed recently within a few months of the ratification of the International Wheat Agreement is another instance. Private traders also are likely to make errors but it is inconceivable that all of them will make errors of the same kind or of the same magnitude. On the contrary, errors of the bulls operating in the market are generally cancelled by those of the bears. But when the entire trade is concentrated in the hands of a single agency, such cancellation or neutralisation of errors of opposite kind cannot take place and any error on the part of that agency affects the entire trade. These considerations are extremely important and the Committee thinks that extreme caution must be exercised in extending the scope of centralised buying. Where the commodity concerned is of a highly speculative nature, or where the world supply and demand position is in a state of flux, it would be expedient to avoid centralised buying, unless there are good reasons to the contrary. Even when the situation is otherwise favourable, it would be advisable to limit centralised buying to the minimum number of commodities with respect to which the buying agency is able to develop the necessary organization to keep itself informed of the world situation from day to day.

31. The task of anticipating price trends becomes particularly difficult in a period of falling prices. Over a wide range of the import trade, the seller's market is fast disappearing and the prospect today is one of falling prices. The bulk purchase contracts entered into by the United Kingdom Government gave rise to the problem as to whether the Government should fix its re-sale prices to domestic industries and consumers on the basis of the contract prices, in which case they would be much higher than current world prices, or fix them on the basis of current world prices, in which case the Government would incur a heavy loss. In the United Kingdom, the Government could claim that when prices were high, the domestic industries could obtain their requirements below world prices, because of the Government's bulk purchase system, and that these industries should not complain if, because of the same system, they have now to pay more than world prices. No such defence, however, would be available to a Government which embarks on state trading in a period of falling prices. It may either involve itself in heavy losses, or have to use its monopolistic power to recover from domestic consumers prices which are higher than current world prices.

32. Another important consideration to which the Committee wishes to draw attention is that while in the case of most commodities, private importers, because of their closer contacts with buyers and the fact that their transactions are individually of a comparatively small and manageable size, are able to cover their purchases by hedging or by sales, so as to avoid or cut losses speedily enough, the same may not be possible for a state trading enterprise. When a state trading enterprise enters into a bulk purchase, it may not be easy for it, because of the large size of the transaction, to cover itself simultaneously by sales to domestic buyers. When losses are expected, a private trader may be able to act quickly and cut losses, but a state trading enterprise may not be able to do the same.

33. The above objections would, however, apply only where state trading is undertaken at the risk of the State itself. This need not always be the case. If a state trading corporation were brought into existence, it might be able to sponsor negotiations on behalf of private importers at the request of the latter. As already stated, export monopolies are at present operating in many countries and private traders who find themselves at a bargaining disadvantage in dealing with such monopolies may like their orders to be pooled through a central organization

and to conduct negotiations through such an organization. In such circumstances, a state trading corporation can function only as a sponsoring authority, without incurring any financial risks. It will only aid and supplement the efforts of private importers, with a view to enabling them to secure the best possible terms, without otherwise interfering with their business. It is understood that the Canadian Commercial Corporation renders this service to importers in that country. In view of the growing trend towards the establishment of official or unofficial export monopolies in other countries, the Committee considers it highly important that importers in this country should be encouraged to resort to collective bargaining and that a mechanism for this purpose should be provided in the shape of a state trading corporation.

34. The question of regulating the internal prices and distribution of imported commodities has become particularly urgent as a result of devaluation and the recent tightening of import control. If, however, state trading is limited to the stage of importation and is not accompanied by regulation of internal distribution, the Committee fears that state trading in this sense can be of little help in solving the problem of internal distribution. If the distribution of imports acquired by the State is left entirely to private traders and if there is an internal shortage of the commodity concerned, the traders will have the same opportunity of making profits as if the initial importation also had been made by them. Where the object is to prevent profiteering in imported commodities, the proper measure is internal regulation and not state trading. Internal distribution can be regulated either by a direct system of control like that adopted under the Anti-Hoarding and Anti-Profiteering Act, or in the case of industrial materials, by permitting imports only to final users or against indents placed by such users, or by utilising the agency of co-operative societies of consumers. The task of regulating the internal prices and distribution of imported commodities is undoubtedly difficult, but is one which must be faced. The need for restricting imports will persist for many years to come, and so long as imports continue to be restricted, traders will have opportunities for hoarding and profiteering. To accept these evils as inevitable would be a gospel of despair. The Committee considers that it is the duty of Government to devise measures to regulate the internal prices and distribution of all commodities, imports of which are cut down below requirements. The importance of the question must also be brought home to the State Governments who have equal responsibilities in the matter.

35. State trading in imports has been suggested as a means of augmenting the revenues of the State. There is no doubt that in several sectors of the import trade, the disparity between domestic and world prices has been so great as to enable importers to make excessive profits. Such disparity has persisted because of import restrictions. The excessive profits made on imports virtually amount to a kind of taxation which has its origin in Government's policy of restricting imports, but the proceeds of which go largely to fill the pockets of private traders. In many cases, such profits are in the nature of unearned increments arising from the changes in the foreign exchange position of the country as a whole. It is true that a portion of these profits comes back to the exchequer through direct taxation, but since such taxation has to be levied at uniform rates on both industry and trade, the rates have to be low enough to preserve and stimulate the incentive to investment. From the point of view of its effects on industry, direct taxation in this country is generally regarded as having reached its optimum level. At the same time, if the State is to play an increasing role in the economic life of the country, it will have to be provided with adequate revenues. The view has been expressed that one way of obtaining additional revenues for the State, otherwise than through taxation, is by resorting to state trading. The Committee has given careful consideration to this point of view and has come to the conclusion that state trading as a means of raising revenue could be thought of only in those cases in which the benefit in the shape of additional revenue is not likely to be counter-balanced by the financial risks involved in state trading itself. In other words, it is only when the commodity in question is suitable for state trading, that the possibility of raising revenues for the state could be considered as an additional justification for resorting to state trading. In the case of certain luxury articles, the prices of which can continue at a high level without serious detriment to the country's economy and which are also suitable for state trading, the Committee considers that state trading should be resorted to, *inter alia*, for the purpose of raising revenue. In paragraph 23 above, it has been stated that certain types of vehicles may be suitable for state trading. So long as the present shortage continues, it will be possible for the State to limit imports of motor vehicles to a few selected types and still find customers for all that is imported. Such a policy may also result in some incidental protection to the domestic industries concerned. The Committee, therefore, recommends that one of the first tasks of the proposed State Trading Corporation should be to examine the desirability of undertaking state trading

in certain selected classes of vehicles. The internal distribution of such articles should be left to private traders who should be given an opportunity to distribute the supplies at reasonable prices and in an equitable manner. It will not then be necessary to extend state trading to internal trade. If, however, the traders continue to exploit the shortages of these commodities to the detriment of the consumer, they will thereby create a situation in which the adoption of more drastic measures like state trading will have to be considered even in the internal sphere.

We shall now examine the case for state trading with reference to certain important articles of import.

36. *Foodgrains.*- India was not self-sufficient in cereals even before the war, a small exportable surplus of wheat being offset by large imports of rice. During the five years ending 1941-42, the average annual net imports amounted to 1 million tons and it was on the basis of this figure that in 1943, the Foodgrains Policy Committee came to the conclusion that India required, for current consumption, an annual import of foodgrains of not less than this amount. These conclusions were endorsed by the Famine Enquiry Commission in 1945 and by the official Members of the Foodgrains Policy Committee set up in 1947 under the Chairmanship of Sir Purshotamdas Thakurdas. This gap of nearly 1 million tons between internal procurement and Government's commitments in respect of the rationed areas has made it necessary for Government to continue to import foodgrains on a large scale from foreign countries. The world shortage of cereals, combined with the fact that the major exporting countries like Australia, Canada and the U.S.A. had bulk sale arrangements in respect of these cereals, has rendered it essential for Government to exercise a complete monopoly over imports of foodgrains. So long as our dependence on imports continues, it will be impossible for India to allow private importers to scramble for available supplies in the international market, as this may result in pushing up prices beyond India's purchasing capacity. Besides, the fact that Government have undertaken responsibility to feed the rationed areas will continue to render it necessary for Government to retain direct control on imports.

37. In the background of State monopoly of imports of foodgrains, the proper machinery which should be entrusted with the task of importing and handling the foodgrains has naturally come up for examination from time to time. This question was examined in some detail by the Prices Sub-Committee of the Policy Committee on Agriculture, Forestry

and Fisheries (Krishnamachari Committee). We are not concerned here with the main recommendations of the Committee which deal with the desirability of fixing remunerative minimum prices for India's main agricultural commodities. In considering this question of fixation of minimum prices, the Krishnamachari Committee had to examine the question of building up a reserve stock to be held by or under the control of the State for maintaining market prices within a certain range. The Committee felt that reserve would also be necessary for making provision for meeting emergency deficits. As it would be impossible in practice to maintain two separate reserves, one for the enforcement of price policy and the other for meeting emergencies, the Committee came to the conclusion that there should be one national composite reserve exclusive of current requirements which would be met out of current resources, consisting of internal production *plus* net imports. On an examination of the existing machinery for handling procurement and imports, the Committee came to the conclusion that the departmental administrative machinery to which the work had hitherto been entrusted, was defective. The working of a Government department was, in the opinion of the Committee, so much beset with red tape and procedural delays that it was incapable of taking decisions with the speed and elasticity essential for market operations.

38. The main recommendations of the Krishnamachari Committee were not put into effect. Nevertheless, the question of setting up a Commodity Corporation to handle Government imports of foodgrains has continued to receive attention. It is understood that this matter was recently examined by the Imported Foodgrains Clearance Committee (Ratilal Gandhi Committee). That Committee has generally come to the conclusion that although the operations involved in handling imported foodgrains on arrival in India were so important that consideration of a proposal to form a Corporation consisting of businessmen and experts would have become necessary, the declared policy of Government to cease imports by the end of 1951 had made it inexpedient to set up a fresh organization and that the present departmental organization should instead be strengthened and improved. Another Committee appointed by Government under the Chairmanship of Pandit L. K. Maitra has now reported on the question of improving the existing arrangements for handling imported foodgrains.

39. While it is true that it is unnecessary at this stage to set up a Corporation for the sole purpose of importing foodgrains, the Committee thinks that, since it is necessary in any case to create a corporation for other purposes, there is considerable advantage in entrusting imports of foodgrains also to that corporation. Many of the defects in the existing arrangements for importing and distributing foodgrains can be traced to the lack of business experience and other natural handicaps of the Government departments entrusted with the task, and the Committee feels confident that a Corporation consisting predominantly of businessmen would be able to effect considerable improvement in this respect. One additional advantage of setting up such a Corporation at this stage is that it will be able to build up a body of expert knowledge which will be useful, if and when Government find it necessary to undertake open market operations in agricultural commodities on the lines recommended by the Krishnamacnari Committee for the purpose of stabilising agricultural prices. Even if Government were to build up a reserve for regulating the prices of foodgrains, we feel that speculation and cornering are capable of defeating Government's intention. A state trading corporation will be far more competent to deal with the situation effectively. For these reasons, the Committee recommends that the task of importing foodgrains should in future be assigned to the State Trading Corporation which the Committee has recommended later in the Report.

40. *Fertilizers.*- Indian soils are mainly deficient in nitrogen which is the most important ingredient required to increase their fertility. The imprudent exploitation and abuse of the soil for years has led to production being stabilised at a low level. In many instances, production has definitely fallen as a result of the impoverishment of the soil. In recent years, there has been a growing awareness of the need for using fertilizers which provide the ingredients lost by crop production. The efforts now being made by the Central Government to make India self-sufficient in respect of foodgrains by the end of 1951 and the accelerated food production drive launched with this end in view have underlined the importance of ensuring adequate supplies of fertilizers. Before the war fertilizers were not used for crop production on any considerable scale. A few hundred thousand tons of nitrogen in the shape of sulphate of ammonia used to be imported for plantation crops. There was also a

small quantity of local production which was a by-product of the collieries and the iron and steel factories at Jamshedpur. During the war, however, it became difficult for India to obtain her requirements from abroad, and indeed from 1941-42 to 1943-44, imports were nominal and the agriculturists had to be content with the meagre local production. There was no Government control over imports of chemical fertilizers till 1943-44. The "Grow More Food" campaign launched by the Government of India, however, greatly increased the demand for nitrogen and especially for sulphate of ammonia. Meanwhile, fertilizers came under the control of the International Emergency Food Council. The Council pooled all available surpluses of fertilizers in the producing countries and allocated them to the various consuming countries on an annual basis. The supplies allocated to India together with local supplies were much less than the demand for fertilizers in the country and it was feared that if imports were left in private hands, Government might find it difficult to control their distribution between different parts of the country. Government, therefore, decided to take over the entire import trade in fertilizers and also to purchase the local production for distribution under its control. This was the genesis of the present scheme of state trading in fertilizers.

41. The control of the International Emergency Food Council ceased to exist with effect from the 1st July 1949 and India is now free to obtain her supplies from the open market. Fertilizers, however, are still in short supply and the Central Government is under an obligation to find adequate supplies of fertilizers for the implementation of its "Grow More Food" campaign. State trading in fertilizers has, therefore, been continued in spite of the lifting of the international control. Under the existing scheme, imports of fertilizers are exclusively on Government account. Stocks on arrival at the ports are handled by the various firms which are appointed by Government every year as clearing and forwarding agents. The clearing and forwarding agents are paid for storing, stocking, etc., at rates fixed every year. Indigenous production is purchased by Government and pooled with the quantities imported from abroad at different prices and sold at a pool price fixed from time to time on "no profit no loss" basis. Allocations out of the central pool are made to the States for the "Grow More Food" campaign and also for commercial crops such as jute, cotton, tea, coffee and rubber. The internal distribution of fertilizers is the concern of the State Governments. In

respect of phosphatic manures also, a similar form of control is in force, the nitrogenous fertilizers pool having been enlarged in 1948 to include phosphatic manures. On the phosphatic side of the pool, the local production of superphosphate is purchased by Government from producers at prices fixed by the Tariff Board. The supplies from various sources are pooled together and sold to the States at a uniform pool price.

42. As has been mentioned earlier, the institution of state trading in India has had virtually no effect on the world prices of fertilizers. The Committee considers, however, that the continuance of this monopoly is necessary to eliminate middlemen's profits and to ensure that fertilizers are made available to the State Governments at reasonable prices to enable them to carry out the "Grow More Food" campaign effectively.

43. *Steel.*— Steel is another commodity in respect of which state purchase has had to be resorted to mainly to meet the situation arising out of the last war. India has never been self-sufficient in steel and has always had to depend, to a considerable extent, on imports. Before the war, imports of steel which were, on an average, of the order of 280,000 tons per annum, were entirely on private account, except that Government's requirements were purchased through the Indian Stores Department. During the earlier years of war, imports from the United Kingdom decreased and our demands had to be switched over to the United States. Imports were therefore, brought under control in December 1940 and distribution in August 1941. The bulk of the steel produced in and imported into the country was utilised for Defence purposes and the quantity allotted for public consumption was rationed. Most of the imports were obtained from the United States under Lease/Lend and had to be on Government account.

44. Private imports were prohibited until April 1946 when it was decided to allow such imports from the sterling area only. In November 1946, this concession was extended to imports from all countries. Licences were issued freely against firm offers from foreign suppliers and no monetary ceilings were fixed for imports. In spite of these liberal licensing arrangements, imports in 1946 were negligible, owing to the shortage in the principal exporting countries like the United Kingdom and the United States and the increased demand from the war-devastated countries of the world. Prices of imported steel also rose sharply and were higher than those of indigenous steel. This price disparity between imported and

indigenous steel affected the structure of internal price control, and in 1947 it was decided to restrict imports to genuine consumers who gave an undertaking not to resell. This method, however, was not found entirely satisfactory, as consumers in most cases had no effective trade contacts with foreign suppliers and importers. Imports by established dealers and accredited agents of foreign suppliers were, therefore, permitted on condition that they would sell the material, before it landed, to genuine consumers at prices fixed by the Iron and Steel Controller. In spite of these relaxations, imports continued to be unsatisfactory and in 1947, Government decided to explore the possibility of importing steel on Government account to bridge the gap between demand and supply. In 1946-47 indigenous production had fallen to 9 lakh tons as compared with 12 lakh tons in 1943, and demand increased greatly on account of the execution of the various post-war development projects of Government as well as of industries. Government had to make persistent efforts to obtain supplies, particularly from the United States and the United Kingdom and as a result, imports in 1948 and 1949, both on private and Government account, showed a considerable increase over those in previous years.

45. The present import policy which is a combination of Government imports and controlled private imports is as follows:-

- (1) The bulk of the imports, whether made by Government or by private parties, are pooled with indigenous production and sold at an average equalised price to priority indentors, *i.e.*, those getting permits from the Iron and Steel Controller.
- (2) Private importers are declared as additional controlled stock holders, *i.e.*, they can sell only at controlled prices and to persons holding permits.
- (3) Import licences are issued to genuine consumers for their own use and not for resale. The price of steel so imported is not equalised.
- (4) Small quantities are also allowed to be imported by private firms to be sold to the public at higher unequalised import prices. Distribution in such cases is usually effected by the State Governments to comparatively less important consumers who are prepared to pay the higher prices. Although the intention of Government has been to equalise all imported steel, insufficiency of the funds available for this purpose

has compelled Government to sell a portion of it at unequalised prices to non-priority consumers.

46. The present system of state trading in steel has yielded certain distinct advantages. In the first place, the state trading agency has been able to utilise diplomatic channels for obtaining supplies from the main supplying countries like the United Kingdom and the United States. Secondly, under the present system, the higher priced imported steel is pooled together with the cheaper indigenous steel and sold at an average equalised price. The fact that imports have been on Government account has imposed less strain on the Equalisation Fund, because it has been possible to do away with the commission which private firms importing steel would have claimed on their imports. Thirdly, state trading has made it easier to control the distribution of imported steel than would have been the case, if a large number of importers had been allowed to operate in the field.

47. While state trading in steel has undoubtedly been useful, certain features of it have been the subject of considerable public criticism. It has been pointed out that some of the steel imported by Government consisted of varieties which were found unsaleable in India. The prices paid were also too high and this was partly due to the fact that premature publicity was given to the quantities proposed to be imported. The Committee thinks that such mistakes are most likely to occur when commercial transactions of this kind are entrusted to Government departments whose organization and methods of work are entirely unsuitable for the task. If state trading is entrusted to an autonomous Corporation of the kind recommended later in the Report, there will be greater possibility of its being conducted in accordance with normal business methods. In so far as the mistakes referred to above have occurred because of the difficulty of estimating the current demand for individual varieties, the problem could be simplified to some extent by limiting the operations to a few selected varieties which account for the bulk of the demand. The Committee recommends that so long as state trading in steel continues to be necessary, it should be entrusted to the proposed Corporation, and not as hitherto, to a Government department.

48. *Non-ferrous Metals.*— India is largely dependent on imports for her requirements of non-ferrous metals. Approximately 70 to 80 per cent of the consumption of virgin non-ferrous metals in this country is met by imports. Even on an austerity basis, imports of the order of Rs. 20 crores per annum are necessary. The users, apart from large factories like rolling mills, paint manufacturers, cable manufacturers, etc., are innumerable small consumers who purchase their requirements from local dealers in very small quantities. These small dealers and village manufacturers of utensils and other metal products account for a large percentage of the total quantity of non-ferrous metals used in this country. It was alleged that the city merchants and speculators who obtained supplies direct from Government exploited these small consumers. Attempts made by Government to ensure equitable and fair distribution to these smaller consumers were not successful, mainly because of the failure of the local Governments to make adequate arrangements to control distribution. The State Governments did not take sufficient interest in the matter, nor did they have enough specialised personnel to deal efficiently with the problem. It is a sad fact that the various metal associations which suddenly sprang up during the war only to secure Government patronage and a share in distribution merely filled their pockets by resorting to all manner of irregular practices. Government, therefore, decided to stop state trading in all non-ferrous metals, except *tin*. In the case of tin, state trading was continued after the war, mainly because it was found that tin was in world short supply and there was no early prospect of the mines in South East Asia being rehabilitated. Tin was also subject to international allocation by the International Tin Committee. Here also, Government's efforts to ensure equitable distribution to users were only partially successful. Recently, the world supply situation has improved and Government have, therefore, decided to give up state trading in tin also..

49. If state trading in this field was of little or no benefit to a large section of the consuming public, it was mainly due to the manner in which it was carried out. The fact that a large proportion of the internal demand for non-ferrous metals comes from small consumers undoubtedly made the problem a difficult one, but surely it was not impossible to find a solution for it. The Committee feels that if Government wished to do state trading in non-ferrous metals, they should have foreseen its possible consequences and simultaneously taken effective

measures to control internal distribution. This further reinforces the conclusion reached by the Committee that Government departments should not be authorised to handle commercial transactions and that a proper commercial corporation should be created for the purpose. It has been suggested to the Committee that the distribution of non-ferrous metals should be regulated through a corporation, which should be given a monopoly of imports and in which the major consumers, traders, merchants and importers should be invited to participate. The Committee feels that if the Corporation suggested later in the Report is created, it will be unnecessary to set up another corporation merely for the purpose of dealing in non-ferrous metals. The suggested Corporation should itself be able to recommend to Government measures for controlling internal distribution. Moreover, the desirability of reintroducing state trading in non-ferrous metals also needs to be considered afresh in the light of the world supply position. The Committee understands that although the supply position of non-ferrous metals in the soft currency countries will continue to be difficult for some time, the over-all position is becoming distinctly easier. While the supply of electrolytic copper continues to be difficult, the supply of blister copper available to India is more than India can absorb. With regard to lead and zinc also, the Australian supply position is becoming easier. The Committee recommends that the whole question be examined afresh by the proposed State Trading Corporation when it is established.

50. *Raw Cotton.*— India's annual requirements of raw cotton are estimated at 43 to 44 lakh bales and the present Indian production is approximately 30 lakh bales. India has, therefore, to import 13 to 14 lakh bales of cotton from sources such as Pakistan, East Africa, Egypt, Sudan, Brazil and Peru. In view of the importance of ensuring adequate supplies of this raw material to the cotton textile industry and in view, further, of the fact that on account of the present difficulties with regard to Indo-Pakistan trade, supplies from Pakistan are still problematical, suggestions have been made to the effect that the imports of raw cotton should be centralised in the hands of an organization similar to the United Kingdom Raw Cotton Commission.

51. The main arguments which have been advanced in favour of the establishment of a centralised purchasing agency are:—

(a) In the present abnormal world situation when cotton is in general

short supply, Government, by reason of their superior bargaining capacity and resources, are in a better position to procure the country's requirements.

- (b) Purchases of Pakistan cotton are becoming difficult and if imports are left entirely to private trade, there will be no certainty of imports materialising on the desired scale.
- (c) Prices of cotton textiles are related to those of raw cotton and it is important for the success of the textile control scheme that prices of imported cotton should be kept at a reasonable level.

52. The main arguments which have been advanced against the adoption of this proposal may be summarised as follows:-

- (a) So far as Pakistan and Egyptian cottons are concerned, there are other purchasers besides India, and a system of state trading will not necessarily guarantee assured supply. Any small advantage in this respect may be counter-balanced by the fact that the present system ensures the mills getting cotton of the grades and qualities they are accustomed to spin, whereas under a system of bulk purchase, the results are likely to be very much less satisfactory. Furthermore, the present bulk purchase arrangement covers only British East African cotton and it appears most unlikely that the other supplying countries would agree to an extension of the arrangement to them.
- (b) Since India is not a monopolistic purchaser, either in the Pakistan or the Egyptian market, there is no possibility of a state trading organization being able to influence prices in those markets.
- (c) The cotton market is a highly speculative one and it may be extremely difficult for any single agency to predict the course of cotton prices. The speculative risk involved may be far too great for any state trading enterprise to face. It has been pointed out in this connection that during the war, the Government of India had entered into a kind of state trading arrangement for the purchase of Egyptian cotton jointly with the United Kingdom. This arrangement had to be abandoned after two years' working, owing to the highly speculative nature of the Alexandria cotton market.

- (d) A state trading enterprise would also be handicapped on account of its inability to cover losses, if any, by squeezing the market, when it could, and charging prices above the world level, when it got an opportunity of doing so. Such action on the part of the State would lay it open to severe criticism from the commercial and industrial interests concerned as well as from the general public.

53. The Committee has carefully considered this proposal and has come to the conclusion that considering the magnitude of the task involved in handling the entire import trade in cotton, state trading in imported cotton should, for the present, be limited to British East African cotton only. Bulk purchases of such cotton are confined to a few varieties and are carried out in close co-operation with the consuming industry. This eliminates many of the risks referred to above. Even here, the Committee would like such operations to be entrusted to the proposed State Trading Corporation.

54. *Raw Jute.*— Raw jute is a commodity in respect of which a fairly strong case can be made out for introduction of a system of centralised buying. It is the raw material of one of India's most important industries whether the importance is judged from the point of view of internal economy or from the point of view of foreign exchange. Besides, after Partition India has been transformed overnight from the largest exporter of raw jute to the largest importer of that commodity. The 1948-49 Indo-Pakistan Agreement provided for the import of 50 lakh bales of raw jute from Pakistan. In the 1949-50 Agreement, there is provision for the import of 40 lakh bales of raw jute. India's own production is of the order of 29 lakh bales, out of which approximately 9 lakh bales, consisting of qualities not normally suitable for consumption in Indian mills, are exported. The total requirements of raw jute for the Indian jute mill industry, on the basis of normal working, are approximately 60 lakh bales. The net import requirements from Pakistan, therefore, are 40 lakh bales. The Pakistan crop is of the order of 55 to 60 lakh bales. It will be seen, therefore, that although India is not a monopolistic buyer, she takes 66 to 70 per cent. of the Pakistan production, the balance being taken by other countries like the United Kingdom, Germany, France, the United States, Italy and Belgium. The elimination of competitive buying is, therefore, likely to result in considerable advantage to the Indian jute mill industry.

55. This problem has assumed considerable importance recently on account of the fact that the Indian jute mill industry has had to pay unduly high prices for its raw material. As the Export Trade Promotion Committee has pointed out, the position hitherto occupied by jute as the world's premier packaging material was due primarily to its cheapness. This advantage has now been lost to substitutes of various kinds on account of the rising prices of jute. After the removal of price control in October 1946, prices of raw jute rose from Rs. 17/- to Rs. 35/- per maund within a year. Thereafter, prices continued to fluctuate seasonally but the upward trend of raw jute prices continued, particularly, after Partition and, on the whole, raw jute prices have maintained a level at least $4\frac{1}{2}$ times that at the out-break of war. The difficulties have been aggravated by the recent devaluation of our currency and the decision of the Government of Pakistan not to devalue their currency.

56. The Government of Pakistan have passed an Ordinance fixing minimum prices for raw jute at Rs. 23/- per maund for Bottoms in terms of the Pakistan rupee. At the new rate of exchange, and after payment of the Pakistan export duty and other incidental charges, these prices work out to at least Rs. 42/- per maund in terms of the Indian rupee. So long as Pakistan insisted on these prices, the Indian jute mills found it uneconomic to buy jute from that country and the result was a complete cessation of imports of raw jute for a long time.

57. The recent Indo-Pakistan Trade Agreement has found some way out of the impasse and the trade between the two countries has now been resumed on a restricted scale. However, so long as India continues to be dependent on Pakistan for the bulk of her supplies of raw jute, there will always remain the possibility of a similar crisis arising in future. One way of solving these difficulties is for India to produce the major portion of her own jute requirements. The Committee understands that the Government of India are taking steps to increase the production of jute in India. The Indian jute production was increased from 20 lakh bales in 1948 to 29 lakh bales in 1949. It is expected that production in 1950 will be 40 lakh bales. Nevertheless, for several years to come, India will continue to import substantial quantities of raw jute from Pakistan. It is in the interest of both India and Pakistan that jute manufactures should retain their premier position as a packaging material in the world markets. It should be possible, therefore, for the two countries to come to an amicable arrangement to keep the prices of raw jute at a reasonable level.

58. In the meanwhile, it is essential to take measures to eliminate competitive buying. The Export Promotion Committee has also recommended the introduction of a system of centralised buying under the auspices of the Indian Jute Mills Association and this Committee endorses that recommendation. The jute mill industry is well organized. At present the Indian Jute Mills Association has in its membership as many as 103 mills (97 in West Bengal and 6 in other States), out of a total of 113 mills in India (100 in West Bengal and 13 in other provinces). The Indian Jute Mills Association has hitherto been reluctant to embark on a system of centralised buying of raw jute. One objection which has been raised from the side of the Indian Jute Mills Association is that under a system of centralised buying, the buyers would lose their freedom of choice. It has been urged that mills know their suppliers and that the suppliers, in their turn, know the exact requirements of individual mills. The fear has been expressed that if supplies are obtained from a pool, there would be a tendency to reduce everything to the lowest common denominator. The Committee has been told that while in the case of mills manufacturing only standard goods there will not be any serious complications, the arrangement has its drawbacks for those who go in for specialities. The representatives of the Indian Jute Mills Association who appeared before the Committee were asked whether the system of centralised buying in the United Kingdom had been successful. Their opinion was that the U.K. system was a complete success, but it would be difficult to adopt a similar system in India because (a) the quantities required by Indian mills were very much larger and (b) the varieties required were also far too numerous. The Committee is not at all impressed by these arguments. It feels that the larger size of the purchase should not prove to be an insuperable difficulty in the way of the transactions being handled by a central buying agency. With regard to varieties, the Committee feels that the Dundee industry with its greater emphasis on production of specialities is likely to experience this difficulty to a much greater extent than the Indian jute mill industry with its standardised production. The Committee feels that the problem is of such vital importance to the jute mill industry that the Indian Jute Mills Association should be prepared to face the organizational problems involved in the establishment of a centralised buying agency. The Committee feels that an important factor in the unwillingness of the Indian Jute Mills Association to go in for centralised buying is the fact that it does not want to interfere with the vested interests which have developed in the

raw jute trade. During the last few years, there has been an increasing tendency on the part of mills to buy their requirements directly in the jute growing districts. In some cases, mills have developed their own buying organizations. The Committee is extremely doubtful whether the setting up of these independent buying organizations by mills has been to their own advantage; because it is a common complaint in the mofussil that where the mills' buying agencies operate, it becomes difficult for others to compete, because of the high prices paid by mills. The Committee feels that the Indian Jute Mills Association should set up a centralised buying agency as soon as possible.

CHAPTER IV

STATE TRADING IN EXPORTS

59. As in the case of imports, it is necessary, in the first instance, to distinguish the types of cases in which state trading in exports may be feasible, in the sense of being free from undue commercial risk, whether or not it is otherwise desirable, and then to consider the desirability or otherwise of resorting to state trading in those cases. If the State were to take over the export trade in any commodity, it must be able to procure internally supplies which it wishes to sell abroad. This may present no serious difficulty in the case of a commodity the entire production and distribution of which is subject to State control. If this form of control is introduced in the case of any commodity such as sugar, it will be feasible for the State to take over the export trade in that commodity. In this connection, attention may be drawn to the many possibilities which the establishment of co-operative organizations offers for control over internal production and distribution. Cotton textiles and coal are two important export commodities, the internal distribution of which is at present subject to control. The task of procuring exportable supplies may also be comparatively easy where the commodity is such that the bulk of its production is exported. This is the case with jute manufactures, shellac, mica, tea and certain other commodities.

60. In addition to being able to procure the necessary supplies internally, the State must also be able to find a market abroad for what it buys. Whether the State first buys and then sells or *vice versa*, there is a considerable risk involved in either case, the magnitude of which will depend

on the nature of the commodity. In the case of a commodity of which we are a monopolistic or semi-monopolistic supplier to the world market, or one which is in short supply in the world as a whole, or one for which the world demand is stable or inelastic, it might appear that a state trading corporation should have no difficulty in finding an overseas market for all it wishes to sell. Regard must be had, however, to two important considerations. In the first place, most of our so-called monopoly products are at present subject to severe competition from substitutes and this would restrict our ability to compel foreign buyers to accept unsuitable qualities and types. A state trading corporation which operates only at the export stage and relies on normal trade channels for internal procurement may find it difficult to ensure delivery according to agreed specifications. Secondly while there may be considerable world demand for a commodity in the aggregate, there may be no demand, or only a limited or specialised demand for certain qualities or types of that commodity. Recent experience in connection with the barter agreement with Soviet Russia, where Government had to face considerable difficulty in procuring the exact quality of tea needed by Russia, is an instance in point. Generally speaking, state trading in commodities of which there are numerous qualities and varieties and in the case of which demand is largely governed by the consumer's preference may become too unwieldy a task for a centralised organization, at any rate, until it has been able to develop the necessary administrative apparatus for the purpose. State trading in a commodity like cotton piecegoods is likely to be particularly risky for this reason. In the case of mica also, the problem of devising objective tests makes bulk handling difficult. During the war, mica was subject to bulk buying in India, but such bulk buying was undertaken by representatives of consuming countries and was also facilitated by the fact that in the abnormal conditions then prevailing, consumers could not afford to be fastidious about quality.

61. To sum up, the following are the types of conditions under which state trading for exports can be undertaken without undue commercial risk, whether or not it is desirable to do so:

- (a) where the procurement difficulties are minimised as the result of control over internal production and distribution, or by reason of the fact that the bulk of domestic production is exported;

- (b) where we are in the position of a monopolistic or semi-monopolistic supplier to the world market, where the commodity is in short supply in the world market as a whole, or where the world demand is reasonably stable or inelastic; and
- (c) where the tasks of forecasting the world demand and of ensuring supplies according to the needs of the market are not complicated by the existence of numerous qualities and varieties or by the factor of the consumer's preference.

Jute manufactures, coal, shellac, manganese ore, short-staple cotton and, perhaps, sugar would satisfy many of the above conditions. It does not follow, however, that state trading is necessarily desirable in the case of these commodities. That depends on other considerations which are discussed below.

62. In considering the desirability of state trading as a means of export promotion, regard must first be had to the fact that the entire question of export promotion has recently been investigated by another Committee and that the recommendations of that Committee have already been accepted by Government. It was the view of that Committee that before the war, the producer of Indian goods as a class was rarely interested in the export market. It was left to the shipper who knew the requirements of overseas buyers to locate them in India and to export them. The same Committee has stated: "Spoilt by the high internal prices and easy sales of recent years, the industrialist as a rule has not bothered at all about foreign markets. It would not be wrong to say that industry by and large is not export conscious". In the opinion of this Committee, the principal remedy for most of the difficulties at present affecting India's export trade lies in the effective implementation of the Export Promotion Committee's recommendations, particularly those regarding grading and standardisation and the elimination of the various mal-practices prevailing in the export trade. State trading, however, has been proposed mainly as a means of remedying certain defects which are inherent in the system of competitive trading itself. It has been urged, for example, that the present system does not enable the country (a) to secure for some of its monopoly products the maximum price which the consuming countries would be prepared to pay for them, (b) to charge differential prices by discriminating between devalued and non-devalued currencies, between hard and soft currencies, or between competitive and non-competitive markets, (c) to safeguard the domestic price level against an undue

rise in export prices, and (d) to intercept the windfall profits likely to be made by exporters in such circumstances. Export duties, because of their rigidity, are not regarded as a completely satisfactory means of achieving either (a), (c) or (d). Such duties cannot also be used for practising discrimination between different destinations, since they have to be levied at uniform rates on exports to all destinations.

63. It has been urged that in the case of commodities like jute manufactures, shellac, mica or manganese, of which India is a monopolistic or, at any rate, a very important supplier to the world market and which are in keen demand abroad, we should try to secure the maximum price which the consuming countries would be prepared to pay, and that this will be possible only if exports are canalised into the hands of a single State agency, instead of being left to be handled by a large number of private traders. It has been stated in support of this argument that the only way by which India can defend herself against the tendency of other countries to charge exorbitant prices for some of her essential imports, such as foodgrains, is by mobilising her bargaining strength in respect of her own export commodities, particularly those which are classed as strategic materials. There is undoubtedly considerable force in this argument. The Committee does not think, however, that India's competitive position in respect of any of her export commodities is at present so strong as to enable her to extract a monopolistic or semi-monopolistic price by resorting to state trading. While it is true that India is the world's principal supplier of jute manufactures, shellac, mica, manganese and tea, her bargaining strength in respect of these commodities should not be exaggerated. In the case of jute manufactures, we possess only 57 per cent. of the world's loomage and, therefore, every other country which can buy Pakistan raw jute is a potential competitor of ours. Besides, in the case of jute manufactures, as well as shellac and mica, we have to reckon with the competition of substitutes which is steadily growing and which can be countered only by adopting a reasonable price policy and thus preserving the good-will of the consuming countries. Even if it were possible to push up the prices of jute manufactures, our dependence on Pakistan for the bulk of our raw material supplies would obviously limit the extent of benefit we can hope to derive by such action. In the case of mica, the existence of large war-time stocks in the hands of our principal consumers restricts our ability to manipulate world prices to our advantage. Even if there were no such stocks, competition from other exporting countries, such as Brazil (in the case of block mica) and Madagascar (in the case of

mica splittings), may defeat any attempt on our part to push up prices unilaterally. In the case of manganese also, competition from U.S.S.R., South Africa, West Africa and Brazil has to be taken into account. There is every indication that production in these countries is being expanded to compete with ours. In tea, Ceylon and Indonesia are our competitors and the commodity itself has a rival in coffee. The Committee, therefore, considers it extremely doubtful whether state trading would enable India to exercise any appreciable degree of monopolistic control over the world prices of these commodities. Apart from this, it would not be in the long-term interests of her foreign trade, if India were even suspected of exploiting any monopolistic advantage she may have. If anything, State intervention to-day is required to prevent any short-term monopoly from being exploited by private enterprise to the detriment of the long-term interests of the country's export trade.

64. It has been represented to us that despite the imposition of price control, American buyers of jute manufactures have been willing to pay prices exceeding the ceilings fixed by Government and that exporters in India have recovered such prices. It has been alleged that exporters have been evading both price control and exchange control by resorting to under-invoicing of exports and thus accumulating secret dollar balances. There is no doubt that with state trading in jute manufactures, these evils could be effectively put an end to. The Committee, however, is not in a position to state the extent to which these practices are prevalent. Moreover, the practice of under-invoicing of exports to the dollar area (as also the practice of over-invoicing of essential imports from that area), probably exists in many other trades besides jute manufactures, and since state trading is not practicable in all cases, some other method has to be devised in any case to deal with it. It is understood that the Exchange Control Department of the Reserve Bank of India carries out a test check of invoices and looks into cases in which the prices mentioned in some invoices differ substantially from those mentioned in others. It should be possible by this or other similar measures to make the enforcement of exchange control more effective. Under-invoicing is, at worst, only a short-term problem, while the nationalisation of the export trade in jute manufactures would be a permanent or long-term commitment. The Committee does not consider it advisable that a state trading corporation should undertake a commitment of this kind and magnitude at this stage, until it has functioned for some time and acquired the necessary experience. In view of the fact that 81 per cent. of the output of the jute mill industry is exported, the nationalisation of the export trade in jute manufactures would virtually carry

with it the direct responsibility for the prosperity and well-being of the entire industry and of the other interests dependent on it. The demand for jute manufactures, though fairly stable in the short run, has in the past shown a tendency to fluctuate violently according to the state of economic activity in consuming countries, and such fluctuations may call for drastic adjustments in internal prices and production. State intervention at the export stage may hamper such adjustments by shifting the responsibility for them from the industry to the State. In a period of depression, the industry or the State may be saddled with heavy stocks, and it may be difficult to establish beyond controversy whether the failure of the state trading corporation to find buyers for all that the industry is able to produce is due to a genuine change in the economic situation or to certain inherent defects of the organization itself. For these reasons, while the Committee recognises that state trading may be an effective remedy for under-invoicing and other evils, the Committee would refrain from recommending it *at this stage* for jute manufactures and suggests instead that such evils should be tackled through a stricter enforcement of exchange control. Practices like under-invoicing and over-invoicing would not by themselves justify the adoption of state trading in any commodity which, by the criteria earlier laid down, is not suitable for state trading.

65. The ability to charge differential prices according to the conditions of demand and supply in different markets is theoretically the principal advantage of state trading. The world today is split up into several currency areas and the movement of goods between these areas is impeded by exchange difficulties. Moreover, wide disparities exist between the price levels prevailing in different countries within each area. It has been suggested that countries having scarce commodities to export can, in these circumstances, maximise their export earnings only by charging such differential prices as would take full account of the conditions of demand and supply in each individual sector of the world market and that it is necessary to set up an export monopoly for this purpose. So long as the export trade is in the hands of private traders, competition among them results in a uniform price being charged for all markets, and it has been argued that the country is thus deprived of some of its potential export earnings.

66. Price discrimination of this kind would be practicable only in those cases where we have a world monopoly or where the commodity concerned is in over-all short supply, and where such discrimination, either because of its extent or of any other factor, such as transport costs, is not likely

to lead to a diversion of supplies from a low-priced market to a high-priced one. As already stated, there are few commodities of which India today is a truly monopolistic supplier. And even if it were granted that we have a monopoly in a particular commodity, we have in many cases no means to prevent supplies exported at a lower price to one country from being re-sold to another country to which we charge a higher price. If this happens, we shall only be encouraging the low-priced countries to develop a re-export trade in our goods, and if the countries to which we charge a higher price happen to be dollar countries, we shall only be depriving ourselves of a type of foreign exchange which we need most. The Committee has examined this question with particular reference to jute manufactures and has been advised that a policy of charging discriminatory prices for jute manufactures may result in diverting trade from Calcutta to other centres. In an exceptional case like that of coal, where transport charges constitute a large part of the final price to the overseas consumer, there may be no possibility of diversion from one market to another, if the transport charges between the two markets exceed the difference between the prices charged to them, but even in such a case, differential prices can be charged only so long as competition from other sources is not effective. As soon as supplies of coal become available from other sources, any attempt to charge differential prices will only result in a loss of trade. The Committee has not come across any other case where state trading could be recommended as an immediate measure for the purpose of maximising our export earnings from a scarce commodity. The Committee, however, does not rule out the possibility of temporary situations arising from time to time making it possible to charge differential prices. If a state trading corporation is brought into existence for other purposes, it should be one of its functions to advise Government as to the desirability of adopting state trading for this purpose in individual cases on a consideration of the merits of each case.

67. Price discrimination has also been suggested as a means of promoting the export trade in general. In the case of certain commodities, it may be of advantage to quote a specially low price in some markets with the long-term object of acquiring a foothold in them and to recoup any loss that may be incurred by charging a higher price in other markets. Apart from the possibility of diversion of trade referred to above, if the charging of a lower price in one market is not to result in a net loss of foreign exchange, we must be able to raise prices in other markets by a corresponding amount above the prices which would otherwise be realised by

private trade, and this we shall be able to do, only if we hold a monopolistic position in these markets. We cannot create such a position merely by eliminating competition in this country. The mere fact that we find it necessary to lower our prices in some markets is probably an indication that our exports are subject to keen competition abroad, and a situation in which competition is felt in one market and not in another must be very exceptional. A situation like this can arise in the case of a commodity for which our only competitor is a hard currency country. There are no such commodities of any importance. Even in the case of sugar (apart from the fact that our export capacity is highly problematical for the present), although Cuba, a hard currency country, is the principal exporting country today, we have to reckon with considerable competition from soft currency countries like Brazil, Formosa and, in due course, Java. Price discrimination was once suggested in the case of cotton piecegoods. The Committee is satisfied that if the prices of our cotton piecegoods are lowered in some markets with a view to under-cutting our competitors, it may not be possible to recoup the loss so incurred by charging higher prices elsewhere, because we have strong competitors in this line in all markets. Price discrimination in such circumstances will only result in a net loss of foreign exchange.

68. Another important consideration for which price discrimination has been suggested is the need for averting the possible loss of foreign exchange resulting from devaluation. Devaluation, it may be argued, is likely to lead to a lowering of the export prices of our commodities in terms of the dollar, and the supply position of some of these commodities is such that the fall in our dollar earnings resulting from a reduction in export prices in terms of the dollar is unlikely to be made up by an increase in the volume of exports. Since it is only the dollar equivalent of our export prices that is affected by devaluation and not the sterling equivalent, it has been suggested that the right remedy for the situation is to raise the rupee prices of exports to the dollar markets to the full extent of devaluation without changing the rupee prices charged to the sterling markets. No such discrimination is, however, possible when trade is in private hands.

69. The Committee feels that the foregoing argument overlooks several important considerations. In the first place, even where devaluation leads to a fall in dollar prices in the first instance, it cannot be assumed that the dollar prices will remain at the reduced level for any length of time. The fall in dollar prices will stimulate competition among the buyers in the

dollar area, and where the world supply is inelastic, such competition will push up the dollar prices again. So far as foreign exchange considerations alone are concerned, therefore, the normal market forces could be relied upon to safeguard the foreign exchange earnings from commodities of which the world supply is inelastic, and it is unnecessary to resort to state trading for the purpose. In the case of jute manufactures, the Committee was informed that the rise in dollar prices towards their pre-devaluation level had resulted in Indian exporters receiving prices above the ceilings fixed by Government and thus making excessive profits. As already stated, however, the remedy for this does not lie, for the present at any rate, in resorting to state trading in jute manufactures, but in tightening the exchange control measures. In the case of certain other commodities, while the supply may be inelastic in this country, it may not be so in the other countries which also export to the dollar area; the other countries may be able to increase their exports, because production in those countries may increase under the stimulus of a rise in local prices following upon devaluation. Such rise in local prices may not go so far as to raise the dollar prices to the pre-devaluation level, and yet it may go far enough to bring about an appreciable increase in production and exports. If, in this way, the supply available to the dollar area increases above the pre-devaluation level, the dollar price may come to be settled somewhat *below* the pre-devaluation level. This fall in the dollar price as compared with the pre-devaluation level, combined with the inelasticity of our supply, will reduce our dollar earnings, but this is not a situation which can be remedied by state trading, because it is the result of competition from other countries which we cannot in any case prevent. The same may happen where the dollar prices of our goods before devaluation were too high in comparison with those of goods from other countries, so that a reduction in the prices of our goods was necessary to enable them to be sold in the dollar area. Any reduction in foreign exchange earnings in such circumstances has to be accepted as inevitable. So far, we have assumed that the conditions which determine the demand curve in the dollar area are unaffected by devaluation but it is possible that devaluation may change the demand conditions in both the dollar and the non-dollar areas. The stimulus afforded by devaluation to some of the consuming industries in the non-dollar area, e.g., the steel industry, which consumes manganese ore, may raise the internal demand in the non-dollar area for some of the commodities exported to the dollar area, while the demand in the dollar area for such commodities may be adversely affected by a possible deflationary trend induced by the appreciation

of the dollar. The level at which prices may eventually get settled may depend on the inter-action of these opposite tendencies. It is obvious that in a situation in which so many factors are simultaneously at work, it is quite unrealistic to expect that any single trading agency will be able to manipulate prices in such a way as to maximise its foreign exchange earnings. It would be easy for such an agency to fall into certain obvious errors, such as, to assume that it could raise its prices to the dollar area to the full extent of devaluation (an assumption which may prove to be quite wrong, if, in the meanwhile, devaluation has adversely affected the demand conditions in the dollar area, or if the other supplying countries, under the stimulus of devaluation, have been able to increase their offers to the dollar area in such manner as to expand the aggregate supplies available to the dollar area above the pre-devaluation level), or to assume that it need not raise prices to the consumers in the non-dollar area (which may also be wrong, if devaluation happens to stimulate the economic activity in the non-dollar area and, therefore, the demand from the consumers in that area). The Committee does not think, therefore, that devaluation by itself would justify state trading on any extensive scale for the purpose of practising price discrimination between the dollar and the non-dollar areas.

70. State trading has been suggested as a means of intercepting the excessive profits made by the exporters of certain commodities. The possibility of making such excessive profits arises only when there is a wide disparity between internal and world prices. One of the commodities in the case of which such disparity is alleged to exist is jute manufactures, and the case has already been dealt with above. Our cotton piecegoods are at present believed to be cheaper in comparison with those produced in other countries, but as already stated, the existence of numerous varieties and the fact that the demand is largely governed by the consumer's preference makes this commodity unsuitable for state trading. There are, however, other commodities, such as coal and short-staple cotton, which are suitable for state trading and where state trading could be used for earning additional revenues for the State. If a state trading corporation is brought into existence, it would be able to keep a continuous watch over the market situation in respect of all important commodities and to draw the attention of Government to cases in which a wide disparity exists between domestic and world prices. In some cases, the commodity may be suitable for state trading; in others, action may have to be taken by way of export duty. The Committee is of the opinion that where a commodity is not suitable for state trading and where, consequently, state trading is likely to have harmful

effects on the trade, state trading should not be resorted to merely for the purpose of earning additional revenues for the State. A financial policy which hurts trade for the sake of revenue is short-sighted and will eventually defeat itself. Where excessive profits are being made in exports and state trading is not feasible, the only way to intercept such profits is through export duties and direct taxation. While recommending the use of export duties in such cases, however, the Committee would emphasize the need for the utmost vigilance on the part of Government with a view to reducing or removing the duties as soon as conditions change. In the past, Government have been too dilatory in reviewing the operation of export duties *e.g.*, the export duty on cotton piecegoods, and trade has suffered thereby.

71. In so far as state trading enables a margin to be maintained between domestic and world prices, it can be used for any of the purposes for which export and import duties are used, with this difference that while the rates of export and import duties cannot be changed too frequently, state trading margins can be varied at any time, and different margins can be maintained for different destinations and sources of supply. State trading for this reason is naturally more effective than export and import duties. As already stated, however, state trading is not feasible in all commodities, and even in the case of some of those commodities in which it can be undertaken without undue financial risk, it is not desirable to undertake it, in view of its possible adverse consequences on the trade itself. It has been suggested that when, owing to devaluation or other circumstances, export prices are subject to a strong upward pressure and the possibility arises of exporters making excessive profits or, alternatively, domestic prices showing an undue rise, state trading should be employed to intercept such profits and to maintain domestic prices at a reasonable level. The Committee feels that in any such situation, if the objective is to stabilise domestic prices, it should first be examined whether the factors which tend to bring about a rise in prices are, in fact, of external origin. In the case of a commodity, like oilseeds, for example, where the bulk of the output is consumed internally, and the increase in internal demand is mainly responsible for the rise in prices, the imposition of an export duty or the adoption of state trading is likely to be of limited use in preventing the rise. Where, as in the case of jute manufactures, the bulk of the output is exported and external factors are consequently of paramount importance, both export duties and state trading may be effective in regulating internal prices, but here the choice between

the two methods has to be made in the light of other considerations. The Committee is of the opinion that of the various commodities on which export duties have recently been imposed with a view to stabilising internal prices, short-staple cotton is the only one with respect to which state trading could be attempted immediately.

72. The Committee does not think that the introduction of state trading at the export stage will necessarily lead to a reduction in speculation in the commodities concerned. It is equally probable that speculation may increase, as it may then be based on reports and rumours about the intentions of the state trading agency, rather than on any genuine expectations about the demand and supply position of the commodities concerned. During the war, action had to be taken to prohibit forward trading even in the case of commodities, like oilseeds, which were subject to centralised buying for export purposes. The Committee thinks that action to regulate forward trading will, in many cases, continue to be necessary even after a state trading corporation has been brought into existence.

73. The Committee would like to stress one important consideration which arises from the past experience of controls in this country. In a mixed economy such as ours, where it is impossible to enforce the kind of regimentation which exists in a totalitarian state, a lack of co-operation on the part of traders can create serious difficulties in the way of enforcement of any system of control. This applies with particular force to state trading which is confined to the sphere of foreign trade only. By ousting private traders from one stage of the distributive process a state trading corporation provokes their opposition, and yet it cannot do without their co-operation, because all the other stages are in their hands. An export monopoly, for example, will have to obtain its supplies from the very traders whose interests are affected by its creation, and it should, therefore, be easy for such traders to create difficulties for such monopoly, if they so wish. It may not be possible to solve the problem merely by appointing the existing traders as agents of the monopoly, since everything depends on how far the traders are satisfied with the position assigned to them by the State. Even where the trade is largely dependent on exports, an export monopoly may have difficulty in procuring the particular kind or quality which it has contracted to sell, and it may find it impossible to procure it, except through the co-operation of the trade. Occasions may easily arise when the export monopoly is unable to deliver the particular kind or quality

or the particular quantity specified in its contracts, and this may bring the whole system into disrepute. It is true that similar defaults occur on the part of individual traders also, but their consequences are limited to the small sector which is handled by those traders and do not affect the entire trade, as happens when it is an export monopoly which is in default. In stressing these considerations, the Committee does not wish to suggest that Government should be deterred from adopting any desirable scheme of state trading merely by fear of opposition from vested interests. But, in the opinion of this Committee, the possibility of such opposition does indicate the need for a cautious approach and the desirability of making a beginning with those cases in which the opposition, if any, can be successfully overcome.

74. Finally, there are two kinds of state trading operations in the export field to which many of the foregoing objections will not apply. A state trading corporation can upon request by private exporters, pool their orders and undertake negotiations on their behalf and at their risk. Private exporters may find such collective bargaining of considerable advantage to them, especially when they have to deal with monopolies in foreign countries. Secondly, where barter agreements have to be entered into, state trading becomes inevitable. State trading for this purpose is limited to the particular barter transactions and need not involve a monopoly of the entire export trade in the commodities concerned.

75. The principal export commodities in respect of which state trading has been suggested are jute manufactures, tea, mica, manganese, coal, short staple cotton and cottage industry products. The position in regard to each of these commodities is briefly discussed below:-

76. *Jute Manufactures.* - The main consideration which has been urged in favour of undertaking state trading in jute manufactures is that at present jute manufactures are fetching a high price in foreign markets and the advantage of this high price is accruing to private exporters. Several witnesses examined by the Committee stated that in a number of cases, jute manufactures were sold in foreign markets, particularly in the United States, at prices higher than those which the Government of India have fixed for exports under the Jute Goods (Export Control) Order. For example, for the 40" x 7½ oz. hessian, the control price is Rs. 41/13/- for 100 yards, whereas the black-market price was

reported to be Rs. 52/- and the Committee was told that in New York buyers were at one time prepared to pay up to Rs. 64/- or 65/-. It was alleged that a large number of transactions were taking place at this black-market price and the exporter showed only the permissible prices on the Bills of Lading and used the balance for building up dollar funds in the United States. It is understood, however, that prices in the United States have come down of late and that the margin between the control price in India and the price ruling in that market has considerably narrowed down.

77. The Committee feels that the entire jute problem has to be viewed as a whole, taking both the long-term and the short-term aspects into consideration. One possible remedy for the present black market in jute goods is to abolish price control and to adopt a suitable production policy. The Committee understands that in imposing price control, Government were influenced by the following considerations:-

- (a) to prevent purchase of raw jute from Pakistan at prices which were considered uneconomic by the jute mill industry;
- (b) to prevent a rise in the prices of Indian raw jute; and
- (c) to ensure reasonable prices for consumers.

From all these points of view, it would be undesirable for the Indian jute mill industry, or for the Government of India, to fully exploit the present heavy demand for jute goods, particularly from the United States. The increase in demand is due to a number of temporary factors, the most notable of which are:-

- (a) For several months before devaluation, American buyers were buying very limited quantities of jute manufactures and they have now reached a stage when they cannot keep off the market any longer.
- (b) In order to supply 20,000 tons of hessian to Argentina before December, 1949 supplies which would normally have gone to the United States between October and December, 1949, had to be taken over by Government by requisitioning.
- (c) On account of devaluation, the United States and other dollar countries can now afford to pay higher rupee prices without

feeling the same pinch as the sterling and other soft currency countries.

78. The Committee was told by representatives of the Indian Jute Mills Association that the demand in the United States at the present high prices would be operative only in respect of a very small sector of the trade and once this demand was satisfied, if prices did not fall, the United States would probably keep off the market. Furthermore, continuation of the present high prices would result in the use of substitutes being encouraged. In the case of a commodity like jute manufactures which owes its popularity as packaging material primarily to its cheapness, price is, from the long-term point of view, a vital consideration. It would be short sighted, therefore, for India to try to exploit the present temporary shortage of jute manufactures by charging an exorbitant price to foreign markets. In actual fact, however, the shortage of jute manufactures has led to profiteering at every stage and consequently, the objective of ensuring reasonable prices to the consumer has not been achieved. It is, therefore, not correct to assume that the continuance of the present system is likely to be more helpful to us than state trading in maintaining the prices of jute manufactures at a reasonable level.

79. Under the Jute Goods (Export Control) Order, Government have fixed the commission to shippers at 5 per cent. The Committee was told that the normal rate was $\frac{1}{4}$ to $\frac{1}{2}$ per cent., except for certain destinations like Hong Kong, Singapore and China. It has been suggested to the Committee that if it is possible to earn commission at as much as 5 per cent., it would pay Government to undertake exports of jute goods on its own account. The Committee is of the opinion, however, that the commission fixed by Government is unduly high and should be brought down in the long-term interest of the jute goods trade. The fact that buyers abroad are prepared to pay this high commission is entirely due to the present shortage. Once production of jute goods reaches the normal level, the forces of competition will tend to bring down the commission to the usual rate of $\frac{1}{4}$ to $\frac{1}{2}$ per cent., unless, in the meantime, Government themselves reduce it in the interest of shippers who, the Committee understands, are being eliminated from the trade by mills who have found it profitable to start direct exports of jute manufactures to overseas markets.

80. Elsewhere in the Report, the Committee has drawn attention to the risks and responsibilities involved in state trading in jute manufactures. The Committee, however, does not wish to pass a verdict at this stage on the suitability or otherwise of jute manufactures for state trading and would prefer to leave it to the proposed State Trading Corporation to examine the question after it has gained some experience in the handling of other commodities. Happily, production of jute manufactures has shown a rising trend of late, and the Committee feels that if only the industry and Government pursue a proper production policy, it may not become necessary to embark upon a venture like state trading in jute manufactures.

81. *Tea.*—The rise in the price of tea since devaluation has induced some people to suggest that the introduction of a system of state trading in tea would be of advantage to the country. The view has been expressed that the present system under which 250 to 300 million lbs. of tea are sold to the United Kingdom under a bulk purchase contract is not in the interest of the country, because the prices which India obtains under this bulk purchase arrangement are considerably low as compared with the prevailing market prices. It has been argued that in view of the world shortage of tea, India should be able to sell her tea at higher prices to overseas consumers. Here again, the Committee thinks that the fundamental considerations affecting the decision should be the long-term interests of the industry rather than any temporary possibility of the State being able to earn additional revenues from the exports of tea.

82. From the long-term point of view, it has to be remembered that although at present world production of tea is short of world consumption, it has been estimated by the International Tea Committee that by 1951, world production is likely to increase sufficiently to restore equilibrium. According to the statistics published by that Committee, the total world consumption of tea is estimated to be 1137 million lbs. while by 1951, world production is likely to increase to 1150 million lbs. With the restoration of settled political conditions in Indonesia, Indonesian production of tea will also increase. It is possible, therefore, that the supply position of tea will go on improving in the coming years.

83. The price of tea rose appreciably after devaluation, but this rise had some special features. Between the 14th of September and the 15th of November 1949, the price of tea in internal auctions went up by over 8 as. a pound, while the price in the external auctions increased by

4 as. only. Again, during the corresponding period in 1948, there was also a rise in the price of internal tea by over 3 as., whereas there was no corresponding increase in the export price. Furthermore, even in normal times, the price of tea fluctuates by 3 to 4 as. depending upon the season, the state of the demand etc. It would not be, therefore, correct to assume on the basis of the recent experience that the rise in prices has come to stay. In any case, if the export situation permits a rise in price, the benefit of such rise can be intercepted for the State through a variation of the export duty.

84. *Prima facie*, there is no reason why devaluation should have a permanent effect on India's competitive position in regard to exports of tea. The four important exporting countries are India, Ceylon, Indonesia and Pakistan. To some extent, the non-devaluation of the Pakistan currency is likely to encourage a transference of demand from other countries to India and Ceylon. Pakistan's production, however, whether in quantity or quality, is not such as to justify a change in our policy. Our principal competitor is Ceylon. During 1948, the price of tea in the Calcutta auctions had risen in comparison with that of Ceylon tea. This was mainly due to the fact that we had sold nearly 300 million lbs. of tea to the United Kingdom under the bulk purchase arrangements and after this quantity had been taken up, the balance naturally fetched a high price at auctions. The result was that we found ourselves undercut in the American market by Ceylon. It may be inferred from this that if we offer a large quantity of tea to the United Kingdom under the bulk purchase arrangement, that will have the effect of pushing up auction prices and thus reducing our dollar sales. Conversely, a small sale to the United Kingdom depresses prices in auctions. It is clear, therefore, that in the interest of the maintenance of India's dollar earnings by sale of tea, it is necessary that the quantity offered to the United Kingdom under the bulk purchase arrangement should not be unduly large.

85. This Committee need not go into the question of the desirability or otherwise of the continuance of the bulk purchase arrangements and also the cognate questions affecting the position of Calcutta as the world's tea centre, because these constitute the terms of reference of another Committee appointed by the Ministry of Commerce which, it is understood, has already submitted an interim report. Apart from this question, regard must be had to certain special features of the tea trade

which have a bearing on the feasibility of state trading in this commodity. Tea has numerous grades and qualities and even in the private commercial field, the expert knowledge in the matter of grading of tea is confined to a small section of the trade. The Committee understands that Government have under consideration a scheme for practical training in tea tasting. Until the scheme begins to yield results, a state trading agency may find it difficult to secure the services of a sufficient number of experts for the purpose of appropriate grading and tasting of tea. The Committee was told by representatives of the tea industry that one reason for the recent deterioration in the quality of Indian tea was the bulk buying arrangements made by the United Kingdom. Under such arrangements, it suits the industry to pay more attention to quantity than to quality. The extension of bulk buying to cover the whole of the export surplus may only accentuate this tendency and this may be disastrous from the point of view of the long-term interests of the export trade in tea. A deterioration in quality may result in a permanent loss of markets, particularly in the hard currency areas. The Committee, therefore, feels that state trading in tea will not be practicable at this stage.

86. *Mica.*—Immediately before devaluation, the Indian mica industry was in the grip of a depression and during the eight months — January to August 1949, exports of mica amounted to only 8,200 tons as compared with 13,704 tons during the corresponding period in 1948. This fall in exports was principally due to the decline in the American demand for mica, particularly from the electrical industry. The export figures for November and December showed marked improvement which, it is hoped, will be maintained. In the case of mica, the main consideration advanced in favour of state trading is not that the industry is making large profits on sales to foreign buyers, but that the industry is being prevented from charging a higher price on account of internal competition among sellers. The Committee was told by representatives of some of the biggest mica exporting firms that they had been able to raise their rupee prices to American buyers by only 22 per cent. above the pre-devaluation level. It has been argued that but for internal competition, the Indian industry could have easily recovered an increase of 44 per cent. over the pre-devaluation price. It must be remembered, however, that India is by no means a monopolistic seller of mica. Indian block mica has had to face competition from Brazil, and Indian splittings from Madagascar. The fall in demand during the period January to August, 1949 from the United States and the increase

in the demand in November and December 1949 show that the export market for mica is sensitive to price changes. Furthermore, the existence of large war-time stocks in the hands of our principal consumers abroad would place severe limitations on our ability to manipulate world prices to our advantage. Besides, mica is a commodity extremely difficult to standardise. Although the Indian Standards Institution is trying to introduce certain standards, there is as yet no certainty that these standards will be acceptable to buyers abroad. During the war, mica was purchased by the Joint Mica Mission, a centralised buying agency. The Mission had its own inspectors in India; yet when the consignments reached the other end, they were sometimes differently assessed there. This was not because of any lack of integrity on the part of the inspectors assessing the quality in India, but was simply due to the fact that there were no objective tests to assess the quality of mica. The tests are all subjective. It has been argued that we should have state trading in mica, because private trade does not have sufficient bargaining power. The Committee understands, however, that the real weakness of the trade arises from disputes over qualities, and in this matter state trading would not only not help, but may prove actually a hindrance, because state trading would mean one more sale and purchase, and with inexact methods of assessing quality, differences of opinion would be even more frequent. If consignments shipped by the State were rejected by buyers, the business reputation of the country as a whole would suffer. As the tests are mainly subjective, this danger is a very real one. Here also the feasibility of state trading depends on the ability of the State to develop the necessary organization. Since it will take some time to develop such organization, the Committee considers that state trading will not be practicable at this stage.

87. *Manganese.*—In the case of manganese, the main consideration which has been urged in favour of state trading is the desirability of India being able to obtain a higher price for this ore. The Committee was told by several witnesses that there is some sort of an international cartel trying to keep down the prices of manganese and this can be fought successfully only under a system of state trading. No evidence was, however, adduced before the Committee in support of the allegation that the buyers of manganese were trying to keep down prices through cartellisation. The representative of one of the most important manganese exporting firms told the Committee that it had no financial or

other interest at all in the firms which were the chief buyers of manganese in the United Kingdom or the United States. Besides, it would not normally pay an exporting firm in India to build up a balance in the United Kingdom by under-invoicing the exports, because it would have to pay a higher tax on any income shown by the associated organization. The Committee feels, therefore, that the possibility of India being able to get higher prices for manganese ore by going in for a system of state trading has been exaggerated. On the other hand, the interposition of a state trading agency between the present producers of manganese ore and the buyers abroad may create impediments in the way of the trade. The export demand for manganese depends on such factors as the content of manganese, phosphorous, iron ore, etc. In order to ensure supplies of particular qualities or grades of ore the centralised agency would have to depend purely on its own inspectors, and such dependence would be attended by certain risks. The Committee does not wish to suggest that these difficulties are insuperable but thinks that state trading in this commodity, even if justified on other grounds, should not be undertaken until a suitable organization has been developed. As in the case of jute manufactures, the proposed Corporation should examine this question after it has gained some experience in the handling of other commodities. Shellac is another equally important export commodity and as considerations similar to those present in the case of manganese apply also to shellac, the Committee recommends that the question of state trading in this commodity should also be taken up by the Corporation in due course.

88. *Coal.*— In the case of coal, the Government of India have already introduced a form of state trading. This was rendered necessary mainly by Pakistan's decision not to devalue her currency. In the interest of maintaining our export earnings in terms of the Pakistan rupee at the same level as before the devaluation of the Indian rupee, it was found necessary to charge Pakistan a higher price in terms of the devalued Indian rupee. It was found that it would not be possible to charge a higher price to other countries which had devalued their currency to the same extent as India, for example, Australia. The Committee understands that the procedure in this case has been greatly simplified owing to the fact that the existing shippers have been appointed as agents of Government. In the case of a commodity like coal, it is possible to charge differential prices, because the transport charges make up a large proportion of the final price to the consumer. It would not pay an importer

who gets the supply at a cheap price to transport it back to the market to which a higher price is charged. The Committee therefore, recommends that state trading should be continued and should be entrusted to the proposed State Trading Corporation.

89. *Sugar.*—During the war, when sugar was subject to control, some small quantities were exported to countries like Afghanistan on a state trading basis. The mechanism was simple. The mills were ordered to issue sugar to exporters who acted as agents of Government and they distributed it in accordance with the orders of the Sugar Controller. Our main difficulties in the way of exporting sugar at the moment are two, namely, (a) the difficult supply position, (b) high prices. The Committee agrees with the view expressed by the Export Promotion Committee that it would be impossible for this country to export sugar until reasonable prices and an exportable surplus are assured. If the internal prices cannot be brought down in the near future to the level of international prices, and if we have an export surplus, it may be necessary to export small quantities at subsidised prices. In that event, the Committee would suggest the introduction of a system of state trading in sugar. It would be comparatively easy to do this, because the standard grades of sugar are well known to the Government's sugar control organization. However, the question of undertaking state trading in sugar will not arise until internal production increases sufficiently to leave a surplus.

90. *Short-staple Cotton.*—Before the war, India figured as a large producer and exporter of short-staple cotton. In the 1938-39 season (September-August), according to the estimates published by the Indian Central Cotton Committee, production of short-staple cotton in undivided India amounted to 32 lakh bales (of 400 lbs. each) and exports to 23.5 lakh bales. During the war, production of short-staple cotton suffered a heavy decline, owing to the diversion of acreage to foodgrains and long-staple cotton, and Partition further reduced India's resources of this commodity. Production of short-staple cotton in the Indian Union in 1947-48, the first post-Partition season, was estimated by the Indian Central Cotton Committee at 10.3 lakh bales, and the official estimate was much lower. The official estimate of production in 1948-49 was only 6.54 lakh bales. The estimate of the Indian Central Cotton Committee for 1948-49 is not yet available. Of the short-staple varieties grown in India, Bengal Deshi, Mattia, Assam and Comilla, are not consumed in Indian

mills to any appreciable extent and a quantity of approximately 2 lakh bales of these varieties is estimated to be available for export. Actual exports during the 1948-49 season amounted to 3.02 lakh bales and these were sent to the United Kingdom, United States, Australia, Switzerland, Belgium, Western Germany and other countries. In March 1949, in view of the acute shortage of cotton in the country, Government decided to allow exports to hard currency destinations only.

91. For the current season (1949-50), Government have fixed an export quota of 2 lakh bales consisting of the four varieties already mentioned. At the beginning of the season, it was thought that the demand for Indian short-staple cotton would not be appreciable, since prices were rather high. After devaluation, however, Indian cotton became comparatively cheap for foreign buyers and despite a further rise in prices, there was a brisk demand from all overseas markets. The demand was so strong that some of the soft currency countries in Europe were reported to have purchased Indian cotton through Belgium. In November 1949, therefore, Government increased the export duty on cotton from Rs. 40 to Rs. 100 per bale. The increase in the export duty has had no adverse effect on exports. In fact, the export target was realised too early in the season. In February 1950, it was announced that the target for hard currency areas (including Japan) had been exceeded.

92. This favourable position of Indian short-staple cotton is likely to continue for some time. Long-staple cotton is no substitute for some of the purposes for which short-staple cotton is used in foreign countries. India is also the leading supplier to the world market. The only other exporting country of any importance is Pakistan. Production in that country is normally about 2.7 lakh bales. Short-staple cotton is a dollar-earning commodity and is also suitable for bulk-handling. Since there is at present a world shortage of this commodity and internal prices are under control, world prices are likely to show a substantial premium over internal prices. The increase in the export duty absorbs this premium to some extent, but the Committee thinks that Government would be able to take a fuller advantage of the world market situation if they were to resort to state trading. The Committee does not think that in the present world situation, state trading in short-staple cotton need involve any great risk. The Committee is, therefore, strongly of the opinion that Government should take over the export trade in short-staple cotton.

93. *Cottage Industry Products.*—The question of state trading has so far been considered from the standards applicable to normal commercial transactions. In one special field, however, namely, that represented by the products of Indian cottage industries, such standards need to be relaxed and state trading operations undertaken, even if they entail some initial loss to Government. The export trade in the products of cottage industries is at present subject to innumerable handicaps and has consequently failed to attract private enterprise to a sufficient extent. The products of these industries do not admit of any standardisation; production is carried on in numerous small establishments scattered all over the country; producers are ignorant, illiterate, and not accustomed to the marketing methods followed in the established export trades; the types of products suitable for export are only a few and have to be selected out of a large volume of miscellaneous production; no machinery exists at present for selecting such products or for ensuring that export orders will be executed according to the specifications or the patterns supplied. The products of some of the cottage industries are in great demand in other countries, particularly the dollar countries, but importers in those countries have found it difficult to take up this line because of these difficulties. The Committee thinks that by developing the export trade in these products, India can earn valuable dollar exchange, and can also promote production and employment in an important sector of her economy. It is only by developing cottage and small-scale industries that immediate results can be obtained by way of finding employment for the surplus labour in agriculture. The development of large-scale industries is bound to be a slow process and the employment opportunities resulting therefrom will probably remain small for many years in relation to the magnitude of the unemployment problem to be solved.

94. All-India Cottage Industries Board is already engaged in the task of promoting the development of these industries in various ways, but the Committee thinks that the Board's efforts in this direction would be greatly helped if a specialised organization like the State Trading Corporation recommended later in the Report were to undertake the export trade in the products of these industries. The State Trading Corporation will have to establish working arrangements with the provincial Directors of Industries and the co-operative societies of producers. Since the object of the Corporation is mainly to do pioneering work, it need not be given a monopoly of trading in this field. In fact, the Corporation should aim at curtailing its activities, as private

enterprise begins to come into this field. The Committee is convinced that in view of the special difficulties affecting the export trade in the products of cottage industries, no substantial progress could be achieved in developing this trade, if it were left entirely to private enterprise. The Committee, therefore, considers that a special justification exists for undertaking state trading in this field and believes that any financial loss that may be incurred in the beginning will be more than compensated by an expansion of trade in the long run.

95. The All-India Cottage Industries Board, at its second annual session held at Jaipur in February 1950, has passed a resolution recommending the establishment of a Commercial Corporation jointly by the Central and the State Governments, with the participation of private capital, if possible, and without such participation, if necessary. The resolution adds "Such a Corporation should handle the export of cottage industry products in accordance with commercial methods and should utilise, wherever possible, existing Government and co-operative organizations in this country and established traders abroad, as its agents. The Board are of the opinion that such a Corporation should be set up with a minimum of Rs.50 lakhs as its initial capital". This Committee is gratified to note that the views of the All-India Cottage Industries Board coincide so closely with the conclusion which the Committee had already reached on the subject. The Committee does not think, however, that it is necessary to create a separate Corporation for the purpose of handling the export trade in cottage industry products only. In fact, there are certain positive advantages in assigning this function to a Corporation created for the purpose of state trading in other commodities. The cumulative experience gained by such Corporation in handling other commodities will thereby be available for carrying on state trading in cottage industry products. Secondly, the overhead costs would be less, if the same Corporation were to carry on trading in several lines, than if a separate Corporation were created for trading in each. Thirdly, since the export trade in cottage industry products is yet to be developed, it would be difficult to raise private capital for a Corporation created solely for that purpose. For these reasons, the Committee is strongly of the opinion that state trading in cottage industry products should be entrusted to the Corporation recommended by this Committee and not to a separate corporation. Subject to the recommendations made later in regard to the composition of the Executive Board, the Committee sees no objection to a part of the

share capital earmarked for open market issue being subscribed by the State Governments.

96. *Other Articles of Import or Export.*—During the course of the Committee's investigations, suggestions for state trading were made by various witnesses with regard to a number of articles of import and export, besides those discussed above (e.g., heavy chemicals, wattle bark, arecanuts, cocoanuts, casings, etc., etc.). In the case of arecanuts and cocoanuts, in particular, definite proposals were submitted to the Committee for the immediate institution of state trading. The Committee, however, is not in a position to make recommendations about these articles on the basis of the data before it. Apart from the consideration that the general principles laid down in the Report should facilitate examination of individual cases, the Committee has recommended later in the Report that one of the functions of the proposed State Trading Corporation should be to advise Government as to whether the extension of state trading to any commodity is necessary in the national interest.

CHAPTER V

GENERAL CONSIDERATIONS AFFECTING STATE TRADING

97. From what has been said above, it should be obvious that the Committee is not in favour of any wholesale nationalisation of foreign trade, but would like state trading to be adopted for a few selected sectors only. The Committee believes that if a state trading corporation were brought into existence, it would constitute an additional weapon in the armoury of the State to give effect to its economic policies in matters other than trade, even if its functions were otherwise extremely limited. For example, the corporation could be directed to use, as far as possible, national banking, shipping and insurance services, in order to encourage the development of such services in the country. The Committee examined a number of representatives of Indian banking, shipping and insurance interests, and independently of their views on the broader issue of state trading itself, they were unanimously of the opinion that there was no single measure likely to be more effective in encouraging the development of these services in India than the adoption of a definite policy by the State to extend its patronage to national enterprises engaged in the provision of these services. It is the right and duty of every Government to encourage the development of its own services, and the adoption of such policy could hardly be regarded as an

act of discrimination against any other country. It was represented to the Committee that at present Indian banking, shipping and insurance companies did not receive their due share of the business connected with Government's own import and export transactions. Such transactions have considerably increased in volume in recent years. The Committee is strongly of the opinion that the question of utilising the services of Indian banking, shipping and insurance companies to the maximum possible extent in connection with all Government transactions should be given urgent consideration. State monopolies or private monopolies sponsored by the State have played an important role in the development of such services in other countries. In Japan, for example, the Zaibatsus were closely connected with the Japanese banking and shipping companies, and such companies could flourish in Japan as well as in foreign countries mainly because of the support and patronage they received from the Zaibatsus.

98. As has been stated earlier, the lack of grading and standardisation is one of the principal difficulties in the way of promoting our export trade and realising the highest possible price for our exports. Many of our export commodities suffer from this defect, but this has to be remedied by measures other than state trading. Much useful work has already been done under the Agricultural Produce (Grading and Marking) Act, and in the industrial field, the work of the Indian Standards Institution, supplemented by some effective enforcement scheme (*e.g.*, the certification scheme prepared by the Ministry of Industry and Supply) may be expected to yield satisfactory results. However, there is no doubt that the institution of state trading in any commodity, if justified on other grounds, will have the incidental advantage of securing a more effective enforcement of grading and standardisation in that commodity. What is more important is that a state trading corporation can thus set an example to private traders in other lines and thereby stimulate progress. The same can happen in other matters, besides grading and standardisation. If the state trading corporation develops as a model enterprise, adopting modern methods of business administration, publicity, market research, etc., at least the more progressive traders may be induced to emulate its example.

99. In recommending a cautious and selective application of the principle of state trading, the Committee has been guided by certain

broader considerations to which it wishes to draw attention. The creation of a state trading corporation involves the severance of connections between domestic and foreign traders - connections which have been developed over a long period of time and which, once destroyed, cannot be quickly or easily restored. The Committee would, therefore, like to avoid interference with the normal channels of trade, unless the disadvantages resulting therefrom are clearly outweighed by the benefits expected from state trading. Further, state trading involves a centralisation of trade in the hands of a single organization, and regard must be had to the possible effects of such centralisation on the existing pattern of distribution. In the case of many commodities, there is a pattern of distribution which has been evolved over a period of years. Tastes and habits vary from one area to another, and different types and qualities are needed to satisfy the demand in different consuming areas. Individual importers are often accustomed to drawing supplies from particular exporters or producers and prefer to handle the particular types, qualities or brands which they have known for many years. If the goods of a country enjoy a special popularity in any market, it is often due to the fact that certain brands of those goods have acquired a reputation with consumers in that market, and if such brands are diverted to another market, which may have a casual interest in them, trade is likely to suffer. Most established firms are anxious, in the permanent interest of their business, to avoid any unnecessary disturbance in the normal pattern of distribution, for example, when any type or quality is in short supply, they give first priority to their usual customers for that type or quality. If the entire foreign trade is centralised in the hands of a state trading organization, such organization will have to make elaborate arrangements to ensure that the existing pattern of distribution is not disturbed without good reason. For this purpose, it will either have to enlist the co-operation of every important importing or exporting firm in its day-to-day operations, or have to recruit a large staff of persons who are conversant with the peculiarities of trading in each individual type or quality. It is for this reason that the Committee has not recommended the immediate adoption of state trading in any commodity of which there are numerous qualities and varieties. Further, firms engaged in foreign trade often have long-standing arrangements with domestic as well as foreign firms for selection, blending, grading, storage, finance and a variety of other matters concerning trade, and these vary from one branch of trade to another and from one firm to another. Any departure from such arrangements affects the convenience of trading. For example, in the case of tea,

the work of blending, tasting and preparing tea for auctions, which is a skilled job, is at present done mainly by four Calcutta firms for the bulk of the output of North Indian plantations, and the trade is likely to suffer by any sudden interference with the existing arrangements. The Committee, therefore, considers it highly important that in selecting any article for state trading and in conducting state trading operations in any article, regard should be had to the difficulties likely to arise from any significant departure from the normal pattern of distribution or established business practices.

100. The question has been raised whether state trading could not be resorted to only for a few selected destinations or sources of supply. It should be remembered in this connection that under the General Agreement on Tariffs and Trade and other international agreements, India is under an obligation to accord most-favoured-nation treatment to various countries. The adoption of state trading with respect to the import or the export trade with a few countries only will conflict with this obligation, if the countries affected are those to which we are bound to accord most-favoured-nation treatment.

101. The Committee does not think that the war-time experience of state trading affords any guidance in considering the desirability of state trading under present conditions. During the war, centralised buying was resorted to in respect of many commodities which are not suitable for such treatment in times of peace. Oilseeds, mica, shellac and tea on the export side and wool, tin, rubber and steel on the import side were the principal examples. Some of these war-time measures were kept in force for a considerable period after the war ended, but all of them have now been withdrawn. The measures were undertaken largely for the purpose of assisting the war-effort and their utility was judged solely by that standard. In many cases, centralised buying was carried out by the purchasing missions or agents of the importing countries, with the result that Government incurred no financial liability at all. Where Government imported certain scarce materials on their own account, the internal distribution of such materials was also controlled by them. Since the whole object of state trading during the war period was different from what it is intended to serve under present conditions, the Committee has not considered it necessary to discuss the war-time measures of state trading in this Report.

102. The question of state trading should not be confused with the wider question of nationalisation of industry. The Committee is well aware of the announcements made by Government from time to time on the subject of nationalisation of industry and is satisfied that its recommendations in this Report do not in any way conflict with Government's policy on that subject. In view of the Committee's recommendation that the activities of the proposed State Trading Corporation should be limited to a few selected commodities, there will remain a large area in which private enterprise will continue to function. The Committee thinks that a limited measure of this kind, which is confined to the sphere of trade only, need not create any misgivings in the minds of businessmen, whether in this country or abroad about Government's policy in regard to nationalisation of industry. As already pointed out, even in countries like the United States and Canada, a limited measure of state trading has not been found incompatible with economic policies otherwise designed to foster private enterprise.

103. Finally, the Committee wishes to draw attention to an important measure of reform which, though relating to internal trade, has a vital bearing on the problem of state participation in foreign trade. The Committee considers that a progressive reorganization of internal trade on a co-operative basis may obviate the necessity of extending the scope of the State Trading Corporation. Co-operation offers a form of control which, while securing all the benefits of state trading, preserves also the advantages of private enterprise. The vast majority of agricultural producers in the country are usually at the mercy of traders. Ignorance and lack of resources compel them at harvest time to part with the products of their toil at relatively low prices, and any rise in prices occurring subsequently during the season goes only to the middlemen. Evidence has been furnished to the Committee regarding the large profits made by oil-seeds traders during the last season, of which hardly a fraction could have gone to the actual tillers of the soil. In the field of consumption, a large part of the final price to the consumer is represented by the profits exacted at each stage by the long chain of middlemen through whose hands goods have to pass, from the stage of production or importation to the stage of retail distribution. Co-operation is by no means a novel idea in India, and the Committee is well aware of the numerous difficulties which are hampering the progress of co-operative movement in this country. The Committee feels, however, that co-operation offers an effective solution for many of our problems in the sphere of internal and foreign trade.

and that the difficulties, therefore, must be faced and overcome with determination. The Committee recommends that wherever producers have organized themselves into co-operative societies, whether for internal distribution or for foreign trade, they should be given all possible assistance and encouragement by Government and measures should be taken to promote the establishment of more such organizations in the country. A similar policy should be adopted with regard to consumers' co-operatives also. The proposed State Trading Corporation can play an important part in assisting the development of co-operative institutions. In the case of cottage industry products, as well as of other exportable commodities, the Corporation can make direct arrangements with co-operative societies of producers to obtain exportable supplies. It can similarly use co-operative societies of consumers to regulate the distribution of imported commodities. The Committee visualises that this can best be done by setting up a network of co-operative consumers' stores with an apex store in each State directly linked up with the State Trading Corporation. Care must be taken to see, however, that co-operation is not used by speculators and black-marketeers to effect a back-door entry into the trade. Co-operation falls within the purview of State Governments, but the Central Government can help and promote action by the States in this field by advice, guidance and co-ordination. Within the sphere of the Central Government also, a great deal can be done to encourage co-operative societies, for example, by giving preferential treatment to approved societies in the matter of Government purchases and sales and the grant of import and export licences.

CHAPTER VI

ORGANIZATION OF THE STATE TRADING CORPORATION

104. In the foregoing Chapters of this Report, the Committee has stressed both the merits and the demerits of state trading, and has tried to identify cases in which, on a balance of considerations, the adoption or maintenance of state trading is clearly in the national interest. For the sake of a fair and unbiassed presentation of the case, the Committee has thought it necessary to lay as much emphasis on the dangers and pitfalls of state trading in certain situations as on the advantages accruing therefrom in certain others. In a matter of this kind on which much can be said on both sides, it is easy to adopt a partisan approach and unfortunately much of the evidence tendered to the Committee was vitiated by such approach. The Committee found, however,

that while weighty arguments had been advanced on either side, they did not have the same validity in all cases and that a balance had to be struck in each individual case, after taking into account all the circumstances relating to that case. It should be obvious from the discussion in the preceding Chapters that while state trading is not desirable in a large number of cases, the need for it is clearly established in certain others, *e.g.*, foodgrains, fertilizers, British East African cotton and certain varieties of steel on the import side and coal, short-staple cotton and cottage industry products on the export side. In addition state trading is required to implement barter arrangements and may also be necessary, in certain circumstances, to implement other forms of inter-governmental commodity arrangements. The Committee feels that this is a large enough field to justify the creation of a State Trading Corporation. The Committee is convinced that the existing arrangements for carrying on the commercial activities of Government through administrative departments have not worked satisfactorily and that they need to be *replaced* by a specialised organization as early as possible. Trading is not a function of a Government department and many of the officials who have hitherto been responsible for controlling the commercial activities of Government have in practice had little or no training in business methods. Serious mistakes have been committed in the past and inordinate delays have occurred resulting in loss of business opportunities, and while elaborate explanations have been given to the Committee, the Committee is not satisfied that such mistakes or delays could not have been avoided, if the transactions had been entrusted to a Corporation consisting mainly of persons with business experience. Moreover, although the number of cases in which state trading has been recommended by the Committee is small, the possibility of other similar cases arising in future cannot be ruled out, and in that event the organization and experience of the State Trading Corporation will be useful to Government in examining such cases and taking the necessary action without delay. The creation of a specialised organization of this kind will also make a useful addition to the existing machinery of Government for keeping a constant watch on the position in regard to individual export and import commodities, finding new markets and sources of supply, collecting statistical and other information and taking other measures with a view to expanding the foreign trade of the country. For these reasons, the Committee believes that it is necessary to establish a State Trading Corporation as early as practicable.

105. If a State Trading Corporation is to function as a truly commercial enterprise, it must enjoy the necessary flexibility of operation and must be able to take risks, when needed. For this purpose, it is necessary that the Corporation should be an autonomous body, free from both ministerial and parliamentary control, so far as its day-to-day working is concerned. The broad policy within which the Corporation is to work should, of course, be laid down by Government, and this policy, as well as the results of the Corporation's working over a period, should be subject to discussion in Parliament. But the Corporation should have full autonomy in regard to its day-to-day administration. The Executive Board of the Corporation should, with the exception of Government representatives, be composed of practical businessmen with considerable standing and reputation in the commercial world and possessing a wide outlook in commercial and economic affairs. The Executive Board should not be representative of any sectional interests.

106. The Corporation should also be free to adopt rules of procedure and methods which are appropriate to a business enterprise, and should not be obliged to adopt the financial rules and procedure normally applicable to a Government department. The executive officers of the Corporation should be given the same measure of discretion as is allowed to similar officers in a commercial concern. The rates of remuneration of such officers should be fixed on the basis of what officers of similar qualifications and experience are paid in first class commercial concerns, and if, in order to develop the necessary team spirit, the Corporation thinks it advisable to adopt a system of bonuses, similar to the systems obtaining in commercial concerns, it should be free to do so. The Corporation should also be free to evolve its own methods and procedures for recruitment, promotion and termination of services.

107. Much of the opposition to state trading arises from the fear that it will cause large-scale unemployment among traders at present engaged in the export and import business. This fear is greatly exaggerated. The Committee would like the proposed Corporation to utilise existing agencies to the fullest possible extent for all its internal operations, such as procurement, storage, transport, clearance, shipping, etc. The Corporation will, of course, be guided by considerations of economy and may have to eliminate some of the middlemen at present engaged in the trade. As suggested earlier, the Corporation should be directed to

utilise the services of co-operative organizations for its purchases and sales. On the whole, however, the creation of the State Trading Corporation need not result in any appreciable unemployment among established traders.

108. In some of the memoranda received by the Committee, considerable stress was laid on the difficulties likely to arise on account of finance and personnel. So far as finance is concerned, since the State Trading Corporation will operate at the export/import stage only and will, as already stated, utilise existing trade channels for its internal operations, it should not find it necessary to hold large stocks. Moreover, the Corporation, by virtue of its statutory status and the nature of its operations, will enjoy better credit than any individual commercial concern normally does and should, therefore, have no difficulty in raising the necessary finance. The Corporation will be engaged only in trading activities and will need only short-term credit. The Committee sees no reason why the Corporation should not be able to tap the very sources from which private traders are at present obtaining the finance needed by them.

109. As regards personnel, it is possible that the Corporation may experience some difficulty in securing its requirements in the beginning, but the difficulty need not be insuperable. The shortage of trained personnel is a factor which affects almost every project of development, and yet certain projects are of such vital importance to the economy of the country that it would not be reasonable to abandon them merely because of the difficulty of securing the necessary personnel. We have to make a beginning with such personnel as is available. In paragraph 106 above, the Committee has recommended that the Corporation should be free to offer salaries which will attract the right type of talent. Moreover, since the Corporation will utilise existing agencies for its internal operations, its personnel requirements will be much smaller than would otherwise have been the case. In any event, the personnel problem will have to be tackled on a long-term basis. With the expansion of governmental activities in the field of development, Government's requirements of specialised personnel of various kinds will continue to grow, and long-term plans will have to be evolved sooner or later for the recruitment and training of such personnel. The Committee is of the opinion that early steps should be taken towards the organization of a well-trained economic and commercial service on a permanent basis. In course of time, the proposed State Trading Corporation will itself provide opportunities for the training of such personnel.

110. The proposed State Trading Corporation should be established by statute and may be called "The Indian Commercial Corporation". As regards the amount of capital, the Committee considers that an authorised capital of Rs. 10 crores, and an initial issue of Rs. 2 crores may be sufficient, but the Committee would prefer to leave this question to be settled after detailed examination by Government. Not less than 51 per cent. of the capital should be held by the Central Government and the balance offered to State Governments and private investors. The fact that a part of the share capital is held by private investors will be of help in maintaining the commercial character of the Corporation. The Corporation will, of course, have to work within the broad policy laid down by the Central Government and will have to undertake activities like the promotion of the export trade in cottage industry products, which, though comparatively unremunerative, are essential in the larger interests of the country. It is suggested, therefore, that the Central Government should guarantee the security of, and a minimum yield on, the portion of capital held by private shareholders. If the actual earnings exceed a specified yield, a specified proportion of the excess should be made payable to the Central Government, in addition to the dividend due to it in its capacity as a shareholder. The Corporation should be subject to taxation like any other commercial concern.

111. The Corporation will have to find most of its working capital out of short-term loans from banks. The amount of working capital needed by it will depend upon the scale of its operations. The question arises whether the short-term borrowings of the Corporation should be guaranteed by Government. The Committee does not think that this should be necessary, since most of the short-term borrowings of the Corporation will be against the security of the goods handled by it, as is the normal commercial practice. If the short-term borrowings are not guaranteed by Government, it will not be necessary to place a statutory limit on such borrowings.

112. The first Executive Board of the Corporation should be nominated by Government and composed of practical businessmen selected with due regard to their competence and standing, and a limited number of Government representatives. The members of the Board should hold office for overlapping terms, the initial period of office being fixed by Government. Vacancies, as and when they arise, should be filled by election by shareholders. Retiring members should be eligible for re-election.

113. The day-to-day working of the Corporation should be in the hands of a Managing Director who should be a whole-time officer acting under the orders of the Executive Board. The entire staff of the Corporation should be employed on a whole time basis. The other principles to be observed in regard to current administration have already been indicated above.

Functions of the Corporation

114. The Corporation should, in the first instance, take over all the import and export operations of a commercial nature which are at present handled by the Central Government departments. These relate to food-grains, fertilizers, steel, coal, raw cotton from East Africa and the purchases and sales of commodities for the purpose of implementing barter agreements. The Corporation should also be given the monopoly of the export trade in short-staple cotton. In addition, it should undertake the export trade in the products of cottage industries, but this should not be on a monopolistic basis. The question whether the Corporation should also be entrusted with stores purchase and disposals should be examined separately. It should be one of the functions of the Corporation to advise Government from time to time whether state trading should be extended to or withdrawn from any commodity in the national interest. One of its first tasks should be to examine the desirability of undertaking state trading in certain selected classes of vehicles and any luxury articles which may be suitable for state trading and can be used as a means of augmenting the revenues of the State. The Corporation, however, should not be free to extend its trading activities to any commodity without the prior approval of Government.

115. The Government of India have had occasions to grant credit facilities to certain countries and to supply goods against such credits. A credit of Rs.5 crores was extended to Siam in 1946 and a credit of £ 1 million has recently been granted to Burma. Whenever any such credits are granted, the goods to be delivered against such credits should be procured through the proposed Corporation. This will enable Government to regulate the manner in which the credit is used by the receiving country and to ensure the use of Indian banking, shipping and insurance services in connection with such transactions.

116. Whenever any foreign Government wishes to buy or sell directly in the Indian market, it may be to the mutual advantage of such

Government and of India to come to an arrangement whereby all such purchases and sales are channelled through this Corporation. In such transactions, the Corporation may function either in the capacity of a principal or an agent.

117. The Corporation should also be authorised, upon request by Indian traders, to undertake, on their behalf and at their own risk, negotiations with foreign traders.

118. In addition to the above, the Corporation should perform certain ancillary functions, such as publicity and advertising in foreign countries (especially for products of cottage industries), market research and the rendering of such advice to Government on commercial and financial matters as Government may seek from time to time.

119. The Committee feels that an additional function of the proposed Corporation should be to advise Government as to the appropriate corrective action that may be necessary in emergency situations in which private traders are found to be acting in an anti-social manner and exploiting the shortages of certain commodities to the detriment of the domestic consumer or the long-term interests of the country's foreign trade. With the prior approval of Government, the Corporation may either take over the entire trade in the commodity concerned, or undertake such trading operations and for such period as would neutralise the harmful activities of private traders. The Corporation can thus put an effective check to the activities of vested interests or monopolistic or semi-monopolistic organizations. As stated earlier, the proposed Corporation should not interfere with the normal channels of trade unless the disadvantages resulting from such interference are clearly outweighed by the benefits expected from state trading. State trading, as a measure of control, should be resorted to only when other remedial measures have proved ineffective.

120. The Committee desires to make it clear that throughout its examination of this problem, its approach has been strictly objective. The Committee has been guided entirely by practical considerations and not by any doctrinaire belief in the merits or demerits of state trading. In recommending only such limited measure of state trading as is necessary in the present circumstances, the Committee is mainly influenced by the consideration that ours is a young Republic, which is already faced with a variety of problems in the economic, financial and political spheres and that while it cannot altogether avoid undertaking new commitments in

the national interest, any such commitments must be of a magnitude which can be managed within the available resources of finance and personnel. The Committee should not be deemed to have passed any judgment on the ideological issues which arise in this connection. In every instance in which the Committee has either supported or opposed resort to state trading, it has done so on a consideration of the merits of the case and in the genuine belief that the grounds on which it has based its recommendations will hold good, whether the over-all economic policy is directed towards socialism or the promotion of free enterprise. The Committee takes it for granted that neither *laissez faire* nor a complete elimination of private enterprise is practical politics. Neither of these has a place in the kind of planned economy which India to-day has in view. But opinions may rightly differ as to the extent to which private enterprise should be limited or controlled in such a planned economy. The Committee believes that the problem of state trading has many aspects on which it is possible to reach agreement in spite of any difference of opinion on that wider and more fundamental issue.

121. In conclusion, the Committee wishes to emphasize that it attaches the highest importance to the constitution and functioning of the State Trading Corporation on business principles and with this end in view it has already made recommendations in paragraphs 99 and 104-106. The Committee thinks that unless the Corporation is placed in charge of competent men with strong background of practical business experience and a high level of integrity and unless it is completely free from all trace of red-tapism associated with departmental management, the mere establishment of the Corporation may not, by itself, bring about an improvement in the existing position. It feels convinced that it would not be difficult to find persons of the requisite calibre to conduct the affairs of the Corporation, provided the right choice is made. The Committee hopes that this particular aspect would be kept specially in view when steps are taken to set up the Corporation.

CHAPTER VII

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

122. The Committee's conclusions and recommendations may be summarised as under:-

- (1) The Committee has limited its examination to state trading in the sense of commercial purchases and sales by a state-owned or state-controlled agency. (Para. 9)

- (2) It is recommended that the question of stores purchase and disposals be taken up for separate examination. (Para. 9)
- (3) Barter agreements should be resorted to only in exceptional circumstances, and in all other cases the normal type of agreement should be the one in which the two parties commit themselves only to license specified quantities of goods for export or import. In the case of the latter type of agreements, a state trading corporation may be useful in remedying the failure of private enterprise to take advantage of such agreements, especially where such failure is likely to be injurious to the country's economy. (Para. 18)
- (4) Over a large part of the import trade, the balance of advantage lies in leaving the actual volume of imports to be determined by competitive forces, subject to such limits as the State may wish to impose on imports for exchange or other considerations. (Para. 21)
- (5) There are, however, certain types of cases in which state trading in imports may not be subject to undue commercial risk, though this does not mean that it will necessarily be desirable. (Para. 23)
- (6) It is possible to limit imports of various categories of goods according to their essentiality through a rational system of import control. Violent fluctuations in imports could be prevented by effecting certain procedural improvements in the existing system. A rationalisation of the import control policy and procedure is one of the most urgent problems which deserve Government's attention. (Para. 24)
- (7) State trading in foodgrains should be continued, so long as foodgrains continue to be imported into India. (Para. 26)
- (8) Centralised buying can be used to keep the prices of imported raw jute at a reasonable level. The Indian Jute Mills Association should adopt a system of centralised buying. If, however, there is evidence that centralised buying by the I.J.M.A. is operating to the detriment of the raw jute growers in the country or to the national interest in general, Government should be prepared to replace it by centralised buying under its own auspices. (Paras. 28 and 58)

- (9) In the case of commodities which are not suitable for state trading on the criteria suggested in paragraph 23, centralised buying should not be resorted to, because any possible advantage in regard to price resulting from it is likely to be counterbalanced by the risks involved in state trading itself. (Para. 29)
- (10) If centralised buying is to yield the maximum price advantage, the agency entrusted with it must be able successfully to anticipate world trends. It may be exceedingly difficult for a single agency to perform this function effectively, and it is, therefore, necessary to exercise extreme caution in extending the scope of centralised buying. Where the commodity concerned is of a highly speculative nature, or where the world supply and demand position is in a state of flux, it would be expedient to avoid centralised buying, unless there are good reasons to the contrary. Even when the situation is otherwise favourable, it would be advisable to limit centralised buying to the minimum number of commodities with respect to which the buying agency is able to develop the necessary organization to keep itself informed of the world situation from day to day. Centralised buying is fraught with special risks in a period of falling prices. (Paras. 30-31)
- (11) A state trading corporation can, however, sponsor negotiations on behalf of private importers and exporters with considerable advantage to them and to the country as a whole. In view of the growing trend towards the establishment of monopolies in other countries, traders in this country should be encouraged to resort to collective bargaining. (Para. 33)
- (12) Measures should be taken, as early as possible, to regulate the internal prices and distribution of all commodities imports of which have been cut down below requirements. (Para. 34)
- (13) It is only when the commodity in question is suitable for state trading that the possibility of raising revenues for the State should be considered as an additional justification for resorting to state trading. (Para. 35)
- (14) In the case of certain luxury articles, the prices of which can continue at a high level without serious detriment to the country's economy and which are also suitable for state trading,

state trading should be resorted to for the purpose of raising revenue. One of the first tasks of the proposed State Trading Corporation is to examine the desirability of undertaking state trading in certain selected classes of vehicles. (Para. 35)

- (15) Imports of foodgrains on Government account should, in future, be handled by the State Trading Corporation. (Para. 39)
- (16) State trading in fertilizers should be continued in order to eliminate middlemen's profits and to ensure that fertilizers are made available to the State Governments at reasonable prices so as to enable them to carry out the "Grow More Food" Campaign effectively. (Para. 42)
- (17) So long as state trading in steel continues to be necessary, it should be entrusted to a state trading corporation and not, as hitherto, to a Government department. (Para. 47)
- (18) The desirability of re-introducing state trading in non-ferrous metals should be examined by the proposed State Trading Corporation when it is established. (Para. 49)
- (19) State trading in imported cotton should, for the present, be limited, to British East African cotton only. (Para. 53)
- (20) The types of conditions under which state trading for exports can be undertaken without undue commercial risk, whether or not it is desirable to do so, are indicated (Para. 61)
- (21) The principal remedy for most of the difficulties at present affecting India's export trade lies in the effective implementation of the recommendations of the Export Promotion Committee, particularly, those regarding grading and standardisation and the elimination of the various malpractices prevailing in the export trade. (Para. 62)
- (22) It is extremely doubtful whether state trading would enable India to exercise any appreciable degree of monopolistic control over the world prices of jute manufactures, mica, manganese or tea. (Para. 63)
- (23) Malpractices like under-invoicing of exports of jute manufactures should be dealt with through a stricter enforcement of exchange

- control. A long-term commitment of the kind and magnitude involved in state trading in jute manufactures should not be undertaken merely for the purpose of eliminating such malpractices. (Para. 64)
- (24) A policy of charging discriminatory prices for jute manufactures may result in diverting trade from Calcutta to other centres. (Para. 66)
- (25) Price discrimination is possible in an exceptional case like coal. It should be one of the functions of the State Trading Corporation to advise Government on the desirability of adopting state trading for the purpose of price discrimination in individual cases on a consideration of the merits of each case. (Para. 66)
- (26) Price discrimination in the case of cotton piece-goods is likely to result in a net loss of foreign exchange. (Para. 67)
- (27) Devaluation by itself would not justify resort to state trading on an extensive scale for the purpose of practising price discrimination between the dollar and the non-dollar areas. (Para. 69)
- (28) State trading in coal and short-staple cotton may be used for earning additional revenues for the State. Where a commodity is not suitable for state trading, export duties should be used, but the utmost vigilance should be exercised with a view to reducing or removing the duties as soon as conditions change. (Para. 70)
- (29) Action to regulate forward trading will, in many cases, continue to be necessary even after the State Trading Corporation has been brought into existence. (Para. 72)
- (30) The proposed State Trading Corporation should examine the question of state trading in jute manufactures, manganese and shellac after it has gained some experience in the handling of other commodities. (Paras. 80 and 87)
- (31) The Committee does not recommend state trading in tea and mica at this stage. (Paras. 81-86)
- (32) State trading in coal should be continued and entrusted to the proposed Corporation. (Para. 88)

- (33) The question of state trading in sugar will not arise until internal production increases sufficiently to leave a surplus. (Para. 89)
- (34) State trading in short-staple cotton is not likely to involve any appreciable risk, and should be undertaken. (Para. 92)
- (35) State trading in the products of Indian cottage industries should not be judged by the standards applicable to normal commercial transactions, but should be resorted to even if it entails some loss. It is not necessary to create a separate Corporation for this purpose. (Paras. 94-95)
- (36) The question of utilising national banking, shipping and insurance services to the fullest possible extent in connection with all Government transactions should be given urgent consideration. (Para. 97)
- (37) The institution of state trading in any commodity, if justified on other grounds, will have the incidental advantage of securing a more effective enforcement of grading and standardisation in that commodity. The State Trading Corporation should be developed as a model enterprise, adopting modern methods of business administration, publicity, market research, etc., and thus setting an example to other business enterprises. (Para. 98)
- (38) In selecting any article for state trading and in conducting state trading operations in any article, regard should be had to the difficulties likely to arise from any significant departure from the normal pattern of distribution or established business practices. (Para. 99)
- (39) State trading which is confined to only a few destinations or sources of supply may, in some cases, conflict with our international obligations. (Para. 100)
- (40) Co-operation offers an effective solution to a great many problems in the sphere of internal and foreign trade and should, therefore, be encouraged. Wherever producers have organized themselves into co-operative societies, whether for internal distribution or for foreign trade, they should be given all possible assistance and encouragement by Government, and measures should be taken to

promote the establishment of more such organizations in the country. The Committee visualises that the regulation of the distribution of imported commodities can best be carried out by setting up a net-work of co-operative consumers' stores with an apex store in each State directly linked up with the State Trading Corporation. Preferential treatment should be given to approved societies in the matter of Government purchases and sales and the grant of import and export licences. (Para. 103)

- (41) The number of cases in which state trading has been found to be necessary is large enough to justify the creation of a state trading corporation. The existing arrangements for carrying on the commercial activities of Government through administrative departments have not worked satisfactorily and need to be *replaced* by a specialised organization as early as possible. (Para. 104)
- (42) A state trading corporation to be called "The Indian Commercial Corporation" should be established by statute. The amount of authorised capital and the initial issue may be settled after detailed examination by Government. Not less than fifty-one per cent. of the capital should be held by the Central Government, and the balance offered to State Governments and private investors. The Central Government should guarantee the security of, and a minimum yield on, the portion of capital held by private shareholders. If the actual earnings exceed a specified yield, a specified portion of the excess should be made payable to the Central Government in addition to the dividend due to it in its capacity as a shareholder. The Corporation should be subject to taxation, like any other commercial concern. (Para. 110)
- (43) No statutory limit need be placed on the borrowing capacity of the Corporation. (Para. 111)
- (44) The Corporation should be free from ministerial and parliamentary control, so far as its day-to-day working is concerned. (Para. 105)
- (45) The first Executive Board of the Corporation should be nominated by Government and composed of practical businessmen selected with due regard to their competence and standing. (Para. 112)

- (46) The Corporation should be free to adopt methods and rules of procedure appropriate to a business enterprise and should not be obliged to adopt the financial rules and procedure normally applicable to a Government department. (Para. 106)
- (47) The Corporation should utilise existing agencies including co-operative organizations to the fullest possible extent for all its internal operations. (Para. 107)
- (48) Early steps should be taken towards the organization of a well-trained economic and commercial service on a permanent basis. (Para. 109)
- (49) The entire staff of the Corporation should be employed on a whole-time basis. (Para. 113)
- (50) The functions of the Corporation should be as indicated in paragraphs 114-119.
- (51) The Committee in conclusion has emphasized that the constitution and functioning of the Corporation should be on business principles, free from all trace of red-tapism. Greatest importance is attached by the Committee to the right choice of persons for conducting the affairs of the Corporation.

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" D.K. Malhotra.

Deputy Secretary.

New Delhi,
3rd August, 1950.

APPENDIX I

NOTES ON STATE TRADING ORGANIZATIONS IN OTHER COUNTRIES

1. UNITED KINGDOM

Most of the state trading schemes adopted in the United Kingdom were necessitated by the exigencies of the war and post-war situation. Of these, the United Kingdom Commercial Corporation which functioned from 1940 to 1946 and the Raw Cotton Commission which succeeded the war-time Cotton Control and is still functioning, have attracted the widest attention, and a brief description of the organization and working of these two bodies is given below. Besides raw cotton, a number of other imported commodities, mostly foodstuff and raw materials, are subject to state trading. Most of the bulk purchases made by the United Kingdom are handled by Government departments. The U. K. Ministry of Food buys in bulk foodstuffs, tea, coffee, sugar and numerous other food articles, and is probably one of the biggest trading organizations in the world. The Ministry of Supply is responsible for the bulk buying of metals and ores and the Raw Materials Department of the Board of Trade handles trade in a large number of raw materials, chemicals and other commodities. It is understood that as much as 50 per cent. of the total imports into the United Kingdom are now handled by Government agencies.

The United Kingdom Commercial Corporation.- The United Kingdom Commercial Corporation was established in 1940 with the object of carrying on general trading business of all kinds in any part of the world as buyers, sellers, importers, exporters or dealers. The Corporation, to start with, aimed primarily at pre-empting quantities of certain materials essential for war effort, in Turkey and the Balkans, in order to keep such materials out of the hands of the enemy. It soon became apparent that there were many commercial transactions which, during the time of war, could only be conducted by a Government sponsored business organization. The Corporation's sphere of activity was, therefore, extended to

many other countries. The U.K.C.C. remained active in Spain and Portugal, and particularly in the Middle East. The Corporation was used as the medium for all British non-military supplies to Russia, whether by the Northern route or by the Persian route. With the expansion of its activities, the Corporation established separate subsidiaries in various areas and countries.

The Corporation did not aim at supplanting trade channels. One of its functions was "to assist or procure or participate in procuring assistance for any company or person in the prosecution of all manner of trading, commercial, industrial, financial or other operations in any part of the world". The Corporation held a monopoly of supplying wheat, sugar, and fertilizers to the Government. Other essential goods were left mostly to private enterprise. As far as possible, the U.K.C.C. made use of the existing trade channels.

The initial capital of the Corporation was £500,000 wholly subscribed by the Treasury. The capital was raised to £5 million in February, 1942. In all, the Treasury put many millions of pounds into the work of the Corporation and its subsidiaries. The Corporation though state-owned, worked as an independent legal entity, subject only to general consultation with the Government on broad lines of policy. The personnel of the Board of Directors, with the solitary exception of Sir Frank Nixon, Comptroller-General of the Export Credit Guarantee Department, was drawn from the business community. As regards employees, the U.K.C.C. was staffed mostly from men previously engaged in commerce, industry or finance. The Corporation was given wide powers of operation. In 1943, the books of the company were made accessible to the Comptroller and Auditor General and Parliamentary Control over the Corporation was thus increased. The Corporation was wound up in 1946.

The U.K. Raw Cotton Commission.- The Commission was set up with effect from the 1st January, 1948, by virtue of the provisions of the Cotton (Centralised Buying) Act, 1947, and took over the functions (previously administered by the U.K. Cotton Control) of centralised buying, selling and distributing raw cotton in the United Kingdom. The Commission has also been assigned a subsidiary function of research in connection with raw cotton and its manufacture. In buying and importing raw cotton, the Commission is primarily concerned with the requirements of manufacturers.

The Commission has the monopoly to import raw cotton and no other person is allowed to import raw cotton except under a licence granted by the Board of Trade, or for the purpose of re-export or for use as a sample. The Board of Trade consults the Commission before granting an import licence. As a rule, the Commission resells the cotton purchased by it to the domestic spinners at the lowest possible price consistently with its obligation to balance its revenue account on an average of good and bad years.

The Commission has a branch office in Egypt which operates in the open market and effects purchases of Egyptian cotton. A similar arrangement first existed in Brazil also; but the Commission now purchases Brazilian and Peruvian cotton through the shippers' agents in the United Kingdom. The American types of cotton (including the India and Pakistan varieties) are purchased through the merchants at Liverpool and Manchester. Purchases in the African Colonies, including Nigeria and Sudan, are made through agreements between the Governments of the countries concerned and the Commission. So far, no regular arrangements have been made for sending out purchase missions.

The Commission is an autonomous body operating purely on commercial principles. The Act provides that the Commission should consist of a full-time Chairman and one or two full-time independent members chosen for their position in industry or commerce or for special knowledge of the cotton industry, and not more than ten part-time members. Of part-time members, not less than two are selected for their special knowledge of the interests of the operatives employed in the cotton industry, two are appointed for their administrative and general business ability and the rest for their special knowledge of cotton trading or manufacture. All members are appointed by the Board of Trade and are paid as the Board determines with the approval of the Treasury. The Board of Trade have powers to issue directions but in actual practice the Commission is allowed full freedom of operation, Government control being exercised only to the extent necessary to provide the foreign exchange, particularly in respect of hard currencies required for the Commission's purchasing programme. The Commission submits to the Board an annual report on its activities.

As regards capital the Board of Trade transferred to the Commission its stocks of raw cotton and its rights and liabilities under all outstanding contracts under the Cotton Control. And the net value of all these

amounting to £56,982,022 was treated as an initial advance by the Board to the Commission. Periodical advances are also made to the Commission.

2. UNITED STATES OF AMERICA

The Reconstruction Finance Corporation and the Commodity Credit Corporation are two important state trading agencies of the United States Government. Of these, the Reconstruction Finance Corporation which was established in 1932, is concerned largely with lending operations and trading forms only a minor part of its activities. Certain non-lending functions were given to the Corporation during the war period, but most of these terminated after the war and the extension of credit facilities to agriculture, commerce and industry still remains its major function. The non-lending operations of the Corporation are confined at present to the production and procurement of tin and the production and sale of synthetic rubber.

The Commodity Credit Corporation.- The Commodity Credit Corporation was first organized on October 17, 1933, under the laws of the State of Delaware, as an agency of the United States. From October 17, 1933 to July 1, 1939, the Corporation was managed and operated in close affiliation with the Reconstruction Finance Corporation. On July 1, 1939, the Corporation was transferred to and made a part of the United States Department of Agriculture. The Corporation continued to function under the Charter issued by the State of Delaware until July 1, 1948 when it was re-established under a permanent Federal Charter.

The primary function of the Corporation is to carry out, under federal legislation, price-support operations in respect of agricultural commodities. To be able to perform this function successfully, the Corporation has been authorised *inter alia*, to make purchases, advance loans, grant facilities for production and marketing of agricultural commodities, remove or dispose of, or aid in the removal or disposal of, surplus commodities and to develop internal as well as foreign markets in agricultural commodities. The Corporation, moreover, supplies agricultural commodities to meet the requirements of the United States Government agencies, principally those administering foreign relief programmes, foreign Governments and relief agencies. In all its operations, excepting sales to other Government agencies, the Corporation is required by law to utilise, to the maximum extent possible, the usual and customary channels, facilities and arrangements of trade and commerce.

The Corporation has a capital of \$100,000,000 subscribed by the United States Government. It is required to pay interest to the Treasury on capital stock and on the amount of its obligations purchased by the Secretary of the Treasury. The management of the Corporation is vested in a five-member Board of Directors, one member of which must be the Secretary of Agriculture or his nominee. The other four members are appointed by the President, by and with the advice and consent of the Senate. Not more than three members may be employees of the Corporation or any department or agency of the Federal Government. The Chairman of the Board is selected by the Board.

3. CANADA

Canada has two important state trading organizations, namely, the Canadian Commercial Corporation and the Commodity Prices Stabilisation Corporation. A brief account of both these Corporations is given below.

The Canadian Commercial Corporation.- The Canadian Commercial Corporation in Canada was established by an Act of Parliament on May 1, 1946. The functions of the Corporation are: (a) to act as a procurement agency in Canada for foreign governments and governmental agencies, (b) to assist Canadian importers or exporters in matters of procurement of goods from outside Canada or disposal of goods available for export, and (c) to conduct all procurement for the Department of National Defence.

In regard to the first function, it may be stated that in the case of most of the governments for which the Corporation has acted as a procurement agent, the funds placed at the disposal of the Corporation were made available under agreements with the Government of Canada, specifying that such funds were to be utilised for the purchase of only Canadian goods and services.

As regards the second function of assisting Canadian importers and exporters, the Corporation is authorised to intervene only upon request by the traders and to operate at their risk and responsibility. The Corporation's function, in fact, is to be prepared to assist those importers and exporters in Canada, as well as those foreign governments and governmental agencies who, for one reason or another, find it necessary that the transactions should be handled, in whole or in part, through

a government agency. Where the Corporation may have to act as the principal in making purchases from abroad, it does not enter into such commitments until corresponding sales to Canadian importers have been arranged. Even for purchases made for the use of the Department of National Defence, the Corporation does not make payments to the suppliers; and the accounts are rendered directly to the Department concerned. Recently there has been a substantial tapering off of foreign government purchasing operations in Canada. There has, however, been a corresponding increase in the purchasing activities of the Corporation on behalf of the Department of National Defence. Moreover, the facilities established by the Corporation for purchasing, shipping and accounting on behalf of foreign governments and agencies are being utilised by certain Canadian government departments. The Corporation has thus been acting on behalf of the Departments of External Affairs and Trade and Commerce, principally in connection with Canada's programme of post- U.N.R.R.A. relief. As the Corporation aims to be self-supporting, appropriate charges are made to U.N.R.R.A., foreign governments, the Department of National Defence and others using the services of the Corporation. The Corporation consists of a President and not more than nine or less than five Directors, appointed by the Governor-General in Council. The Corporation for all purposes is an agent of His Majesty. It gets all its capital from Government and all its books are liable to be inspected by Government. It is required to submit to Government an annual report of its affairs and operations.

The Commodity Prices Stabilisation Corporation.- The Commodity Prices Stabilisation Corporation was essentially an emergency organization and its work is now almost completed. It was established in December 1941 for the purpose of facilitating under the direction of the War-time Prices and Trade Board, the control of prices in Canada during the war and the immediate post-war period. Its functions were two-fold, firstly, to subsidise the sale of goods, the costs of which had risen, at prices under the over-all price ceilings fixed by the Prices and Trade Board, and secondly, to undertake bulk purchases for the Government, when this became necessary to safeguard the supply position in Canada. The latter operation also involved payment of subsidies in many instances, as the Corporation had to sell the bulk-purchased goods at prices within the Canadian ceilings.

The Corporation, though it enjoyed all the rights and privileges of a private company, was a wholly official organization. Its affairs were

controlled by a Board of Directors consisting of Government officials. With the exception of the single share owned by each of the Directors, all its shares were held by the Ministry of Finance, and the Corporation was provided with no funds other than those voted annually by Parliament.

It may be noted that throughout the period of its operations, it was the policy of the Corporation to work to the greatest extent possible through normal trade channels. The Corporation is no longer engaged in any active bulk purchasing programme and is reported to be winding up its affairs.

4. U.S.S.R.

The U.S.S.R. affords the most outstanding example of a full state-trading system. All foreign trade of U.S.S.R. is conducted through a foreign trade monopoly. The Commissariat for Foreign Trade which is a department of Government, controls external trade in accordance with the policy of the State Planning Commission by the simple device of licensing imports and exports. Below the Commissariat, there are numerous Soviet trading combines which carry out the actual operations of exporting and importing on the authority of the licences obtained from the Commissariat. Each trading combine is represented abroad by a trade delegation or by a special corporation *e.g.*, Amtorg in the United States of America. These Corporations are staffed with marketing specialists and technicians. The Corporations are in a position to carry out only those assignments which are specially given to them by the trading combines in the Soviet Union.

5. FRANCE

The state monopoly in import, export and production of tobacco established in 1810, affords an example of state trading in France. The National Cereals Board (Office National Inter-professionnel des Cereales) is another example of state trading in France. The Board, however, does not exercise the same degree of control over domestic cereals production as the tobacco monopoly does over tobacco production.

During the war, French Supply Missions were established in the United Kingdom, United States and Canada. The Service d'Importation et d'Exportation (Impex) was created in France as a complement to the Supply

Missions abroad. The main function of Impex was to take over the ownership of the commodities purchased by the Supply Missions and to arrange to transport them to France and to distribute them according to the decisions of the French allocation authorities. The activities of Impex, however, have been gradually curtailed, as the functions of Supply Missions were reduced after the war.

6. DENMARK

The Government of Denmark controls external trade through a licensing system where control is necessary for fulfilling commitments under bilateral agreements with other countries. The major items of exports are agricultural commodities and the Government employs the co-operative marketing organization to supervise the distribution of supplies between the domestic market and the various foreign markets. Moreover, Government is a large stock holder in some of the larger industrial concerns and is thus able to secure their co-operation.

Danekul affords the only example of the Danish Government directly participating in trade. It is a semi-government organization which arranges for purchase and import of coal. The Board of Directors of the organization consists of representatives of private coal importers, Government agencies, state railways and utilities. The representatives of private importers are in a minority.

7. SWEDEN

The Swedish Tobacco Monopoly Company, a semi-official organization was formed in 1915 and was given a partial monopoly covering the right to manufacture tobacco and to import raw tobacco. The monopoly was created to achieve concentration of production with a view to enabling the Government to exploit the taxability of manufactured tobacco to the fullest extent possible. It was not until 1943 that the monopoly was extended to comprise also the import of manufactured tobacco. The State revenue from tobacco, in addition to the interest on the capital invested in the industry by the State, is obtained by means of a tobacco tax. The dividend on the shares of the company is limited to 5½ per cent.; the dividend to the preference share-holders being guaranteed by the State. The Board of Directors of the Monopoly consists of eight members, four of whom are appointed by the Government, including the Chairman and the Vice-Chairman.

8. ARGENTINA

Institute Argentine de Promocion del Intercambio (I.A.P.I.)-- The I.A.P.I. was established in 1946. It is a Government sponsored monopoly through which virtually the entire export trade and a part of the import trade is now conducted. The I.A.P.I., to start with, had an objective similar to that of the West African Produce Board which was set up in 1940 to buy up the unexportable surplus of the cocoa crop in Nigeria and the Gold Coast with a view to preventing local incomes from falling to famine levels. Later, when world prices went up, the Board had to adopt an opposite policy in order to damp down the internal inflation. The Argentina Government was faced by almost the same pattern of events between 1940 and 1946.

After August, 1946, however, the objectives of IAPI were widened. The IAPI has now become a source of developmental finance. It attempts to equate its internal buying price to local costs of production, while it charges differential prices to its various customers abroad, the highest price that short-term traffic can bear. In this way, IAPI has amassed huge profits. While the producers of agricultural commodities and oilseeds have suffered from this policy, it has helped the manufacturing interests by keeping food prices and hence urban wages relatively low. Not only are farmers willing to sell more of their output at home, but also the IAPI itself sells large quantities of wheat, sugar, potatoes, oils, meat and butter in the home market when stocks permit, charging occasionally prices lower than its internal buying prices.

As regards imports, the majority of external purchases flow through established private trade channels. Regulation of imports is secured through the mechanism of exchange control, multiple exchange rates, and physical quotas and permits.

9. BRAZIL

One instance of state trading in Brazil is the monopoly of the ipecac trade given to the Bank of Brazil. The Bank, however, has delegated its buying and selling activities to normal dealers in the commodity, so that in practice it acts merely as a controlling agent. The rice, cocoa and coffee trades also involve some measure of state trading. The control over production and trade of rubber is relatively more comprehensive, but the chief objective of this control is to implement the rubber agreement between the United States and Brazil.

The only example of Government purchase for resale is found in the purchase of agricultural machinery by the Brazilian Government for resale to farmers at cost.

10. PARAGUAY

National Subsistence Administration - an agency of the Paraguayan Government was given wide powers during the war to control imports of essential commodities by allocating quotas to individual importers, as well as by importing on its own account commodities in short supply. The Administration has been particularly helpful in handling bulk purchases of the Argentine wheat for resale to the domestic millers. The agency also imports salt, cement, caustic soda and carbon dioxide for resale.

11. AUSTRALIA

A brief account is given below of the Australian Wool Realisation Commission, the Commonwealth Dried Fruits Control Board and the Australian Wheat Board which afford some instances of state trading carried on in Australia.

The Australian Wool Realisation Commission-- The Australian Wool Realisation Commission is a subsidiary in Australia of the Joint Disposals Organization for wool set up by the Governments of the United Kingdom, Australia, New Zealand and South Africa. The Organization was established after the war for disposal of the stocks of wool held by the Governments concerned. The Commission is authorized to sell wool from stocks in Australia along with the current production of new wool, to assess, on the basis laid down by the principal Organization, the appropriate reserve prices for the individual lots of wool sold in the open auctions and to take up wool offered at the auctions for which the reserve price or better is not offered by a commercial buyer. In this way, a progressive reduction of stocks is being achieved, while maintaining a reasonable stability of prices. The Commission consists of a Chairman, an Executive Member and seven other members, of whom five are representatives of the trade and two are persons with experience in the valuation or marketing of wool.

The Commonwealth Dried Fruits Control Board-- The main function of the Board is to regulate the export trade in dried fruits produced in

Australia. The Board is a sort of controlling body. It is, however, authorised to make such arrangements as it thinks fit for handling, marketing, storage, shipment and insurance of dried fruits intended for export. The actual trade is handled by the licensed private traders who are granted licences by the Minister of Commerce and Agriculture, subject to such conditions and regulations as are prescribed by the Government on the recommendations of the Board. The Board consists of eight members, five of whom are elected by the growers in the Commonwealth, and three appointed by the Governor General in Council, one of the three being the Government representative and the other two being men with commercial experience. The Chairman of the Board is appointed by the Board itself. The revenue of the Board is obtained from a levy imposed on the exports of fruits.

The Australian Wheat Board.—The trade in wheat in Australia is strictly regulated by the Australian Wheat Board. With effect from the 1948-49 season, all wheat produced in Australia, exclusive of the quantity required for use on the farms by the growers, is delivered to the Board and no person is authorised, except with the consent of the Board, to sell, deliver, or part with the possession of, or take into his possession or export any wheat or any wheat products specified in the Act. A guaranteed price for the season determined annually according to the relevant provisions of the Wheat Industry Stabilisation Act, 1948, is paid by the Board to the growers for the wheat delivered by them. Under the new Stabilisation Plan, the home consumption price for wheat for human and stock consumption in Australia is fixed by legislation and coincides with the guaranteed minimum price. Under the Wheat Export Charge Act, 1948, 50 per cent. of the excess of the export price over the guaranteed minimum price is recovered from the Board by way of a charge on exports, and the amounts thus recovered are credited to the Wheat Prices Stabilisation Fund. If and when the export price will fall below the guaranteed price, the difference will be paid to the Board from this fund under the regulations laid down in the Act.

The Board consists of a Chairman, and eleven members, of whom one is a person engaged in Commerce, with experience of the wheat trade, one with financial experience, one a representative of flour mill owners, one a representative of the employees and seven are representatives of the wheat growers in different States. The Chairman and the members other than the representatives of the growers are appointed by the Minister of Commerce and Agriculture.

12. BURMA

The export of rice is a monopoly of Burma Government, private trade taking no part in it at all. The Government of Burma has set up a State Agricultural Marketing Board which is entrusted with the task of procuring milled rice and transporting it to the ports of export. The Board also issues licences for export of all kinds of cereals and pulses. In case of pulses, the Government of Burma fixes the export price and thereby earns a margin of profit.

The timber industry was the first to be nationalised and the export of timber has become virtually a monopoly of the Government of Burma. The State Timber Board manages and controls the extraction, conversion and marketing of forest produce in Burma and also issues licences for exports of timbers of all kinds and articles thereof.

APPENDIX II
QUESTIONNAIRE

PART I

(In answering this part of the Questionnaire, it should be assumed that it is possible to devise a proper form of organization for state trading such as would meet all the objections that you may have in regard to the inability of the State so to organize its trading operations as to conduct them on really commercial lines.)

I. What exactly do you understand by 'State Trading'? Would you describe operations such as -

(a) direct purchase in bulk by the State of its own requirements or in fulfilment of its obligations in respect of rationed commodities; and

(b) sale of surplus goods, etc.

as 'State Trading'?

II. Give your appraisal of state trading to the extent that it has already been undertaken in India, e.g., in foodgrains, steel, fertilizers, etc.

III. What, in your view, are the shortcomings and defects in the present organization of India's foreign trade which make it desirable for the State actively to participate in the field of foreign trade? To what extent would state trading assist in the development of the foreign trade of the country? In particular, to what extent would the participation by the State in export trade help in the implementation of the recommendations of the Export Promotion Committee?

IV. Do you consider the present time opportune for the State to undertake trade operations beyond what it is doing at present? Do you think the changes brought about by devaluation have added to the necessity and urgency of the State extending its trade operations over a wider field?

V. Should the participation by the State in foreign trade be on a monopoly basis, i.e., trade in particular sectors or commodities being monopolised by the State, or on competitive basis so that the State Trading Organization enters the field along with private enterprise on equal terms? (The answers to the questions that follow may be given keeping these two alternatives in view.)

VI. Assuming state trading to be desirable, should it

(a) extend to only the staple articles of import/export in the foreign trade of India,

or, (b) cover a very much wider field of import/export activity,

or, (c) confine itself only to that field of import/export where private enterprise has not achieved substantial results?

VII. Consider the following objectives for a State Trading Organization and give your opinion as to which of these (or any other which you might suggest) you would desire a State Trading Organization to pursue :-

- (1) Fulfilment of obligations under barter agreements entered into with other countries.
- (2) Fulfilment of quota targets under bilateral trade agreements with other countries.
- (3) Import of commodities in short supply abroad.
- (4) Import of commodities not in short supply abroad but in short supply in India.
- (5) Import of commodities from those areas of which the currencies have appreciated relatively to the rupee since the recent devaluation.
- (6) Imports from those areas of which the currencies have not appreciated relatively to the rupee.
- (7) Export of commodities to those areas the currencies of which have appreciated relatively to the rupee.
- (8) Export of commodities to areas of which the currencies have not appreciated relatively to the rupee.
- (9) Export/import trade with particular countries only.

- (10) So to arrange exports as to -
- (a) keep down internal price level as low as possible;
 - (b) maximise foreign exchange earnings;
 - (c) intercept the difference between foreign price and internal price for the benefit of the State.

VIII. What should be the criteria for selecting particular sectors of trade or the specific commodities in regard to which trading should be taken over by the State?

IX. In the light of these criteria, which commodities among those entering into India's export trade are suitable for state trading? What, in your opinion, is the scope for encouraging exports of cottage industry products through state trading?

X. Which commodities among those entering into India's import trade are suitable for state trading?

XI. Offer your comments on the scope, functions and working of State Trading Organizations in other countries, with special reference to those features which are of direct interest for evolving a suitable organization for this country. Consider in particular the working of the following organizations in foreign countries. (1) U.K.C.C. during the war, (2) the Argentine Institute for Promotion of Trade (I.A.P.I.), (3) British Raw Cotton Commission, and (4) any others with the working of which you may be familiar.

XII. Do you think that participation by the State in the field of foreign trade will necessarily involve extension of state ownership or control in the field of production and distribution? Would such extension of the State's activities be desirable? If so, how should these activities be organized?

XIII. Do you consider that the political and economic ideology and the general institutional set-up of a country have a bearing on the question of state trading? Do you consider the State's participation in trading undesirable? If so, give reasons.

XIV. Should extension of state trading be carried out by a single measure or by gradual stages? If possible, mention the period over which it should be phased?

XV. Do you think that direct participation by the State in foreign trade would make for more efficient control over foreign trade and therefore over the balance of payments position? If not, in what other way do you think can the present system of control over import, export and remittances be made more effective in its result and smooth in operation?

XVI. To what extent do you think there has been tax evasion on a significant scale by persons engaged in foreign trade? In what commodities or sectors of foreign trade has such tax evasion been of considerable magnitude? Do you consider state trading in those commodities or sectors desirable on these grounds alone?

XVII. It has been suggested that multiplicity of controls and other regulations which are in themselves necessary on account of the balance of payments position has so reduced the profits of middlemen in foreign trade that any significant expansion of exports will be possible only by the State's participation in it. Do you agree?

XVIII. Would the financing of foreign trade in terms of foreign currencies be easier as a result of state trading? (It has been suggested that a State Trading Organization would be able to secure extensive trade and exchange facilities through international banking organizations or through export credit banks of foreign countries.)

PART II

(This part of the Questionnaire should be answered on the assumption that state trading is desirable. In giving the answers, two alternative situations should be kept in view, namely, (a) the organization will operate on a monopoly basis, or (b) it will operate on a competitive basis.)

XIX. What should be the character of the Organization that should be set up to undertake state trading? Should it be (a) departmentally operated, or (b) a Corporation of which the Equity capital is wholly subscribed by the State or (c) a Corporation in which the organized trade also participates in the Equity capital or (d) a kind of co-operative society of wholesale exporters/importers sponsored by the State?

XX. Would you favour one single organization to undertake state trading, or a number of organizations dealing with the different sectors of foreign trade or the several commodities or regions?

XXI. How should the Organization be constituted? Should it be statutory or non-statutory? Should its Governing Body or Board of Directors be (a) composed entirely of officials, or (b) include representatives of trade? If (a), should it be assisted by a non-official Advisory Board? How should such a Board be constituted? If (b), what should be the extent of State control over policy or administration and how should it be made effective? What should be the qualifications for the Chairman and Members of the Governing Body? How should their salaries and allowances be determined? (Can you suggest a draft memorandum and articles of association for such an Organization? It would help the Committee if you would draw up a Scheme for a State Trading Corporation with as much detail concerning its organization and working as possible.)

XXII. Would you lay down any particular manner in which the State Trading Organization should deal with other countries, e.g., (a) bulk trading on Government-to-Government level, or (b) on the basis of dealing directly with private suppliers in India and foreign buyers abroad in the matter of exports, and *vice versa* in the matter of imports?

XXIII. Assuming that the State Trading Organization is to cover the entire field of foreign trade, what would be the magnitude of finance required for the purpose?

XXIV. What will be the limitations of the State Trading Organization arising from (a) paucity of competent personnel with sufficient trade experience and (b) magnitude of finance involved and the fact that the losses, if any, will have to be borne by the State? How can these limitations be overcome?

XXV. How far, in what capacity and on what terms should businessmen, industrialists and financiers in this country be associated with the State Trading Organization? As regards the vast body of executive personnel required for such an Organization - Directorial, Managerial, Supervisory, Accounts and Finance, Inspecting, Clerical etc. - how would you secure them in requisite numbers, having due regard to integrity, experience, intelligence, ability, and technical 'know-how'?

XXVI. What, in your opinion, would be the economic and financial consequences of ousting a substantial part of private enterprise now engaged in foreign trade as a result of state trading? What would be

the effect of large-scale State participation in foreign trade on (a) public finances, and (b) employment of personnel now employed by private enterprise.

XXVII. Should the State Trading Organization function on (a) ordinary commercial principles, or (b) the long-range basis of no-profit no-loss?

XXVIII. What should be the source of finance of the Organization in regard to (a) its initial capital, and (b) its working capital?

XXIX. In what respects will the operations of the State Trading Organization be subject to international obligations under GATT and the Havana Charter?

APPENDIX III

LIST OF WITNESSES EXAMINED BY THE COMMITTEE

1. Shri S. Ranganathan, I.C.S.,
Joint Secretary, Ministry of Commerce.
2. Shri K. Sen, I.C.S.,
Joint Secretary, Ministry of Industry and Supply.
3. Dr. V.K.R.V. Rao,
Director, Delhi School of Economics, Delhi.
4. Shri A.K. Roy,
Joint Secretary, Ministry of Finance.
5. Shri P.S. Narayan Prasad,
Director, Balance of Payments Division,
Reserve Bank of India, Bombay.
6. Dr. Lal C. Verma,
Director, Indian Standards Institution, New Delhi.
7. Shri S.K. Sinha,
Chairman, Indian Tea Market Expansion Board, Calcutta.
8. Mr. A.J. Elkins,
President, Associated Chambers of Commerce, Calcutta.
9. Shri E. Da Costa,
Editor, Eastern Economist, New Delhi.
10. Shri R.L. Gupta, I.C.S.,
Secretary, Ministry of Food.
11. Shri R.P. Mathur,
Deputy Director-General, Ministry of Industry and Supply.
12. Shri K.K. Chettur,
Joint Secretary, Ministry of Commerce.
13. Shri S. Bhoothalingam, I.C.S.,
Joint Secretary, Ministry of Industry and Supply.
14. Shri Mukundalal Sircar,
Free India Service, Bombay.
15. Shri S.Y. Krishnaswamy, I.C.S.,
Joint Secretary, Ministry of Agriculture.
16. Shri B.P. Adarkar,
Head of the Economic Affairs Section,
Ministry of External Affairs.
17. Shri M.V. Rangachari,
Deputy Secretary, Ministry of Finance.
18. Shri N.T. Mone, I.C.S.,
Joint Secretary, Ministry of Agriculture.
19. Shri P.C. Bhattacharya,
Secretary, Economic Committee of Cabinet.

20. Mr. L.C. Kennedy,
Representative, Indian Jute Mills Association, Calcutta.
21. Mr. C.M. Keddy,
Calcutta Jute Fabrics Shippers' Association, Calcutta.
22. Shri Dhandharia,
Indian Jute Fabrics Shippers' Association, Calcutta.
23. Mr. R. Flemming,
Calcutta Baled Jute Shippers' Association, Calcutta.
24. Shri S.L. Sethia,
Jute Balers' Association, Calcutta.
25. Mr. E. Watson,
Christian Mica Industries Ltd., Calcutta.
26. Mr. J.P. Young,
Angelo Bros., Calcutta.
27. Shri Dhandhania,
Bharat Chamber of Commerce, Calcutta.
28. Mr. C.C.C. Bell,
James Finlay & Co. Ltd., Calcutta.
29. Shri Biraj Banerji,
Chairman, Indian Tea Planters' Association.
30. Mr. E.G. Spooner,
M/s. Martin Burn & Co., Calcutta.
31. Mr. W.A. Hardy,
Central Provinces Manganese Ore Co., Nagpur.
32. Shri U.L. Patel,
President, Calcutta Tea Merchants' Association, Calcutta.
33. Shri M.K. Sinha,
Vice-President, Calcutta Tea Merchants' Association,
Calcutta.
34. Shri N.N. Das,
Power Tools & Appliances Co., Calcutta.
35. Shri N.N. Chandra,
Eastern Chamber of Commerce, Calcutta.
36. Shri R.L. Dawn,
Eastern Chamber of Commerce, Calcutta.
37. Shri G.D. Binani,
Indian Chamber of Commerce, Calcutta.
38. Shri G.B. Swaika,
Swaika Oil Mills, Calcutta.
39. Shri Y.K. Menon,
Indian Carpet Manufacturers' Association, Calcutta.
40. Shri R.R. Chowdhury,
Eastern Chamber of Commerce, Calcutta.
41. Shri Bhuwarka,
M/s. Daulatram Rawatmal, Calcutta.

42. Prof. K.T. Shah, M.P.
43. Shri S.R.S. Raghavan,
Editor, Commercial Publications, Ministry of Commerce.
44. Prof. Shibbanlal Saxena, M.P.
45. Shri Khandubhai Desai, M.P.
46. Shri Biswanath Das, M.P.
47. Shri Tulsidas Kilachand,
Federation of Indian Chambers of Commerce and Industry.
48. Shri Lalji Mehrotra,
Federation of Indian Chambers of Commerce and Industry.
49. Shri R.K. Sidhwa, M.P.
50. Shri V.R. Chitra,
Deputy Development Officer (Cottage Industries),
Ministry of Industry and Supply.
51. Shri L.K. Jha, I.C.S.,
Chief Controller of Exports.
52. Shri V.C. Trivedi,
Deputy Secretary, Ministry of Commerce.
53. Shri D.L. Majumdar, I.C.S.,
Member-Secretary, Fiscal Commission.
54. Dr. Gyan Chand,
Officer on Special Duty, Cabinet Secretariat.
55. Hon'ble Shri Dinkarrao N. Desai,
Minister for Civil Supplies, Government of Bombay.
56. Shri A.D. Gorwala,
Bombay Dyeing & Manufacturing Co., Bombay.
57. Shri Neville Wadia,
Bombay Dyeing & Manufacturing Co., Bombay.
58. Shri Kasturbhai Lalbhai.
59. Shri M.R. Ruia,
President, Cotton Buyers' Association, Bombay.
60. Dr. D.T. Lakdawala,
Reader, School of Economics & Sociology, Bombay.
61. Shri Ramdas Kilachand,
Kilachand Devchand & Co., Bombay.
62. Shri N.D. Sahukar (Vice-President) }
Shri S.G. Shaah } Representatives of the
Shri S.M. Doctor } All India Manufacturers'
Organization, Bombay.
63. Shri Manu Subedar.
64. Shri C.H. Bhabha.
65. Shri Ashok Mehta.
66. Shri Anandji Haridas,
President, Steel Merchants' Association, Bombay.

67. Shri Purshotamdas Thakurdas.
68. Shri P.M. Chenai.
69. Shri S.K. Shah.
70. Shri R.K. Shanmukham Chetty.
71. Shri G. Narasimha Rao,
President, Andhra Chamber of Commerce, Madras.
72. Mr. H.G.P. Woodroffe,
Madras Chamber of Commerce, Madras.
73. Shri V.N. Sundaresan,
Cochin Chamber of Commerce, Cochin.
74. Shri T.A. Ramalingam Chettiyar, M.P.
75. Shri K. Gopalan,
Secretary, Indian Central Cocoanut Committee, Ernakulam.
76. Shri R. Subramaniam,
Managing Director, General Commercial Corporation Ltd., Madras.
77. Shri D.R. Ayyangar,
C/o M/s. D.R. Ayyangar & Son, Madras.
78. Shri P.C. Chhabra,
Casings Exporter, New Delhi.
79. Shri A.M.M. Murugappa Chettiar,
Southern India Chamber of Commerce, Madras.
80. Shri G. Krishnamoorthy,
Secretary, Mysore Chamber of Commerce, Bangalore.
81. Shri M. Ananthasayanam Ayyangar, M.P.
82. Hon'ble Shri B. Gopala Reddi,
Minister for Finance & Transport, Government of Madras.
83. Hon'ble Shri A.B. Shetty,
Minister for Agriculture, Government of Madras.
84. Representatives of the Madras Oil & Seeds Association.
85. Shri V.S. Kudva,
Kanara Chamber of Commerce, Mangalore.
86. Representatives of the Southern India Hides & Skins Merchants'
Association, Madras.
87. Shri J.K. Mehta,
New Commercial Corporation, Bombay.
88. Shri Aziz Ansari,
Superintendent of Insurance, Simla.
89. Shri Chintaman Deshmukh,
Financial Representative, Ministry of Finance.
90. Shri D.R. Sethi,
Agricultural Production Commissioner, Ministry of Agriculture.
91. Dr. T.G. Shirname,
Agricultural Marketing Adviser, Government of India.

92. Prof. N.G. Ranga, M.P.
93. Shri A.L. Saxena,
Member-Secretary, Foodgrains Investigation Committee,
Ministry of Food.
94. Shri D.W. Mandpe,
Honorary Secretary, Nagpur Chamber of Commerce, Nagpur.
95. Lala Yodh Raj,
Chairman, The Punjab National Bank Ltd., Delhi.
96. Pandit L.K. Maitra, M.P.
97. Lala Shri Ram.
98. Shri M.A. Master,
Scindia Steam Navigation Co., Bombay.
99. Shri H.T. Thakur,
Indian Banks Association, Bombay.
100. Shri Bhimrao Setalvad,
Indian Insurance Companies' Association, Bombay.
101. Shri R.K. Patil,
Food Production Commissioner, Ministry of Agriculture.

APPENDIX IV

LIST OF PERSONS FROM WHOM REPLIES TO THE QUESTIONNAIRE WERE RECEIVED

(i) Associations:

1. The Federation of Indian Chambers of Commerce & Industry, New Delhi.
2. The Associated Chambers of Commerce, Calcutta.
3. The Cotton Buyers' Association, Bombay.
4. The Association of Merchants and Manufacturers of Textile Stores & Machinery (India), Bombay.
5. The Western India Chamber of Commerce Ltd., Bombay.
6. The East India Cotton Association, Bombay.
7. The Bombay Piecegoods Merchants' Association, Bombay.
8. The Federation of Gujarat Mills and Industries, Baroda.
9. The Millowners' Association, Bombay.
10. The All-India Exporters' Association, Bombay.
11. The Ahmedabad Mill and Gin Stores Merchants' Association, Ahmedabad.
12. The Mahratta Chamber of Commerce and Industries, Poona.
13. The Indian Merchants' Chamber, Bombay.
14. The Surat Chamber of Commerce, Surat.
15. The Maskati Cloth Market Association, Ahmedabad.
16. The Seeds Traders' Association, Bombay.
17. The Gujarat Vepari Mahamandal (The Gujarat Chamber of Commerce), Ahmedabad.
18. The All-India Radio Merchants' Association, Bombay.
19. The All-India Manufacturers' Organization, Bombay.
20. The Ahmedabad Millowners' Association, Ahmedabad.
21. The Scientific and Surgical Traders' Association, Bombay.
22. The All-India Groundnut Syndicate Ltd., Bombay.
23. The Bombay Chamber of Commerce, Bombay.
24. The Bharat Chamber of Commerce, Calcutta.
25. The Marwari Association, Calcutta.
26. The Eastern Chamber of Commerce, Calcutta.
27. The Indian Non-Ferrous Metals Manufacturers' Association, Calcutta.
28. The Indian Chamber of Commerce, Calcutta.
29. The Bengal Chamber of Commerce, Calcutta.

30. The Bengal National Chamber of Commerce, Calcutta.
31. The Indian Jute Fabrics Shippers' Association, Calcutta.
32. The Indian Carpet Manufacturers' Association, Calcutta.
33. The Madras Chamber of Commerce, Madras.
34. The Cochin Chamber of Commerce, Cochin.
35. The Hindustan Chamber of Commerce, Madras.
36. The Southern India Chamber of Commerce, Madras.
37. The Travancore Chamber of Commerce, Alleppy.
38. The United Planters' Association of Southern India, Coonoor, Nilgiris.
39. The Andhra Chamber of Commerce, Madras.
40. The Madura-Ramnad Chamber of Commerce, Madhurai.
41. The Indian Chamber of Commerce, Tuticorin.
42. The West-coast Industrialists' Association, Calicut.
43. The Kanara Chamber of Commerce, Mangalore.
44. The Mysore Chamber of Commerce, Bangalore.
45. The Tamil Chamber of Commerce, Madras.
46. The Deccan Manufacturers' Association, Sangli.
47. The Indian Leather Federation, Melvisharam.
48. The Upper India Chamber of Commerce, Kanpur.
49. The Western U.P. Chamber of Commerce, Meerut.
50. The Indian Colliery Owners' Association, Jharia.
51. The Central Provinces and Berar Mining Association, Nagpur.
52. The Central Provinces and Berar Millowners' Association, Nagpur.
53. The Nagpur Chamber of Commerce, Nagpur.

(ii) Firms:

54. New Commercial Corporation, Bombay.
55. Free India Service, Bombay.
56. Punwani and Son, Calcutta.
57. Modern Textile Mills Ltd., Amritsar.
58. Shri K. Dutt on behalf of-
 - (1) Gouripur Industries Ltd.
 - (2) Chromite Corporation (India) Ltd.
 - (3) Gouripur Rice and Oil Mills.
 - (4) Trading Corporation (Gouripur) Ltd.
 - (5) Pakur Quarries Ltd.
 - (6) Jagadishpur Tea Co. Ltd.
 - (7) Baramasia Tea Estates.
 - (8) Halda Valley Tea Estates.
 - (9) Central Calcutta Bank Ltd. & Bank of Mymensingh-Gouripur Ltd. (Amalgamated).

(iii) State Governments:

59. The Government of the United States of Saurashtra, Rajkot.
60. The Government of West Bengal.
61. The Government of Patiala and East Punjab States Union.
62. The Government of Bihar.
63. The Government of Madhya Pradesh.
64. The Government of Rajasthan.
65. The Government of East Punjab.
66. The Government of Orissa.

(iv) Individuals:

67. Shri R.K. Sidhwa, M.P.
68. Shri Jasimudin Ahmed.
69. Shri L.N. Sahu.
70. Shri C.H. Bhabha.
71. Lala Shri Ram.
72. Shri S. Ranganathan, I.C.S.,
Joint Secretary, Ministry of Commerce.
73. Shri B.P. Adarkar,
Head of the Economic Affairs Section, Ministry of External Affairs.
74. Dr. Gyan Chand,
Officer on Special Duty, Cabinet Secretariat.
75. Shri L.K. Jha, I.C.S.,
Chief Controller of Exports.
76. Shri S.R.S. Raghavan,
Editor, Commercial Publications, Ministry of Commerce.
77. Shri Aziz Ansari,
Superintendent of Insurance, Simla.
78. Shri K. Gopalan,
Secretary, Indian Central Coconut Committee, Ernakulam.
79. Dr. T.G. Shirname,
Agricultural Marketing Adviser, Government of India.
80. Dr. Lal C. Verman,
Director, Indian Standards Institution, New Delhi.
81. Shri V.R. Chitra,
Deputy Development Officer (Cottage Industries),
Ministry of Industry and Supply.
82. Shri M.J. Desai, I.C.S.,
Commercial Adviser to the High Commissioner for India, London.
83. Shri R.R. Saxena,
Consul-General of India, New York.
84. Shri L.R.S. Singh, I.C.S.,
Indian Government Trade Commissioner, Pakistan.

85. Shri Gurpal Singh,
Indian Government Trade Commissioner, Canada.
86. Shri Das Gupta,
Indian Trade Commissioner, Eastern Pakistan.
87. Shri H.N. Vibhakar,
Legation of India, Bangkok.
88. Dr. T.G. Menon,
Indian Government Trade Commissioner, Colombo.
89. Shri S.V. Patel,
Indian Government Trade Commissioner for East Africa and
Belgian Congo.
90. Shri R. Subramaniam,
Managing Director, General Commercial Corporation, Madras.
91. Shri E. Da Costa, New Delhi.
92. Shri R.S. Sankara Iyer, Coimbatore.
93. Shri G. Parameshwaran Pillai, Trivendrum.
94. Shri H.S. Singh, Bombay.
95. Shri B.L. Vanshylla, Calcutta.
96. Shri A.S. Mathur, Delhi.
97. Shri S.N. Chaudhuri, Delhi.
98. Prof. M.V. Subba Rao, Bombay.
99. Shri D.R. Iyengar, Madras.
100. Prof. K.T. Shah, Bombay.

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