

REPORT

OF THE

EXPORT PROMOTION COMMITTEE



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EXPORT PROMOTION COMMITTEE

NEW DELHI,
15th September 1949-

To

The Secretary to the Government of India,
Ministry of Commerce,
New Delhi.

SIR,

I am directed to submit herewith the report of the Export Promotion Committee constituted in terms of the following resolution No. 64-CW(34)/49^a of the 9th July 1949 of the Government of India, Ministry of Commerce—

“The Government of India have viewed with great concern the unfavourable balance of trade position of India and have been considering ways and means to achieve a balance between exports and imports. With this end in view they have decided that a committee should be appointed to make recommendations for stepping up exports with the following terms of reference:—

- (1) To make recommendations as to the measures to be adopted for stepping up exports so as to achieve balanced trade, with particular reference to exports to hard currency countries.
 - (2) To examine impediments in the way of increased exports particularly price, quality and licensing mechanism, and to suggest what should be done to remedy the situation.
 - (3) To make recommendations on any other matter relevant to the main subject of promotion of export trade.
2. The Committee will consist of—

Chairman.

Shri A. D. Gorwala.

Members.

1. Shri K. D. Jalan.
2. Shri Debes Chandra Ghosh.
3. Shri Ratilal Mulji Gandhi.
4. Prof. D. R. Gadgil.
5. Mr. G. Euthymopulo.
6. Shri Abdul Jalil.
7. One representative of labour.
8. One representative of primary producers.
9. Deputy Director General (Development non-engineering), Ministry of Industry and Supply.
10. Shri L. K. Jha (Member-Secretary).

Government may appoint further members to the Committee as and when necessary.

(ii)

The Committee may co-opt technical officers of the Government of India as members when relevant matters relating to their work come up for examination.

The Committee is accordingly requested to undertake the necessary enquiries and to make its recommendations by September 15th at the latest. The Committee may submit interim recommendations where they find that immediate action is called for and can be taken without waiting for the full report.

The headquarters of the Committee will be at Bombay and it may visit such places as it may consider necessary for the purpose of this enquiry. The Government of India trust that firms, Chambers of Commerce, Associations and persons who are interested or knowledgeable in subjects coming under the inquiry will afford the Committee all the assistance that it may require and will comply with any request for information that may be made."

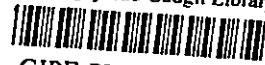
3. Prof. Gadgil was unable to join the Committee. The representatives of labour and primary producers respectively were Shri Harihar Nath Shastri and Shri Upendra Nath Barman.

4. The Committee began its first session on the 22nd July 1949 in New Delhi. Ten meetings of the Committee were held in Delhi, seven in Calcutta and the rest in Bombay. The final session of the Committee for considering the draft report began in Bombay on 11th September and the report was signed on the 13th September 1949 by all the members except Shri D. C. Ghosh who was unable to attend.

5. At its concluding session, the Committee desired that its high appreciation of the work of the Chairman should be conveyed to Government.

Yours faithfully,

L. K. JHA,
Member-Secretary.



CONTENTS

	PAGES
PART I—Principles	1
1. Balance of Payments : An Analysis	4
2. Some problems of Economic Health	8
PART II—Impediments and Measures	8
1. Liberalisation of Export Control	12
2. Quality Control	16
3. Taxation and Exports	19
4. Facilities for Exports	22
5. Government Machinery	25
6. Some suggestions Examined	27
PART III—Commodities	27
1. Jute manufactures	35
2. Tea	37
3. Cotton Piecegoods	41
4. Raw Jute	41
5. Oils and Oilseeds	44
6. Raw Cotton	44
7. Hides and Skins	46
8. Mica	46
9. Shellac	48
10. Sugar	49
11. Coal	50
12. Spices	50
13. Manganese and other Ores	51
14. Cottage Industries.	52
15. Miscellaneous items	59
16. Invisibles	61
CONCLUDING REMARKS	61
Statistical Appendix	65

PART I

PRINCIPLES

Balance of Payments: an Analysis

The appointment of the Committee arose out of the serious problem in relation to the balance of payments faced by the country at present. It will, therefore, not be out of place to make general observations on the nature of the balance of payments problem in India and the extent to which a policy affecting exports unilaterally could be successful in dealing with it.

2. The mechanism of dealing with the problem of balance of payments under conditions of *laissez faire* economy was that of adjusting either the exchange rates or the internal level of prices. When there was a divergence between the internal and external levels of prices, imports into a country were encouraged and exports correspondingly discouraged. This created a gap between the volume of resources earned by the country abroad and the payments it had to make to foreigners. Such a gap could be met for a time by drawing on accumulated foreign resources, by export of capital or gold or by borrowing abroad. In the meanwhile, the action of free imports of cheap foreign goods was expected suitably to depress the internal prices and bring them in line with the international price levels. If for any reason, such realignment of internal and international price levels was not possible and an adverse balance of payment continued for any length of time, pressure would be brought on the rates of exchange. A continuous adverse balance of trade which was either not rectified by an appropriate change in price levels or could not be financed by external credits would result in depreciating the value of the currency of the country in terms of currencies of the other countries. On the other hand, exchange depreciation could also be used as a means of correcting an unfavourable balance of trade when it was thought for any reason necessary not to let the changes in the international price level press heavily on the level of internal prices. In a *laissez faire* economy international prices and internal prices, the rates of exchange and the ability to obtain credits abroad and to export gold abroad, were all closely inter-related.

3. It cannot be said that the adjustments indicated above were brought about always either with rapidity or ease. This was specially the case during the inter-war period. For the larger part of this period control exercised over foreign trade by most countries was small and reliance was placed on adjustment of exchanges and levels of prices under comparatively competitive conditions to bring about the necessary balances in international payments. Under stress of the depression of the thirties, however, a number of countries resorted to policies of deliberate exchange depreciation or restrictions of foreign trade in order to achieve certain ends of internal economic policy and balance. This is not the place to discuss how far these measures were either justified or successful. It is however appropriate to point out that India was not one of the countries which adopted these restrictive or regulatory practices, and also that the attainment of a balance of foreign payments during the depression years cost India a large part of its accumulated hoards of gold.

4. Whatever view one may hold regarding the automatic adjustments of balance of payments brought about in a *laissez faire* economy, it must be recognised that those methods of adjustment are not at present available to us. The entire foreign trade of most countries of the world was under governmental regulation and control for all the war years. In the post-war period, there has

been some relaxation of controls over foreign trade in India and in other countries. However, in most countries of the world it has not been possible to go far in this direction. The main reason for this appears to be the lack of basic adjustments in fundamental economic conditions without which it is considered dangerous to relax the controls over foreign trade. The period of transition which had been anticipated as being necessary to bring about these adjustments has been much longer than had been expected. Fundamentally, the necessary basic adjustment is that between the value of the currency of a country as reflected by its internal price level and the level of international prices. In wartime, movements of price levels in the various countries had not been uniform and the policies pursued in the budgetary and monetary spheres by the different countries in the post-war period have also not been the same. For India, the value of the rupee declared to the International Monetary Fund was placed at its prewar level. It is doubtful whether at the time of the declaration the internal price level was adjusted to the value of the monetary unit. And the necessary adjustment of the Indian price level to the international level of price has been actually made more difficult by policies declared in 1947-48. Therefore, as long as a more reasonable relation between internal and international price levels is not established and resort cannot in the alternative be had to exchange depreciation, a continuous control of foreign trade and watching of the balance of payments situation closely becomes imperative. It is naturally the hope of all that resort to exchange depreciation should ultimately not be necessary. But the possibility of avoiding an adjustment in the value of currency depends on the effectiveness of the action in bringing about the necessary changes in internal price levels within a reasonable period. It may be remarked that the adjustment of the value of the currency here referred to is not only in relation to the currencies of the hard currency area. The disparities in the movements of internal prices and prices abroad are in a large measure responsible for the adverse balance of trade now experienced by India. On a superficial examination of the present position, there would thus be required considerable depreciation of the rupee even in terms of sterling for bringing about the type of adjustment that would have been brought about under conditions of *laissez faire*. It is clearly not in the interests of the country that such an adjustment of the value of its currency should be forced upon it.

5. The other check to a continued maladjustment of balance of payments in a free economy would be lack of foreign credits or internal liquid resources by means of which the gap could be covered. It happens that the accumulation by India of sterling balances during the war has temporarily made this difficulty of little account. The continuous availability of large balances abroad during the post-war period must be held responsible for the urgency and gravity of the balance of payments position not being brought home early enough to or its not being considered serious enough by the Government or the people of India. If these resources had not been available—just as if the gold-hoards had not been available during the last decade—government would have been forced to take action either in relation to imports or in relation to the internal price level. It could postpone action only because of the possibility of reliance on these accumulations.

6. The above will have made it clear that the present problem of the balance of payments is a problem arising chiefly out of certain fundamental maladjustments in the economy. As long as these are not corrected, considerable restrictions on foreign trade will be found to be necessary. And in the absence of such restrictions, a frittering away of our hard-earned balances is almost inevitable. In view of this, we take it for granted that an appropriate regulatory policy in relation to imports will be an important part of the Government drive towards the attainment of a balance of international payments. It

is obvious that there are certain basic needs of the country which can only be met by imports; the deficit in food, as long as it exists and our lacking essential materials like petroleum must always lead to substantial imports. It is also extremely important for the country to import capital goods both for replacement and development purposes. In the circumstances, an order of priority for imports and a system of qualitative and quantitative restrictions on imports must be maintained. There is also a close connection between imports and exports. This is especially close in countries which export goods manufactured out of imported raw materials. Relation between imports and exports is not equally close in India. However, manufacturing activity whether leading to exports or to the avoidance of large imports for internal use does require substantial imports of essential materials of all types. Thus the import programme and import priorities would look not only to basic needs like food but also to the operation of the whole economy and its ability to produce primary and secondary goods both for internal consumption and for export.

7. At this stage, it would be appropriate to refer to changes in policies of the Government of India regarding imports during the post-war period and especially to the loosening of import controls as part of the anti-inflationary drive during the last year. The restrictions on imports and the list of articles that could be imported with no special licences have undergone many and wide fluctuations during the post-war period. At times it has been felt that severe restrictions on imports were necessary in order to conserve essential exchange resources and at others it has been held that the inability to utilise the available foreign exchange resources by making adequate imports was compromising India's position in international agreements. Import policies have fluctuated from one extreme to another according to the sentiment powerful at any particular time. It is difficult to say to what extent the variations in the values of imports were due to fluctuations in import policies and to what extent they were due to other factors such as availabilities and price-relations. It is obvious that the lack of import restrictions may lead to a deficit balance in international payments when a mal-adjustment of price-levels invites such a deficit. The fundamental reason for the balance of payments difficulties must be held to be the maladjustment in the price levels. It may be said that the non-emergence of an adverse balance in 1947-48 was at least as much due to the lack of export availabilities in industrial countries and the comparatively small gap between Indian and other prices as to the restrictions laid by the Indian Government on imports. On the other hand, the rapid spurt of imports of all varieties of goods during the last 12 months has been the result, fundamentally of the previous inflationary rise of prices in India. The rise of prices that took place in India during the first three quarters of 1948 made the Indian market considerably more attractive to foreign goods than other markets. It was this which was primarily responsible for attracting large imports. It must at the same time be admitted that the contemporaneous loosening of import controls made it possible for importers to take advantage of the possibilities of making profit in the Indian market opened by the rise of prices.

8. In view of this, it is instructive to note that the liberalising of the open general licence is considered by some to have been a part of the anti-inflationary drive of the Government of India. The statement may be interpreted as meaning that the Government of India desired to check the tendency of internal prices to rise by bringing in imports of consumer goods which only shows how the inability of Government in the absence of an appropriate budgetary, credit and control policy, makes it adopt temporary palliatives which may lead to an ultimate worsening of the situation. The inability of Government to check a rise in prices of manufactured products led it to encourage imports which would

not otherwise be urgently required and the flood of consequent imports ultimately led to a serious balance of payments situation and the frittering away of valuable assets for non-essential consumer goods.

9. Equally with imports the volume and values of exports are a reflection chiefly of the price relations and of the over-all price situation. The volume of exports depends essentially on the competitive position of the goods of a country in the international market. Even in goods in which the country might hold a monopoly, the international demand is never perfectly inelastic. During war, when bulk buying by Government was common, comparative prices did not directly influence the volume or value of export trade. Now that many of the wartime practices have been given up, the price factor is becoming more and more important. During the immediate post-war period, a general scarcity of all kinds of commodities created a situation in which important producer countries could sell large quantities of their products with little relation to the price factor. In the last 12 months, the conditions of a sellers' market have vanished and this has made the price factor once again important. The divergent movements of the imports and exports of India are thus merely two aspects of the same situation. India has been unable to export larger quantities of its important products even when world trade as a whole has been expanding. An examination of the position in relation to any of the staple Indian exports would illustrate this. The exports of manufactures of jute are stagnant or declining even when the demand for packaging materials all over the world should on all accounts be very brisk. A material which is essential and well adapted for the purpose for which it is used may yet find difficulties of sale if its price level is pitched too high in relation to the requirements of the situation. The great difficulties experienced in selling important oilseeds and vegetable oils are acknowledged to be due almost entirely to the price factor. On the other hand, the good showing of tea is due not only to the price of Indian tea being kept at a moderate level but also to its having an advantage over its nearest competitor, tea from Ceylon. The history of sugar prices and the discussions of the possibilities of its exports exemplify in a striking degree the close connection between an intelligent internal policy regarding controls and the whole balance of internal and external economy. In conditions in which all foreign trade is conducted on Government account, the relation between internal and international prices may not prove to be important. Where however, external trade is largely conducted on private account, and where exchange rates are held rigid, the relation between internal and international prices are of the utmost importance. In such circumstances, it is the relative price levels which unduly stimulate imports and actively discourage exports and lead to acute balance of payments difficulties. In such situations, it must be clearly recognised that the fundamental remedy is to attain a proper balance internal economy.

SOME PROBLEMS OF ECONOMIC HEALTH.

In Part III of our report, we have considered the special problems of individual export commodities and in Part II general measures necessary for encouraging export. Here we propose to deal with certain problems which have a very considerable effect on the level of exports.

2 The first of these is prices. Indian prices today are nearly four times what they were on the outbreak of the war. During the war, prices rose by about 150 per cent. and since then they have risen by another 140 per cent. the rate of increase being highest in the last two years. It is in the light of the facts indicated by these figures that we have to consider the position of exports

today. The history of the more recent rise in prices and the reasons for it are too well known to need recounting here. It is sufficient to say that governmental policy and the actions based on that policy have been responsible. Before this rise, India was one of the stronger economies of the world. The rupee was actually considered fairly hard currency by many other countries and was regarded as a substantial source of strength to sterling with which it was linked. If the price level had continued at about the figure then prevailing, our position today would have been extremely favourable. With an internally strong economy broadbased upon a reasonable wage-cost-price structure, we could have increased greatly our exports in the comparatively prosperous year 1948 and in 1949 held our own in the export markets of the world in spite of the threatened recession.

3. The Government of India, we understand, are greatly perturbed about the prevailing high prices and are very anxious to reduce them to a reasonable level. With this object, in October 1948, an anti-inflationary drive was launched. For some time, prices did not rise and later there was a slight fall. Now however, the price level has passed beyond the peak it had reached before the anti-inflationary drive. Government's action thus does not seem to have produced results. Nor indeed can any be achieved unless the problem is tackled determinedly and as an integrated whole. We must at the very outset make it quite clear that reduction in general prices is a condition precedent to successful exports. Without it all effort must be in vain.

4. A striking feature of recent export trends has been the diversion of exports from hard to soft currency areas. This too has its origin in the internal price-level. Some of our goods price themselves out of all markets, but even more price themselves out of hard currency markets. It may be that where demand is very inelastic and a certain quantity has necessarily to be obtained for specific purposes hand-to-mouth buying will continue, but all hope of expanding hard currency exports on even a moderate scale must be given up, unless a reasonable price level is attained.

5. This question of prices is of special importance in connection with wages. If prices can be reduced, wages must follow suit. It is in our view wrong, and it would be inequitable, to attempt a reduction of prices by first making a cut in wages. It has to be remembered that in terms of real value, wages even in the best paid industries have either just attained or kept below the prewar level. A wage-stop and a price-stop can go together. However, it would be better if a price-stop preceded a wage-stop. A profit-stop must of course coincide with a price-stop. It must be recognised that there is a minimum fair wage below which wages should not be reduced. The productivity of labour is one of the most important factors in the national economy and while it is only right that there should be no attempt to cut reasonable wages until prices have been brought down, it is essential that productivity per man-hour should at the very least be maintained. The worker's stake in the common good is great as that of any other class and so too is his responsibility.

6. Another fundamental problem is that of our future agricultural policy. India imports foodgrains, cotton and raw jute. Its foodgrain imports have assumed great importance during the latter-war and post-war periods, and it has recently been prominently put forward that these imports are at the root of all our balance of payments difficulties, and that their elimination would settle in India's favour all balance of payments problems. Attention must therefore be directed primarily to the attainment of self-sufficiency in food. Now there is only a certain amount of land available for cultivation in the country. Some of it from its very nature and situation can only grow cereals. The rest can be put to one of several uses, but it cannot, at the same time, be

put to all of them. If therefore we are going to become self-sufficient in food it can only be at the cost of diversion of land from the growth of other crops, except of course, where some new irrigation project or agricultural improvement increases soil yields. In the short term, such developments are not likely on any large scale. Accordingly, as a general rule, we must be prepared to grow less of other crops in order to grow more of foodgrains. The other crops may however be more paying. Thus an acre under cotton will yield more than an acre under wheat and an acre under oilseeds or tobacco will yield several times more than an acre under cotton. An acre under sugar-cane will give an even higher return. Is it then wise to concentrate on growing the lower value cereals at the expense of the higher value cash crops? The answer really depends on an estimate of political probabilities. This country could have remained an importer of foodgrains without any qualms had it not been that during the war lack of shipping prevented grain available in foreign countries from being brought here in large quantities. If therefore it is anticipated that within the next two or three years there is the probability of a recurrence of a calamity of that nature, then obviously self-sufficiency in foodgrains must be the primary aim. If however, it is felt that there is no such imminent danger, wisdom would lie in attempting to obtain from the soil besides a certain minimum of cereals, those crops which will benefit our agriculturist as well as our foreign exchange position most. Should this view prevail, the right method would be to attempt a proper crop plan for the whole country, laying down the quantities of each crop to be grown and the quantities to be imported, due regard being had to the advantage from such growing and import. More especially is this desirable, when as at the present time, food grains are available in large quantities and at not excessive prices from abroad.

7. The problem of raw jute is particularly pressing. Unless some reasonable arrangement can be made with Pakistan, the future of the jute manufacturing industry is at stake. The position of this country, *vis-a-vis*, Pakistan, would be greatly improved in this matter if instead of thirty lakh bales it grew fifty lakh. This increase is only possible at the expense of rice. Here again is a case in which diversion of land would yield more profitable results both to the agriculturist and the State, provided, of course, imported grains were made available at reasonable prices to the agriculturist diverting land from rice to jute.

8. From the export point of view, it may generally be said that it is better to increase the area under such crops as will fetch a good price, directly or after processing, in the export market, or will reduce the necessity for imports of the more expensive commodities than merely to concentrate on increasing the area under food.

9. India has the greatest cattle population and the worst milk supply in the world. The two are closely related, for the very number of cattle makes it extremely difficult for them to receive that attention and food which would enable a much smaller number to give a much better yield, both in milk and in traction power. The position we understand, bad as it is, is being aggravated. The Constituent Assembly has laid down as an objective of the new State that no useful cattle shall be slaughtered. Various Provincial and local authorities are however not content with the restriction imposed by the term "useful" and are banning all slaughter of cattle. The result must inevitably be a much greater burden on cattle food and pasture reserves, with a weakening of the economic life of the country. From the export point of view, the problem has a double significance. In the absence of slaughter, the best type of hide which fetched a good price in the export markets is no longer available. The supply also suffers since slaughter houses used to provide large

quantities at regular intervals. Without slaughtered hides to make good chrome leather, we may have to import it for internal use. In all the circumstances, the indiscriminate stoppage of cattle slaughter is a wasteful policy likely to have a most detrimental effect not only on the export trade in hides but also on the economic position of the country.

10. In the paragraphs above, we have dealt with some aspects of government policy and its results, actual and likely. We now turn to a matter affecting exports in which the burden of action lies not so much on the State as on the subject. 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 Indian producer, with a few exceptions, never tried to produce for export or to meet the needs of particular overseas markets. He was content to seek protection against foreign competition to safeguard his own ample internal market. The position in the main continues the same today in spite of the fact that the internal market has shrunk by the creation of Pakistan. 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. This is a very unfortunate state of affairs for, unless industry realises the importance of exports, all government action remedial and encouraging will be in vain. Our balance of payments position in the past has been sustained very largely by exports of raw materials. That position has now changed and if industry is not willing and anxious that its products should take up the slack left by the reduction in raw material exports, irreparable damage will be done to the economy of the country. Industry should be more than willing to take upon itself this responsibility because the fall in our raw material exports is quite often due to the fact that instead of being exported they have been taken into the process of manufacture by industry. Nor is the responsibility of industry confined to this aspect only. Industry must not only become export-minded but must see that its products are export-worthy. It alone can produce what the customer will buy and to the extent that by shoddy work and undue desire for profit it disappoints the customer, it turns away foreign exchange and is doing distinct disservice to the country.

11. Finally, we would invite attention to what we believe is a recent development in Indian economic life and probably the most disastrous that has affected it for a long time. In the course of our enquiry into the conditions affecting the export of various commodities, again and again have we been given as the reason for high prices and the reduction of or inability to export, speculative activity and the hoarding of stocks. Prices have gone out of parity because a few individuals with plenty of money have bought up stocks and are holding them to sell at advantage. Not content with operating on the current season's production, they, in some instances, have spread their tentacles to the next season. During the war and its aftermath people imbued with the gambling instinct reaped a rich harvest of wealth. The way in which a great deal of this wealth is used is a tremendous handicap to the establishment of a reasonable and stable price level in this country, and hence to exports generally. Many instances of their activities could be cited. It will suffice to say that of exportable commodities, none of any importance except tea and cloth (since the imposition of control) has escaped the depredations of this class. There is no doubt that such a state of affairs constitutes a grave public danger and we would recommend that Government take all possible steps to meet it. The attention of the incometax department should be specially concentrated on this class. Any breach of any law by it should be investigated with the greatest vigour and punished in an exemplary fashion.

PART II

IMPEDIMENTS AND MEASURES.

LIBERALISATION OF EXPORT CONTROL.

It is somewhat paradoxical that, while Government has been aiming at export drive, elaborate machinery to exercise control over the majority of exports exists. The present export control notification has been inherited from the days of the war when there was need to restrict the volume of exports for a variety of reasons, many of which no longer hold good. The justification for continuing export control over various commodities must, therefore, be reviewed afresh in the light of present conditions.

2. The basic justification for controlling exports is that the internal supply is not sufficient to meet the total demand—internal and external. The effect of restrictions on exports is to give a higher priority to the demand of the internal consumer and let the overseas buyer have only the surplus. A country with a favourable balance of trade such as we used to have in the past may perhaps be able to afford such a policy. When, however, there is a large adverse balance of trade it is a mistake to imagine that export control can help in assuring a better standard of living for the people. If we conserve indigenous production for internal consumption, in order to balance our trade we must necessarily curtail imports severely. In either case internal consumption has to be cut. The real question is one of weighing the importance of the goods that are allowed to be exported against the essentiality of the imports which must be cut on account of the fall in the country's exports. When we have to depend on imports to supply us with food and fertilisers, raw materials and machinery, the necessary foreign exchange for which is not being earned by our present level of exports, clearly the case for reducing as far as possible all restrictions on our export trade is overwhelming.

3. The argument that if free exports of any commodity are allowed its internal prices or supply would be adversely affected always needs the most critical scrutiny. The price level of Indian goods in general is such today that far from exports leading to an increase in price, it is the high price which is hampering exports. The fear that there may be a shortage is frequently ill-founded. The supply of a commodity is not a static thing. The impact of a large demand often stimulates production which may prove sufficient both for internal and overseas consumption. In recent months many items have been made free experimentally, either for Pakistan alone or for all countries. In no instance has it been necessary to retrace our steps and to re-impose control. There is an overwhelming case for making such experiments on as wide a front as possible. Theoretical apprehensions are often belied in practice.

4. One of the most undesirable features of the present export control is that a large number of manufactured goods are still subject to control. We have in the past exported raw materials. Our resources in this respect have been reduced by partition. If we are to achieve a balance in our trading once

again, we must rely on a considerable expansion in the exports of our manufactures. In the long-term interests of the country's foreign trade, manufactured goods as a class must be freed from export control and indeed it should be our policy to encourage such exports in every possible way. The markets of the world are not accustomed to look upon India as a source of manufactured goods. During the war, we got an opportunity to increase the export of our manufactures. With the emergence of a buyers' market and growing competition from the more industrialised countries of the world, our industry must not be handicapped by restrictions when it seeks to export its products.

5. Where a limitation on the total volume of exports is considered essential to safeguard the interests of the internal consumer, we feel that the best course would be to allow free exports until whatever quota is fixed has been exhausted. Such a policy has been adopted in respect of Pakistan for many commodities and the principle should be extended to other countries and other commodities. The restrictions regarding established shippers and destinational quotas may have been useful and convenient implements of administration so long as the external demand was known to be very large in relation to the total available supply. Such a position no longer holds good generally. For most commodities subject to quota restrictions the present volume of exports is below the quota fixed. It would be best to allow trade to flow unhampered until the quota limit is reached.

6. In the course of our examination of witnesses from various Ministries of Government we found that one of the grounds on which restriction on export is being justified is that the goods or their ingredients are wholly or partly of imported origin. We are of opinion that except in respect of goods which come from hard currency countries, there is no reason to place any obstacles on re-export, unless the goods are in such world-wide short supply that difficulties are anticipated in replacing them from soft currency sources. No one will export goods which he has imported from outside unless he makes a profit on such exports. The effect of importing any commodity from a soft currency country and exporting it to another is only to increase the net earning of foreign exchange by the amount of the profit made by the exporter plus any revenue which may be retained by Government. Where the raw materials alone are imported, the case for exports is stronger, because such exports provide more foreign exchange in payment of processing charges and also more employment for our people. It has been suggested that because imports are allowed upto certain ceilings of value which are determined with reference to the estimated internal consumption, any exports would result in a shortage. This view is based on the assumption that these ceilings are fixed and unchangeable. If in actual practice on account of the relaxation of export restrictions certain quantities of any particular imported commodity go out of the country there can be no objection to increasing the import ceiling correspondingly. Our general view, therefore, is that there is no need to have export restrictions on any commodity simply because it happens to be partly or wholly of imported origin. Nor should there be any objection to the free export of processed articles, the hard currency element in the price of which is not more than half.

7. In Part III of the report will be found specific recommendations regarding the more important of our export commodities. There are however a large number of items on which individual comment has not been possible but which we think should be removed from export control. In preparing this list, we have followed the general considerations outlined above. In many cases representatives of ministries have expressed themselves in favour of our recommendations. It is not possible in the time at our disposal to undertake a detailed and thorough study of each of these commodities. We are agreed how

ever that the removal of the items noted below from licensing restrictions will be to the advantage of our export trade.

<i>Item.</i>	<i>E.T.O. Notification No.]</i>	<i>Remarks.</i>
Belting for machinery	Part A 4.	
Ethyl alcohol or rectified spirit of	Part A 6. (viii)	
Clocks, watches and parts thereof	Part A 7.	
Instruments, apparatus and appliances and parts thereof, the following :		Those of hard currency origin will continue to be controlled under item 68 of Part Dr.
(i) Cameras	Part A 13.	
(iii) Clinical thermometers		
(v) Electrical insulating material.		
(vii) Electric wires and cables		
(x) Optical instruments, all sorts.		
(xi) Surveying instruments and appliances.		
(xiii) Wireless instruments (probably the other items under this head may also be treated similarly).		
Woolen and worsted manufactures	Part A 26.	
Umbrellas and umbrella fittings	Part A 27.	
Confectionery	Part B 1-A	Supply of sugar a reasonable price is essential.
Provision and oilman's stores	Part B 6	Tinned milk and milk products may continue under control.
Manufactured items, made wholly or mainly of metal.	Part A 7.	
Small tools, all sorts	Part C 9A.	
Abrasives	Part D 1.	
Bicycles	Part D 6.	
Candles	Part D 12.	
Arsenic sulphide, Acids, Gases, and Crude glycerine	Part D 15.	
Crude drugs	Part D 24.	
Glass bottles	Part D 27-A.	
Instruments, apparatus and appliances	Part D 36.	
Lamps	Part D 27.	
Matches	Part D 41.	
Paints, varnishes and enamels	Part D 46.	
Manufactures of paper and paste board	Part D 46-A.	
Manufactures of plastic	Part D 48-A.	
Canvas shoes	Part D 52.	
Soaps and washing powders	Part D 55.	
Stationery	Part D 58.	
Textiles, the following :	Part D 63.	
Artificial silk yarn;		
Apparel, all sorts ;		
All silk manufactures ;		
Haberdashery and millinery ;		
Silk yarn & manufactures ;		
Woolen blankets	Part D 65. Do.	
Ultramarine Blue.		
Electrical goods of indigenous manufacture		Should include motors
wood and timber other than teak.		

We are aware that clocks and watches are mostly of hard currency (Swiss) origin. Watches however have to be imported at the cost of hard currency, not primarily because we must have them, but because the Swiss insist that if we take other things from them which we really need, we must also take some watches, the export of which forms part of their traditional pattern of trade. In our view, it is desirable that these watches should be exported so that the hard currency spent on them may not mean a total loss of foreign exchange but only of hard currency, soft currency being obtained in substitution. A somewhat similar consideration would apply to American motor cars assembled in India, which are imported not because the American cars are essential for the country but in order to keep the assembly plants working. Many soft currency countries might be interested in the import of Indian assembled American cars. Luxurious cars are in any case not in accord with the economic conditions of this country and if they have to be imported to keep the assembly plants going, preference should be given to export demands for the finished cars.

8. In any examination of the reasons for our present adverse balance of trade, it is customary to point out that owing to partition we have become net importers of jute, cotton and hides and skins, while previously we were exporting these in substantial quantities. True as this statement is, it does not present the whole picture. For the raw jute which came from East Bengal, the grower received many goods and services which he needed. Similarly the cotton from West Punjab and Sind was not paid for so much by money as by the supply of goods—cloth from Bombay and Ahmedabad, coal and steel from Bihar. While therefore a decrease in our exports to the rest of the world can be explained in part by reference to the loss of resources consequent on partition, the fact that during 1948/49 we had an adverse balance of trade amounting to something like 50 crores with Pakistan must make us consider how the situation arose and what remedies are called for.

9. To a very considerable extent, this adverse balance with Pakistan seems to be due to the policies pursued by us. On the termination of the standstill agreement in March 1948, export control was imposed in all its rigour on goods and commodities going to Pakistan, while imports from that country were allowed to come in freely. There was a feeling that by denying exports and taking imports we were benefitting our people by increasing the availability of goods to them. The fact that most Indian industries had been meeting the needs of Pakistan in full, that Pakistan was for them an essential market without which they could not work to capacity and that unless we paid for goods from Pakistan with goods from India we would have to lose foreign exchange was forgotten. There was no reason to hold that the continued supply of Indian goods to Pakistan on the pre-partition scale would have left us any the worse; yet the supply of goods from India to Pakistan was made extremely difficult. Thus when after agreeing to a quota of 300,000 bales of cotton piecegoods for Pakistan, export duty was reduced by 15 per cent., it was decided that Pakistan should still pay the 15 per cent. in another way as a surcharge to Government on the cloth supplied to it. This among other reasons caused Pakistan to buy only 20,000 bales against the 300,000 bales and to import large quantities of foreign cloth into what had for ages been our natural market. The effect in India, apart from the loss of foreign exchange was accumulation of stocks, leading to closure of some mills.

10. We realise that there is a strong section of public opinion in Pakistan which is anxious that that country should rely as little as possible on Indian imports. It would encourage the import of goods from other countries even if Indian supplies were readily available at reasonable prices. The policies

which we have pursued seem to have played completely into the hands of this section. There was a time when owing to export restrictions the daily essentials of life such as mustard oil, matches, hosiery, cloth etc., were being sold to Pakistan by those who got export licences at very high prices. The conditions of scarcity created there stimulated the desire to import from other countries and locate new sources of supply. The other producing countries who were anxious to push their goods into a market which had so far been closed to them exploited the opportunity to the fullest extent.

11. The damage which has been done will not be remedied easily. Nevertheless, even now, if sound policies are pursued, we may be able to regain some of the lost ground. The first step in this direction should be to remove export control on Indian goods going to Pakistan. There may be one or two very exceptional items where Indian supplies are so short that we have to spend dollars on augmenting them, e.g., iron and steel, and for these some restriction may continue, otherwise, and particularly in this case of manufactured goods as a class, we should have no restrictions whatsoever on Indian goods going to Pakistan.

12. It is a fundamental fallacy to think that when one country exports to another, it is doing it a favour. It is in fact quite often doing itself a service. Our export policy has suffered to a great extent from this fallacy. We have time after time restricted the export of articles not because we could not possibly do without them, nor because the trade in them was not valuable to us but for other reasons. Again, sometimes, when we have agreed to allow exports we have hedged them round with such conditions regarding licensing, prices, duties etc., as to make fulfilment extremely difficult. Generally, such action has resulted in loss to us no less than to the party to whom we were exporting. Our attitude throughout is very different from that of other countries who attach importance to exports. They give every possible inducement to the customer to buy. We seem to proceed on the basis that it really does not matter very much whether the customer buys or not.

13. There is again a special frame of mind unfortunately not absent in Government circles which considers refusal to trade or putting hindrances in the way of exports a good method of showing political displeasure. The relations between two nations may be strained; they may quite often be extremely difficult and yet trade is generally unaffected. Very recently we have had instances of the totalitarian state of Russia selling manganese ore to the U.S.A. in spite of the cold war between them. Similarly Great Britain and Germany continued to trade with one another in the period between the two wars, even when relations were very near breaking point. It is good to be at peace with all the world. It is better to have cordial relations with every member of the comity of nations. But to refuse to trade in the absence of cordial relations is to show signs of immaturity. Export policy must be re-oriented. Its sole object must be to export.

QUALITY CONTROL

Much public interest has recently been evinced in the quality of Indian exports and in the measures necessary to maintain and improve it. There have been frequent complaints that goods shipped from India are sometimes below the standards or specifications agreed to by the seller. It has been pointed out that failure to keep up to standards even in a few instances is likely to affect the reputation of Indian goods in general and injure the country's export trade.

2. When goods are scarce, the usual tendency is not to bother about quality. The largest quantity is sought rather than the best quality. Not only are most

exporters not prepared to reject what they themselves consider to be unsuitable or unfit, but even the buyers would rather have sub-standard goods than go without them. Again, when prices are high, as they usually are in conditions of scarcity, the consumer often prefers inferior goods provided they are cheap to quality goods which cost more. In conditions of scarcity moreover, the standard of production often goes down. Goods which in normal conditions would never have been produced begin to find a market. More and more people try to enter a sellers' market and the dilution of quality continues. This analysis is borne out by the fact that the deterioration has been not only in the quality of Indian exports but also in the quality of imports which we have received from other producing countries.

3. To a very considerable degree, the solution of the problem lies in those general measures which help the promotion and development of export trade—steps calculated to lower prices and increase availability to which we refer elsewhere. The question however remains whether, in conditions as they are today, something more direct and positive cannot be done to maintain the quality of India's exports and the reputation of Indian merchandise. To this question we would unhesitatingly answer, "Yes". At the same time the objective of various measures of quality control should be fully realised. Any measure of quality control for export purposes can have but one objective, the satisfaction of the consumer. Methods to ensure that goods give the maximum value for money to the consumer have their place in the internal economy of a country. When it comes to exports, however, the consumer must be given what he wants and there must be no attempt to get him to take something else which we may consider good, but which he does not want.

4. The main suggestions for quality control of exports fall under the heads of:—Standardisation, prior inspection of shipments and deterrent action against those found guilty of malpractices.

5. The general task of standardisation has at present been entrusted to the Indian Standards Institution. It has already prepared standards for a number of commodities and is at present busy preparing standards for others. The enforcement of standards is not however a responsibility of the Institute nor indeed are these standards compulsory. They are in their nature recommendations to manufacturers and producers.

The first requirement of a successful scheme of standardisation is its acceptance not only by the producer but also by the consumer. If the standards evolved are those which the consumer finds convenient, his task of obtaining supplies of the right kind is considerably simplified. If in addition the consumer has confidence that there is a satisfactory machinery for ensuring that when prices are quoted for goods of a certain standard, goods of only that particular standard will come to him, the flow of trade is made smooth and free from difficulties.

Such has been the experience of the tobacco trade where as a result of the introduction of grading the overseas buyer is enabled to order particular grades without hitch or difficulty, while formerly he had to buy them on a consignment basis and make payment after inspection at destination. It does not of course follow that the successful operation of standardisation in respect of tobacco means that it would succeed for all other commodities.

For goods which are not the raw material of industrial production but are consumer goods, standardisation may actually cause difficulties. The taste of each market and even of classes of consumers in a market not being subject to standardisation attempts to standardise the quality of supply would result in a loss to the export trade. Commodities like cloth and tea are obvious instances where we feel there is little scope for standardisation. Indeed in both

these commodities, we consider that the only scope for standardisation is in packing so as to ensure reduction to a minimum of damage in transit.

The main scope of standardisation must lie in the field of raw materials. Here again an important limitation must be borne in mind. There are commodities for which each market may have its own standard requirements. Thus, what is considered waste cotton in this country is usable in others for spinning purposes. Likewise in other raw materials, each country and even each market may have its own peculiar needs. This is true of commodities like hides and skins, where different countries have different requirements depending upon the process which they use and the kind of finished goods which they wish to market, manganese ore where the percentage of manganese content required by different steel users differs and raw jute where each mill likes to buy the varieties which it has used before. For such commodities, no hard and fast standards are possible.

It remains a moot point whether when standards have been evolved in respect of suitable raw materials, they should be enforced by Government. The guiding rule should be to do that which would please the consumer most. Where there is already an established and working machinery for determining the standard of the exported raw material and remedying defects, if any, the enforcement of yet another test by Government is not likely to serve any useful purpose and may well serve as an unnecessary irritant by delaying shipments or by increasing costs. The question to consider is whether such an examination is likely to eliminate the need for the examination which the shipper or the buyer or both themselves undertake. A rough and ready method of deciding on the advisability of compulsory standardisation is to see whether the goods are as a rule being sold before they leave the country or whether in general they go on a consignment basis, subject to acceptance and rejection by the buyer after arrival. In the latter case, the laying down of standards may prove beneficial, as for tobacco. This might also be useful for mica, where rejections on the arrival of goods are sometimes heavy. Mica however presents a somewhat peculiar problem in that even experts often differ and in the days of purchase by the Joint Mica Mission, there were frequent instances of goods which had been graded by the Inspectorate in this country being graded differently at destination. We understand that the Indian Standards Institution is conscious of this difficulty and proposes to do no more than standardise the dimensions of mica. A good case exists for evolving for shellac standards, which would be acceptable to the principal users of the commodity and to which Indian production would conform. For commodities in which the importing country has certain standards, goods below which are forbidden entry, it would be advisable to have not only standards laid down for export, but also their enforcement by Government inspection.

One objection to enforcement of standardisation by Government is that if goods which go out with the official seal of approval, are found to be below standard, damage is done to the reputation of the country as a whole and not merely to that of the exporter alone. This means that the staff engaged for inspection must be thoroughly honest and that the method of sealing should be such that after final examination no further tampering is possible. We understand that in the case of sun-hemp which along with tobacco was also graded, there has been a great deal of difficulty, because the seals and marks attached to the bales have sometimes been altered.

6. The same difficulty arises also about commodities in which it is intended to have quality control only in the sense of seeing that supplies are made according to sample or specifications approved by the buyer. If the inspection for this purpose is to be effective, it may be necessary to open and examine every package at the docks before it is allowed to be shipped. This would be

both extremely difficult and expensive and may well lead to delays and disputes which may do more harm than the practices they are intended to stop.

Even where there is no system of governmental control of quality or inspection of goods—and we would add that most of the world's commerce is carried on without such inspection—there are other provisions which provide to the buyer the safeguard which he needs against the fraudulent practices of the supplier in an overseas country. There is, as a rule, a standard clause of arbitration in the contract for each commodity which generally satisfies both the buyer and the seller. Many of the contracts entered into by Indian exporters do not however have a satisfactory clause about arbitration and it is desirable that a standard form or perhaps a number of standard forms suitable for different commodities should, where necessary, be evolved and recommended for adoption to the trade. When definite provisions for such arbitration exists, there would seem to be little need for Government to interfere in any dispute regarding any particular shipment.

7. Where, however, the dispute suggests that the Indian exporter has not merely failed to comply with the standard prescribed in his contract but has actually attempted to cheat the buyer by giving him something which is entirely different or where it appears that any particular firm, whether of exporters or manufacturers, makes a practice of selling below the agreed standard, or where the exporter at fault refuses to abide by the arbitrator's award knowing that the aggrieved customer will not find it worth his while to launch a suit in this country at considerable expense, it should be open to and indeed, it will be desirable for, Government to take deterrent action. We understand that complaints received from Trade Commissioners abroad are referred to the Director General of Commercial Intelligence for inquiry and if possible, for settlement. This arrangement is not satisfactory. When complaints are referred, very often essential data necessary for coming to a finding are lacking. If for example the complaint is about a consignment of piecegoods, unless a sample taken from the actual cloth complained against is sent by the Trade Commissioner, it is very difficult to decide who is really at fault. Again once the complaint reaches India, the investigation must be made promptly by an officer invested with legal authority for this purpose. The officer should moreover be responsible for coming to a decision within a month of the receipt of the complaint. If it is found that the offence is sufficiently serious, the party concerned should be debarred from further participation in the export trade.

8. The general trend of the argument above can be summed up by saying that the laying down of restrictions regarding the quality of exports or the appointment of an army of inspectors is not likely to be of special help in promoting confidence in the quality of Indian goods. Action should be aimed not merely at standardisation or quality control but at removal of dangerous or undesirable elements in the export trade of the country. To sum up:—

(i) Quality control in the sense of preventing by Government enforcement the export of anything which does not conform to certain fixed standard should be applied in the case of those commodities where the laws of the importing countries are such that the importation of anything below the standard is forbidden. Examples of this kind are the various laws prescribed by the public health authorities in U. S. A. and Canada governing edibles like oil-seeds and spices.

(ii) The quality of packing of commodities like tea and cotton piecegoods should be standardised and adherence to these standards should be enforced.

(iii) As a rule arbitration should be relied upon for ensuring that the quality of the goods exported conforms to the buyers' specifications. For this purpose,

standard forms of arbitration should be evolved and recommended to the Chambers of Commerce for adoption.

(iv) Where there is a distinct attempt to cheat the buyer or a practice of selling below standard is established, or where the exporter refuses to carry out any award made by the arbitrators prompt inquiry resulting in black-listing should follow.

(v) Standards which will facilitate the transaction of business by enabling quotations to be made with reference to them, provided they are equally well understood by the buyer and the seller, should be prescribed as means of reference.

(vi) Standardisation or quality control should not as a rule be applied to commodities in which markets or buyers have their own particular preferences.

TAXATION AND EXPORT

It may be said, as a general rule, that to tax exports is to reduce exports. Hence it is that the great exporting countries of the world have hardly ever had a tax on exports. In India in the decade before the war, the only duty on exports of any importance was on raw jute and jute goods. This was clearly due to the monopolistic position of this country as the sole supplier of these commodities to the world. Towards the end of the war, disparity between the prices of exportable goods in this country and in the foreign markets became so large that Government felt that it could not continue to allow middlemen to have the whole difference, and that a share should go to the State. Accordingly, export duties were imposed on cotton, cotton piecegoods, tea, in oils and oilseeds and ores and those on raw jute and jute goods were increased considerably. It was thought they would help the exchequer while doing no harm to the trade. Moreover, the general outlook at that time was to restrict exports by fixing over-all quotas.

2. The position has changed considerably, and the change has, for some commodities at least, received the recognition of Government. Thus the duties on cotton piecegoods and oils and oilseeds have been abolished. The effect of the abolition has however been different in the two cases. While there has been a substantial increase in the export of cotton textiles following the abolition of the duty, no perceptible increase is to be found in exports of oils and oilseeds. The reason for the difference is that piecegoods are a controlled commodity both as regards price and margin and abolition of the duty could not therefore mean a rise in price to the corresponding extent. Oils and oilseeds are decontrolled and the abolition of the duty provided a welcome opportunity to push up prices. It is thus clear that, though the correct course, at a time when prices are falling generally in external markets and it is desired to increase exports, is to remove all export duties, we cannot count on satisfactory results following from every such abolition. It is for this reason that later on we have not suggested a removal of the duties on jute and jute manufactures.

3. Again, once a duty has been imposed, it may be essential to wait for a proper occasion before removing it; otherwise, the advantage sought to be given to the exporting interest may not be as effective as it should be. Thus it would not be advisable to remove the duty on tea at the present time, when there is no special competition to be met. Ceylon has a higher duty and Indonesian production is still being built up. At the same time, as soon as an occasion arises the duty must be promptly removed—budgetary inconvenience cannot be considered a satisfactory excuse. It should be realised that to rely on export duties as a stable source of revenue is most unsafe and indeed opposed

to every canon of fiscal prudence. To put a tax on some exportable commodity, in order to meet a budget deficit is to injure the export trade and thus inflict much more damage on the fiscal system than the revenue brought in by the tax can repair. The damage may not be perceptible at once. The duty generally tends to affect exports slowly but in the end conditions deteriorate to such an extent that it has to be quickly removed. We have now a duty on cigarettes. It was hoped that it would do no harm, but it has affected the prospects of the export of Indian cigarettes to Australia, where owing to a cut in American tobacco imports, the trade had hoped to find a new field. Apart from this, the imposition of the duty serves as tariff protection to the cigarette industry in Pakistan, our nearest market, where it is just developing. There would seem to be a clear case for the abolition of this duty and we recommend that it be immediately rescinded.

4. Provinces impose sales taxes on commodities sold within their boundaries for the purpose of obtaining revenue, but these sales taxes should not be a hindrance to those activities which produce foreign exchange both for the provinces and the Centre. Thus, to impose sales tax on goods which are to be exported is in effect to impose an export duty on them and to that extent to make them less competitive in foreign markets. The decline in Indian exports is due in large measure to the high prices prevailing within the country. It may be argued that the amount of the sales tax is so small as a rule that it imposes a very minor burden. It should however be remembered that even a small addition to an already high price may put a commodity out of parity in a foreign market and may thus prevent business being done. The difficulty about sales taxes is aggravated by the different rates of levy in different provinces and the different rules governing the levy. Thus, it is not unusual for two provinces to tax the same article when it is in progress from a place in one province to a port in a third from which it is to be despatched abroad. We would urge that the general rule be adopted that no goods for export should be liable to sales tax. In this respect, the example of Bombay and Bengal, two provinces which from their situation would seem to have some realisation of the need for exports, deserves to be followed throughout the country. The loss which provinces may have to bear by observance of this rule will be more than off-set by the large advantage of the country from increased exports and the absence of vexation to exporters which at present is a far-too-frequent grievance.

5. In U.K. and in many other countries with a large export trade it is the normal practice to allow a drawback of the import duty when goods imported into the country are re-exported. Again, when goods imported into the country are processed before export, a similar draw-back is allowed on export. Such assistance would be of considerable value in this country. Thus, the art-silk processor, who pays a 65 per cent. import duty on his raw material, is unable to compete in any foreign market. Again, the soap manufacturer, the pharmaceutical chemist, the piecegoods exporter using foreign cottons, the fishing pole manufacturer using Burmese bamboo and others using imported raw materials—the competitive position of all these would be greatly improved by suitable provisions of this nature. It is sometimes urged that imports of particular goods are allowed into the country for the internal needs of the country only and therefore no question of export ought to arise and consequently no need for giving any draw-back. It must be remembered that processing within the country increases the value of the commodity by the value of the labour and processing and that when a finished processed commodity is exported, it brings in foreign exchange equivalent to the original cost plus the expenditure within this country plus a profit. In the

circumstances, it is in most cases advantageous to the country to have processed goods exported. Nor should there be any objection to increasing the import of the particular raw material to cover the amount utilised for the exported finished article in order to meet the needs of the country. Thus, there would be no loss of revenue even on the import side while the advantage in foreign exchange from increased export is evident.

6. A point relating to taxation which seems to have caused real hardship is the application of sections 42 and 43 of the Income Tax Act. The sections provide for the profits made by the overseas buyer being taxed in India if the shipment to him is made by his agent in this country. The basic justification for this lies in the fact that where the exporter is an agent and not himself a principal, he may well ship goods at no profit in order to make all his profits abroad. With the principle of the sections no one will disagree. In practice however, we understand a person who makes a profit of less than 3 per cent. on his exports is deemed to be the agent of the overseas buyer and the onus of disproving this lies on him. In present conditions, the number of commodities in which a profit of 3 per cent. can be counted upon by the shipper is limited. The effect of this section is to make exporters insist on getting at least 3 per cent. because working on a lower margin would make them liable to taxation on the profits made by the overseas buyer. In our view, the actual facts of each case should be gone into and there should be no such arbitrary limit set. More and more as time goes on, will exporters be willing to trade on margins below 3 per cent. and it would be reprehensible for the revenue assessing and collecting branch of Government to attempt to prevent by its rigidity the earning of foreign exchange. Wide publicity should be given to the fact that whatever the practice of the past, in future this arbitrary limit will not apply.

7. Yet another problem relating to incometax arises at the importing end and affects firms who set up their own offices in overseas countries for the purpose of selling goods of Indian origin. The problem here is of the firm's profits made in India being taxed in overseas countries as a part of the profit made on the sales there. In other words, if a manufacturer in India sold his goods outright to an importer in another country, the importer would pay tax on the profits which he made on selling those goods there. If, however, the manufacturer had his own agency house for selling his goods overseas and exported to that agency house then the agency house would be called upon to pay a tax not only on the profits made in that country but also on the proportionate profits made by the manufacturer in India. This is a very direct discouragement to the setting up of branches abroad, and thus to the increase of exports. The specific case which has come to our notice is that of New Zealand. It is not so much that any foreign country insists on being difficult about this matter but that it wants reciprocal concessions in this field. We would urge that bilateral understanding on this question should be reached with as many countries as possible, particularly those which are important markets for Indian exports, regardless of whether from the purely revenue point of view, the arrangement with any particular country appears to be more favourable to India or to the other party. The very fact of such restrictions prevents the opening of branches. Thus the loss this country suffers is not to be assessed by the amount of tax collected on the other side but by the loss of business arising from the non-opening of these branches.

8. An inducement to exports, not likely to cost Government over-much, while at the same time furnishing real incentive, would be a refund of incometax on a percentage of the profits made from exports. A scheme could be

worked out somewhat on the following lines:—

Assuming 1948-49 as the base-year, if a firm exported in 1949-50 the same quantity as in the base-year, it would be given a rebate on 10 per cent. of the proportionate profits it made from exports. If it increased its exports in 1949-50 by 25 per cent., the rebate would increase by 5 per cent. and another 5 per cent. for every further increase of 25 per cent. over the basic figure. We are not altogether enamoured of any such scheme, but we do feel that in times difficult as these and with more difficult times ahead, some special incentive may be very desirable to keep exports up and to increase them.

FACILITIES FOR EXPORT

The transport bottleneck, to which all the country's ills were ascribed a year ago, has now ceased to be a by-word. It is admitted that there has been considerable improvement in transport. So great, however, is the reliance on transport of practically every commodity exported that it is necessary to keep a very special watch on the movement of such commodities to ports. We understand that though instructions have been given to the regional control authorities to accord priority to goods for export particularly to a hard currency country, in practice, some difficulties remain. It is not easy always to establish that a particular consignment going to a port is in fact meant for export. In many instances, the consignor may not be an exporter at all. Even the consignee himself may not be the exporter. The evidence of an export licence, which is some times asked for before the grant of priority, is not always available with either the consignor or the consignee and in the case of decontrolled commodities, it does not exist at all. The real and effective solution of the problem is to give high priority to the movement to a port of those commodities which are known to be of importance to the export trade. This may mean that goods meant for local consumption at the port also benefit to some extent. On the other hand, there would be the advantage that when an overseas enquiry is received stocks will be available at the ports to meet it.

2. Particularly important is railway transport for our exports to Pakistan. We were assured that wagons were being given to goods covered by the Indo-Pakistan Agreement. There are, however, many commodities not covered by the Agreement, which normally do go to Pakistan and exports of which to that country we wish to encourage. In the absence of any general instructions, such consignments required to be sponsored *ad hoc* before they get the requisite transport priority. One of the reasons for this is the fear that the consignment may need an export licence which may not be available. We feel that the railways should be told to book every cargo offering for Pakistan, merely giving preference to the agreement commodities. If there are any commodities which Government does not wish to be exported to Pakistan, the task of stopping the export is clearly the responsibility of the Customs staff, and by relegating it to every station-master all over the country, the prospects of Indo-Pakistan trade are not improved. In general, no shipper is likely to book goods without making sure that export will be allowed, because the loss to him by detention of goods at the frontier is likely to be considerable. Of special importance is the role of transport in supplies of cotton piecegoods to Pakistan. The boycott seems so far to have been concentrated in Karachi. Both West Punjab and East Bengal appear prepared to take Indian piecegoods. Coastal shipping freights at present being high overland movement will also make Indian goods cheaper and therefore more attractive.

3. Yet another matter connected with transport, requiring urgent attention is railway freight and its application to export commodities. In the old days, it used to be a standing complaint that freight rates were so designed as to facilitate the export of raw materials and the import of manufactured goods. In either event, the policy, it was argued, was detrimental to Indian industry. Partly with a view to meet this criticism and partly to maximise railways revenues, the policy now in force in fixing railway freights is to charge whatever the traffic will bear. We have been told that the provisions of the Railway Act prevent discrimination in the matter of freight-rates between one class of users and another. In present conditions, having regard to the fact that price-resistance to Indian goods is increasing daily, it is clearly desirable that freight to the ports should be given substantial advantage. That even at the existing rates sufficient bookings are available, does not mean that export demand is present to the same extent. When, as has been the case until very recently, transport is short, if the freight-rate for a particular commodity is too high, there would be no empty wagons to bear witness to the fact because some other commodity or some other consumer will fill the space. The mere fact therefore that there has been no dearth of goods being offered to fill wagons is no indication that the freight-rates are not uneconomic, from the point of view of the export trade.

4. One of the chief ways in which industries are kept export-minded in the United Kingdom is by giving them special facilities in regard to raw materials, motive power etc. The system of controls in the U.K. is far more extensive than in India and the fact, that an industry or a firm, which exports more to dollar areas, is treated more liberally in the matter of raw materials, is a powerful inducement to keep up exports. We in this country should at least try to ensure that export industries do not suffer on account of a dearth of raw materials. The most important raw material from this point of view is steel. Some exports require tin plate for packing purposes, e.g. cashew nuts to the U.S. A. Others need it as an essential ingredient of manufacture. It has been represented to us that the leather goods industry as well as the bucket-making and steel furniture-making industry could do far more in the way of exports if they had the necessary amount of steel made available to them from controlled stocks and did not have to get it from the black market. Then again there are export industries which require steel not as a raw material but for purposes of maintenance and replacements. One big exporter of manganese ore, for example, has complained about difficulties in getting a few odd steel items, insignificant in quantity. He should ordinarily have been able to get them from the provincial quota, but failed to do so because the Provincial Government had no particular interest in exports.

5. What is true of steel applies equally to other scarce commodities like cement, non-ferrous metals, etc. A general announcement that special and expeditious consideration will be given to requests for raw material needed for export trade purposes should produce good results, provided administrative machinery is at the same time set up for the quick disposal of such applications.

6. Many of our export industries need raw materials, packing materials, stores and spare parts, which have to be imported. Some of them may even need to import new plant and machinery in order to improve their efficiency or expand their production. It would be wrong to allow restrictions on import placed on account of shortage of foreign exchange to result in any diminution of imported supplies required to increase exports. Where it is clear that the imported requirements are such as are not likely to be needed for domestic consumption and the sole purpose of imports is to maintain or raise the level of exports, it would be advisable to place them on an open general licence for

import purposes. When however licensing restrictions are necessary to prevent unduly large imports which may or may not be wholly required for the purposes of the export trade, every facility should be given to the export industries to obtain their requirements through such channels as suit them with as few formalities as possible.

7. Elimination of delay in shipment would be a great gain to the export trade. Delay in shipment arises from many causes. There may be difficulty in obtaining licences. We have attempted to suggest reduction of licensing to as great an extent as possible. Where licensing remains, the officials issuing licences should be impressed with the feeling that they are there primarily not in order to refuse licences but to facilitate their grant in all reasonable cases. The present practice of making three different ministries of government responsible for export licensing means considerable harassment to the trade since it is not always known by which Ministry a particular commodity is licensed. We understand further that even in respect of items at present licensed by the Ministry of Commerce *ad hoc* consultation with other ministries is undertaken in many cases before a license is given or refused to the applicant. Such consultation often causes much delay and by the time it is finished business may have been lost. It is essential that the policy governing the export of each controlled commodity should be settled periodically and its implementation left to the executive with power to use its own discretion in cases needing urgent decision not covered by the policy laid down.

8. Again, there are delays in Customs. Commodities which do not need an export licence are often not passed by the Customs unless a certificate to indicate that no licence is required is produced before it. In other words, the shipper has to go to the export control, whether the commodity is controlled or not. In our view this is entirely unnecessary and should be prohibited forthwith. Shippers complain that on occasion the time taken in getting their shipping bills passed through Customs is so long that they even miss shipping. Particularly is this true when the consignment has to go by air and a delay of even hours may mean a considerable loss. We are told for example that samples of tea which are to be flown to U.S.A. and Canada in order that the buyers there may cable their acceptance, get delayed for three to four days on account of Customs and other formalities and in consequence sometimes the business is lost. The fear of smuggling of Indian goods out of the country, which was so prominent in the minds of the Customs authorities during the war years is probably no longer justified by the present position. Detailed and careful scrutiny of each consignment physically as well as the time taken in handling the documents should now be appreciably reduced. The prevailing high price for goods in this country means that goods are more liable to be smuggled into the country than out of it.

9 Apart from Customs and export licensing, there are formalities connected with the filling of G. R. forms which are sent to the Reserve Bank as a guarantee for the surrender of the foreign exchange earned. Obviously there can be no relaxation of this restriction. It has been urged that samples as a class should be excluded from the G. R. form procedure. On the other hand, we have been told that there have been instances where the exchange control has been evaded by the despatch of a large number of small parcels. While appreciating fully the difficulties of the exchange control in this respect, we would suggest that it should be possible to exempt sample parcels of particular classes of goods going to certain countries from such restrictions. Thus, it is not likely that any one would ship tea to U.S.A. by air freight in order to accumulate dollars there. By dispensing with the G. R. form

procedure, therefore, we have nothing to lose and a great deal to gain. Similarly, there might be other commodities where after individual examination it may be possible to grant exemption.

10. Yet another source of difficulty to the export trade is congestion at the docks. Indeed so great has been the congestion in Bombay that shipping freights to and from Bombay have been increased by 25 per cent. thus making Indian goods more expensive abroad than they already were. This is a most deplorable state of affairs caused very largely by the failure of the proper authorities to get work done, and of labour to do the proper amount of work. Nor is this a transient feature. The congestion has now lasted for several months. It is all the more surprising that this should be so, when it is realised that during the war in the Port of Bombay, one of the principal centres of import, both of war material and other goods, the turn-over of a ship took much less time than at present. We are told that some improvement is taking place and there is hope of further improvement, perhaps as a result of the reduction of the import programme. We see no excuse whatever for the state of affairs resulting in this additional levy on Indian trade generally and Indian exports in particular, and we would urge that every step be taken to improve conditions in the port and have the extra levy removed.

11. While on the subject of shipping freights, we should like to mention the extraordinary situation in which coastal shipping charges are very much higher than the corresponding railway freights. This has a very serious effect not only on internal movements but also on our trade with Pakistan, goods to which country often go by coastal ships. In particular, the supply of coal to Pakistan would be easier and cheaper if the freight-rates from Calcutta to Karachi were more reasonable. One of the principal reasons for carrying goods by sea from one port of India to another was the low carrying charge as compared with railways and, indeed, the railways used to have to keep their freights down to get full loads. We think this matter should be examined at once by a really competent and independent authority. It may well be a case of charging everything the traffic can bear, especially in view of the comparative shortage of wagons and difficulty of loading by rail.

12. For the development of our export trade it is important that we should as far as possible have direct contacts with countries which consume our products. Accordingly representatives of importing houses in overseas and adjoining countries should be given every facility to visit this country in order to get in direct touch with Indian exporters and to acquaint themselves with the nature of supplies available for them in this country. We understand that owing to delay and difficulty in the grant of visas, many a potential customer is turned away. We would strongly urge that permission to visit India to those who are likely to be interested in Indian goods be given quickly and with the minimum of formality.

GOVERNMENT MACHINERY

Although it is true that in many matters, exports depend upon conditions which are outside the sphere of Government activity, the existence of a proper organisation within Government charged with the direct responsibility of obtaining and supplying knowledge with regard to export commodities and having continuous information pouring into it about the progress of exports can be of great value. Most modern Governments have a Department of Overseas trade or even a specific Export Promotion department, either as an independent section of Government or as a branch of an important department. In India the general responsibility of encouraging exports rests with the

Ministry of Commerce. There is however no specific department or sub-department which co-ordinates every aspect of export policy. The first requisite for effective Government assistance to exports is, in our view, the setting up of such an organisation. Its exact form must depend upon the functions it has to exercise. In our view, it should collect information and disseminate it. It should watch and supervise the progress of exports. It should remove difficulties, administrative, internal or foreign, or economic, internal. It should give guidance to exporters. It should take all measures necessary for the spread of Indian trade by publicity in all its forms without and within the country.

2. If the functions described above are to be exercised successfully, a separate organisation is clearly necessary. It may be either within the Ministry of Commerce, or, preferably, as an independent entity under the same Minister. The organisation need not be large. A capable officer in charge assisted by three or four subordinate officers, efficient not merely in the Secretariat sense but with some imagination and initiative, should suffice to make the machine pulse. It should have local officers at the main ports.

3. We give in some detail what we consider the duties of this organisation, should be, as we feel that its efficient functioning will be of considerable help to the export trade of the country. For every export commodity, this organisation should have full details about the internal production with any changes or variations that may occur from time to time in it together with the reasons for such changes. It should also have full information about the demand for each such commodity in foreign markets, the prices prevailing from time to time, the activities of our competitors in each of these markets and the likely trends as they develop. Having obtained the information from foreign sources, it will be its duty not merely to publish it now and again in a Government bulletin or commercial publication but to see that the information reaches the particular interests and sections concerned with the export business in that commodity in the shortest time possible. For the collection of the information we have described above, internally, it will have to rely very largely on other departments of Government, except, of course, that it will have to keep in close touch with at least the Associations dealing with the principal export commodities.

4. For the collection of information from abroad, the main source will be the Trade Commissioners in various countries. From the reports from Trade Commissioners which are being published, we find that while many of them contain able expositions of the development in the economic life of the nation to which they are accredited, very few indeed give specific and definite information about the position regarding articles which India exports, the markets in which it is interested and the possibility of the expansion of these exports. The principal function of a Trade Commissioner, as expounded to us by more than one foreign Trade Commissioner whom we consulted is the nourishing and expansion of export trade. That does not seem to be a view held by most of our Trade Commissioners and we would recommend that they be clearly informed that their work will be judged primarily according to their efforts to increase India's exports. All this, of course, is on the understanding that suitable people are recruited as the Trade Commissioners. Trade Commissioners should, apart from a good general education have a grounding in economics. Ability to learn languages quickly is also of value. In fact, as far as possible only a person knowing the language of a country should be sent to it as a Trade Commissioner. If this is not practicable his appointment should be made conditional on his learning to speak at least that language fluently within six months. He should have sufficient knowledge of the ordinary

technique of business to understand a discussion by businessmen about business generally. He should also, have a general idea of the principal products exported by this country, the raw material and the processes that go to their making. Besides integrity, the other personal qualities most called for are a genial nature, cheerfulness and ability to argue a weak case without becoming heated or embarrassed. Trade Commissioners should be properly trained before appointment. It would be advisable to insist on their qualifying in a special department examination before they are sent out. Their usefulness, we feel, is greatly reduced by frequent transfers. When large sums have been spent in sending them and their families abroad, there seems little point in moving them around, just as they have begun to establish contacts and know the people among whom their work lies. Just as the organisation will rely upon the Trade Commissioner for information so it must see that it keeps him up-to-date by supplying him with all the latest information regarding export commodities and developments.

5. The organisation must keep its statistics abreast of immediate happenings. It should know from week to week the progress as regards exports of the principal commodities. If it finds, for instance, that two weeks have passed and some particular exports are falling behind it should immediately ascertain the reason. It may often happen that prompt enquiry will enable it to settle some difficulty which otherwise would not have come to its notice for a considerable time. Further, it may be able to give some help to, or urge some action on, the trade which will immediately lead to the making up of the deficiency. Thus, port facilities may not be upto the loading required. If that is known, the organisation can probably contact at once the Chairman of the Port Trust and obtain results. Or perhaps somebody is cornering shellac, thus holding up exports. The organisation might immediately initiate remedial action. Constant knowledge of the progress of exports of each individual commodity, combined and compiled regularly will give a complete picture of the merchandise item on the payments' side of the balance of payment chart, so that it will be comparatively easy to prevent a large gap developing, because if it should appear that inspite of all action exports continue to fall, curtailment of imports at a very early date will be facilitated.

6. One of the principal tasks of the organisation would be to have restrictions against the import of Indian goods, wherever they exist, removed. It would prepare cases and see that they were urged properly by our diplomatic representatives abroad. By reason of the very close touch in which it would be with our trade counsellors, immediately any regulation affecting trade came out in a foreign country, it would gauge its effect on export business and advise traders accordingly and if necessary move for modification or change. Should prices abroad seem to show that our goods can no longer be sold competitively, it would examine at once what reduction was possible either by way of removal of duty or cess or by way of persuasion of the business interests concerned to reduce margins of profit. Such an organisation would, apart from the immediate future, also attempt to think out in practical fashion the possibility of the expansion of various branches of our export trade in countries where it has become either static or in other countries where it has not yet penetrated. Thus for instance, had such an organisation existed at the present time, it might have thought it worthwhile to consider on the removal of the export duty on cotton piecegoods which further markets would become interested in obtaining supplies of Indian cloth. It would have known the prices prevailing there, the freight charges from India to those ports, the tastes of the people and would have been able to give Indian exporters considerable guidance on the development of their trade. Publicity in the form of participation in exhibitions and fairs, putting up of show-rooms, issue of literature-pictorial and

otherwise-insertion of articles dealing with particular products in foreign newspapers, all these would fall within its sphere and it would have to see that the best value was obtained for every rupee spent. It seems to us that such an organisation would fill a considerable gap in the country's administrative and trading equipment.

7. It has been suggested in the section dealing with quality control that machinery should be available for the immediate investigation of complaints from foreign dealers which point to fraud or systematic supply below specifications or failure to accept arbitration awards by Indian exporters. This organisation would seem to be the most appropriate body to deal with such complaints. If the number of complaints was large, one of its junior officers could be put on special duty for the purpose. Otherwise, he could be deputed from time to time when such complaints arose.

SOME SUGGESTION EXAMINED.

We in this country are often accused—not always wrongly—of being imitators. This Committee however does not propose to accept every remedy or expedient which has been adopted in foreign lands, or even in England, the country that for long has been our model, unless it is satisfied that in our own conditions the expedient will prove of real value. Otherwise it would be simple to say "they have a Dollar Export Board, let us also have one; they have a Trade Research Organisation, we must put one up too." Considering the commodities which we export, both these organisations would, in our opinion be otiose. What will export most of our principal commodities is competitive price and the quality which the consumer wants. If we can give that and in addition can offer redress in case of real hardship caused by the exporters' mischief, that will do much more than special bodies for export promoting, either to the hard currency areas or elsewhere. Market research of the type done by BETRO is also not really so important for our export commodities as for the consumer goods which form a very important portion of the exports of the United Kingdom. We do not wish to detract in any way from the usefulness of full knowledge about the tastes of the buyer in foreign countries, but we feel individual surveys by people primarily concerned with exporting the particular article, complemented by a continuous flow of knowledge through our Trade Commissioners, would be more useful than the setting up of a costly organisation for the express purpose of scientific research into tastes.

2. Another point in which we are asked to adopt western practice is that of having small councils for each important commodity. These councils, it is felt, would be convenient bodies for Government to obtain information regarding any special situations or grievances. In the West, these councils have developed into very useful bodies particularly because of the permanent staff employed by them, which through a long period of years, has become expert in all the details of the manufacture and export of the particular commodity concerned. This staff, well-paid, well educated, competent and devoted to the interest served, is able to represent the trade in discussions with Government and argue with officials on the level and in the manner which they understand. The usefulness of the councils depends largely on the staff. It would be futile to hope that such staff could be made available even after several years by councils of the same nature appointed here. Experience shows that much bigger organisations too generally lack competent staff. In the circumstances the councils, if appointed, might serve a limited purpose. At the same time, they might be a danger to the formation of clear and accurate opinion by Government, as in present conditions they might well be dominated by the most powerful

interests in the trade of the particular commodity. The very fact of the existence of the Central Government organisation which we have proposed will make it easier for exporting interests to convey suggestions and information to it promptly and we feel certain that whenever any situation arises needing instant action, there will be no hesitation in approaching this organisation, more especially if it functions as it should.

3. An idea that has been bruited about recently as a panacea for all export ills is the Export Credit Guarantee Scheme. This, it is hoped by those who put it forward, will increase exports very largely because it will guarantee payment to exporters. They will thereby ship large quantities on consignment basis to importers and countries even if they have not traded with them before. The British export trade guarantee corporation is in reality an insurance scheme with policies to cover various contingencies. It lays down that at least 10 to 15 per cent. of the risk is always carried by the shipper and it involves a payment of quite a respectable amount for the benefit it confers by meeting the liability if owing to one of specified reasons, the importer does not pay. The scope for such a scheme is very limited in India. The nature of our exports, the traditional ties between exporter and foreign importer, the absence of political interference with export trade in most of the countries to which we export, all these make such a scheme unnecessary. Moreover in order that insurance should work satisfactorily, the number of insurers must be quite large and the business must continue regularly. In the U.K., for instance, a shipper taking advantage of the scheme cannot pick and choose the consignments which he will insure. He must insure all consignments he is exporting to a particular destination. Apart from other considerations, there is not likely to be that amount of business which would allow such a scheme to be worked successfully and, in all the circumstances, it would be best not to waste further time in consideration of this and other similar projects but to apply ourselves to the real remedies for increasing exports—reduction in price, use of good material and suitable workmanship.

4. Another idea that from time to time is put forward is that of the establishment of free ports and free zones. A free port is defined as a port-city or town-in which goods are free to arrive, to be kept, processed and exported. They pay no duty at all unless they are moved from the port area to the hinterland. The idea of having the cities of Bombay, Calcutta and Madras as free ports is undoubtedly attractive to the inhabitants of the cities, but in view of their geographical situation, it would be quite impossible to prevent large scale smuggling of goods from these free ports into the country proper. Moreover, at least Calcutta and Bombay are themselves very large consumers of imported goods so that the scheme would mean that the inhabitants of these cities would pay no duty on imported goods consumed within their limits. The adoption of any such scheme might well mean a loss of 50 per cent. of our import revenues.

5. The other suggestion of a free zone covering the port area alone and not the whole town seems, at first sight more feasible. Here a particular portion of a town could no doubt be demarcated and by stringent watch and ward and patrol, movement of goods from it to the rest of the town could be prevented. The efficiency and the value of a free zone however depend very largely on the excellence of the port facilities it can offer. We have referred to the state of congestion that delays shipping at least in Bombay and Calcutta. Another point to remember is that the nature of our trade is not such as to include very many articles which we could process and re-export from these free zones. Cashewnuts and diamonds seem to be about the only two. We have advocated

and drawback of imports duties in the hope that this will lead to a large re-export of processed goods business. When that occurs, it may be desirable to re-examine this idea in the light of the conditions prevailing. Until then, expenditure on such a scheme would not be commensurate with the advantage to be gained from it.

PART III

COMMODITIES

JUTE MANUFACTURES

About a third of all India's foreign exchange earnings in 1948 came from this commodity and 66 per cent of hard currency earnings had their origin in the same source. Any increase or reduction in export of these goods, therefore, is of very great significance. From the point of view of the balance of payments position, jute manufactures merit more attention than all the other exports of this country put together. It is very unfortunate that this Committee has to take into consideration exports of this article at a time when a major crisis has affected the industry manufacturing it.

2. Jute manufacture is the world's premier packaging material. It has attained that position primarily on account of the cheapness of its raw material. The average price of raw jute in the thirties was Rs. 5-15-0 per maund for middles. On occasions, raw jute was in such ample supply that it could not all be used for manufacture and prices fell so disastrously that Government had to have recourse to restriction schemes. War came at a very opportune moment for jute manufactures. War orders caused prices to increase. Later came controlled prices for both jute and jute manufactures. The final ruling prices just before the end of control were Rs. 17/- per maund for raw jute (middles).

3. A long drawn out controversy between the Government of Bengal, which alleged that the jute cultivator had had a raw deal during the period of the war in not having been allowed to make all the profits that the demand for jute goods throughout the world would have justified, and the Government of India, which thought that in the major interests of the jute grower, the jute industry and the foreign trade of the country generally, it was desirable that jute prices should not be allowed to rise unduly, ended in September 1946 with the victory of the Government of Bengal and the decontrol of prices. Raw jute prices immediately doubled and have since then with occasional fluctuations maintained a level at least $4\frac{1}{2}$ times that on the outbreak of war. The prices of jute manufactures too shot up and have with some fluctuations continued at a very high level. We are now nearing the end of the third year since the termination of control and the effect of the price changes described above has been a serious challenge to the jute goods' position as the world's principal packaging material. Jute manufactures today are at the cross-roads.

4. In the last two years, competition by substitutes, started during the war because of the absence of sufficient jute goods to meet demand, has become increasingly grave. Far from strengthening its hold on the markets that it had held before the war, as it should have done in view of the prosperous industrial conditions following the war in many parts of the world and more especially in the U.S.A., it has actually witnessed a contraction in the sphere of its usefulness. Its principal competitors have been cotton and paper. Both these have entered territory in which jute previously held undisputed sway. From many spheres, jute has been completely driven out and so utter has been

its rout that there is very little chance of its return, however low its prices sink now. Thus, certain industries which found in jute their most useful packaging material have been compelled by the high prices of jute manufactures to convert their packaging systems in order to utilise multi-wall paper bags. This has meant capital investment on a substantial scale and the probable end of jute in such concerns for all time. Most such developments have taken place in the American market. Further dangers threaten not only the American hessian using market, but also other markets where sacks are principally used. Bulk handling of important commodities like sugar, hitherto packed in sacks, is in the air and the fruition of such projects may well have an extremely damaging effect on the jute industry. In brief, price is the paramount factor in maintaining the use of jute. Jute won leadership on Price. It is losing it for the same reason.

5. The upward trend which began with decontrol has been aggravated by the peculiar conditions brought about by partition. All the manufacturing units are situated in one dominion and 75 per cent of the raw material in the other. Had relations between the two been established on a satisfactory friendly basis, this might not have been so complete a misfortune as in the circumstances, it has turned out to be. In the situation that has emerged, however, it has not been sufficiently realised that the real interests of the jute grower and the jute industry are identical. A sensible arrangement which would have enabled the two complementary economies in respect of this material and industry to function as one was obviously desirable. It has however remained unattainable and we find the two areas going their own ways almost as if they had no need for one another and no interest in each other's welfare.

6. About 90 per cent of the jute goods manufactured in India are exported. The effect of the succession of high prices for many months has made itself felt in the export returns of the first half of 1949 which show a fall in comparison not only with the pre-war period but even with 1948. The fall has been greatest in the hard currency areas where the deterrent effect of the high price has been accentuated by the business recession.

7. Apart from raw material and conversion cost, there is another element which is often responsible for disturbing both the level of prices and the stability of that level. This is speculation. Speculation in jute takes many forms. In fact, of all commodities, this is eminently the one in which people "take a view". The buyer of raw jute has often sold before he has bought or vice versa. He has taken a view. The Baler follows the same practice. He too takes a view and sells his finished product before he has obtained his raw material. The manufacturer is not averse to taking a view. It is his usual practice, we were told, to sell forward from three months to a year ahead and, he must, obviously, when he does that, occasionally have to rely on obtaining his raw material later. The buyer of the manufactured goods from the jute mill too is generally a view taker. Not always has he an order booked when he buys the goods. Infrequently, indeed, is he the person who really ships. The contract from the mill generally passes through a large number of hands before shipment is made; each of the persons through whom it has passed is also taking a view. But the apotheosis of view taking is to be found in "Patka" market—the venue for speculation in jute goods futures. It purports to provide a hedge market. Almost everyone is agreed that in reality it serves no purpose except that of encouraging gambling orgies at present. It accentuates trends. When prices are high, it pushes them higher. When they tend to go down, it depresses them further. Its effect on

exports is particularly disastrous, when the prices of jute goods are high on account of high costs. By adding a heavy burden of speculators' profit the competitive strength of the commodity is considerably weakened. Then again, the fact that the price can be made to fluctuate from day to day and even from hour to hour has, of late, tended to encourage "hand to mouth" buying by foreign countries.

8. The I.J.M.A. has, on more than one occasion, asked that the industry be protected from such activities. No action however has been taken. We have heard at length all the arguments that could be put forward in favour of speculation in jute goods. We remain impressed with the need for the removal of this very grave danger to the stability of the industry and the expansion of the export trade, and we recommend that immediate steps be taken to prohibit all futures trading in jute manufactures.

9. It is necessary here to make a distinction between the Futures market and the Forward market. The difference between forward trading and futures dealing lies in that in the former what is being sold is either goods or capacity to produce goods. The producer takes the ultimate responsibility for fulfilling the forward contract. At the buyer's end too, the buyer is a person, who wants the goods to be delivered to him on the date specified in the contract either by shipping them to an overseas buyer or selling them to another ultimate consumer, if he himself does not happen to be one. In the futures market, however, what is sold is a basis quality which gives a hypothetical claim to any one of a range of goods, which the seller hopes to fulfil by having resort to a purchase at a later date when the market is more favourable to him or by making a purely financial settlement of the difference between the sale price and the prevailing ready price when the due contract matures.

10. To reduce speculation as much as possible, it would seem desirable that even in forward trading, the speculative element should not be allowed to intrude itself and sales should be made permissible only to the consumer overseas or the shipper and to no other intermediaries. Such an arrangement, it has been said may weaken the position of the mill's regarding finance. We do not see why this should be so, since even with forward sales, payments are only made when delivery becomes due. As in the last analysis, the total demand for and the total sale of jute goods must rest on the willingness of the consumers to purchase, the industry cannot really hope in the long run to sell more than the consumers will buy, simply because there are some intervening speculators. The action proposed has become all the more necessary because, regrettable as it is, the number of cases in which mills sell their goods on a forward basis to their own managing or selling agents is, we understand, on the increase. These agents run a separate business which derives advantage from the sale of these contracts to other persons, the profits from such transactions not appearing in the mills accounts.

11. The measure proposed would be the ideal arrangement. There appears however to be much opposition to it by the trade as it is felt that its immediate effect would be an entire dislocation of the marketing conditions and a retardation of the progress of exports which is the opposite of what we wish to achieve. The disturbance in the market may not be as long-lived as the trade apprehend and the long-term prospects of the export trade will benefit greatly from the change proposed. In certain very special circumstances, as for example when a foreign consumer fails in business and cannot take up the goods contracted for by him, it may be necessary to permit a shipper to sell to another

shipper for export. Such cases are likely to be rare. Then again, a certain proportion of the production of the industry, is consumed internally, and therefore, in laying down that sales should be made by mills either to overseas buyers direct or to shippers who undertake to export the goods on delivery, some provision is necessary for the needs of the internal market. The amount to be left aside for free sales in the country will not probably exceed 12½ per cent. of the total mills production, and that too, of certain varieties only. To leave each mill free to sell that proportion of its production internally will not in any way affect the enforceability of the arrangement proposed.

12. We cannot conclude this discussion of speculation in relation to jute goods better than by quoting from the Digest of the Marketing Survey of the U.S.A. and Canada prepared for the I.J.M.A.:—

“It is a common saying here that—“next to horse racing, burlap trading is the greatest speculation in the world”. American industrialists, figuring in fractions of cents costs on articles manufactured in millions of units, have no favour for products whose prices fluctuate widely. Nor do they enjoy paying a series of tributes, no matter how small per assessment, to such a series of brokers, sub-brokers, shippers, bazaars, etc. between manufacturer and American importer as now impede the straight, swift, economical purchase of burlap. We urge that everything possible be done to streamline the jute fabric distribution system to cut costs, promote goodwill, expedite shipping”.

13. Where an industry holds as monopolistic a position as the jute industry does, it is essential that its products should be made available at reasonable and competitive prices, and in the maximum possible quantities. One bar to reasonable prices, speculations we have dealt with above. Other reasons put forward for the high prices are the raw jute costs, export duties and increase in the cost of production. The price of raw jute today is Rs. 89-8-0 for middle jute as against Rs. 8-6-0 in 1940-41. The lowest price during the 1948-49 season was Rs. 40 and the highest Rs. 44-8-0. The principal reason for the high raw jute price is said to be scarcity of supply. There has been varying estimates of the new jute crop. India, it is said, will produce 28 to 30 lakh bales, Pakistan 55 to 65 lakh bales. The most knowledgeable sources hold that the total for both countries will be about 90 lakh bales, the Pakistan crop being not less than 60 lakh bales. The various statements from Pakistan suggesting a lower crop are alleged to be due to a desire to obtain as high a price for the cultivator as possible. Nor indeed in this respect do the advocates of a high price for the Indian cultivator fall far behind. Their statements as to the cost of cultivation, if relied upon as a basis for price fixing would make it quite impossible to manufacture jute goods competitively in their country. Mill consumption in a normal year is not more than 60 lakh bales. If therefore the entire crop was at the disposal of the Indian Mills, the industry would be in a very happy position. Exports of raw jute, however, normally vary between 20 to 25 lakh bales. Assuming that 2/3 of these come from Pakistan and 1/3 from India and taking the higher figure, this means that without any ban on exports 22 lakhs would be available in India and 44 lakhs in Pakistan for the Mill demand or somewhat 66 lakhs against a total need of 60 lakhs. That is undoubtedly a tight position and such as under condition of normal competitive buying, is likely to lead to a steep increase in price. Whether the crop fulfils this estimate or is slightly less, it does seem that in the absence of friendly negotiations with Pakistan designed to fix purchases at a reasonable price, the only hope for the mills is to avoid competitive buying. When the supply of a

commodity is either just sufficient to meet its need or a little less, nothing can so easily push up the price as purchases by individuals, each trying to do his best for himself. The Indian Jute Mills' Association is an extremely well-organised body. We feel that it should not have very great difficulty in buying all the jute required for the Mills itself, using such agencies as it thinks necessary and distributing its purchases to its constituent units in accordance with a plan drawn out after consideration of their needs. The price to be paid must be reasonable if the scheme is to be worked without engendering lasting bitterness. If the mills are to get their raw materials at such rates as would enable them to compete we do not see any alternative to the course suggested.

14. We proposed this line of action to the I.J.M.A. They seem to concede that it is the ideal solution but they feel that they cannot attain the ideal on account of practical difficulties. These practical difficulties are the large amount of finance needed, the bulk of the material to be dealt with, the unpleasantness of doing away with some of those who would become redundant if such an organisation were set up, the difficulty of interposing an organisation between the existing sellers and the actual purchasers each of whom has its own specialists for selection of varieties and qualities. All these are difficulties, but the obtaining of sufficient raw jute at reasonable rates to enable mills to sell their production at reasonable prices is an aim in the fulfilment of which one would have thought an organisation as powerful and well-knit as the I.J.M.A. would not have shrunk from difficulties. The finance needed is not likely to be more altogether if the I.J.M.A. buys than if each one of the mills buys separately. If the I.J.M.A. is going to purchase on behalf of all the mills, surely it should have no difficulty in obtaining advances from the mills. The bulk of the material is not going to increase on account of the centralised purchase indeed need does the scheme entail any large stocks being built up by the Central Organisation. It should be quite easy to direct each consignment as soon as it has been purchased to the proper destination. The best specialists from all the units might conduct selection for the I.J.M.A. so that there need be no dissatisfaction as to quality. If some of the individuals and concerns are not needed under the new scheme, that is unfortunate but must be faced.

15. The industry has proclaimed time and again that its present and its future depend entirely on obtaining raw jute at economic prices. The method adopted by the industry itself—closure for one week each month—has not achieved this object. The industry admits that the suggestion made by us is likely to attain the end in view. We have dealt with the difficulties it urges above. None of them seems to be fundamental. When an industry is facing a really grave crisis, it must be prepared to adapt its methods and its organisation to new circumstances, if it is to avoid bringing disaster on itself and on the country generally. We trust that the industry will not be found lacking in this matter, since without its co-operation such a scheme cannot work.

16. A reasonable price for raw jute will only be acceptable if it is at the same time clearly known that the jute manufacturer is also getting only a reasonable profit. Once this reasonable raw jute price has been established, it will probably be in the interests of the manufacturer himself that maximum selling prices should be fixed above which he would not sell his goods. The advantage of such a course to the foreign buyer is obvious. He would know exactly how much the mill was getting and so would be able to pay just the extra amount necessary for the services rendered by the shipper. For the regaining of lost markets and the expansion of exports in this commodity, a controlled price can well be a most potent weapon. We recommend that as soon as necessary conditions obtain, this matter should receive immediate attention.

17. The second element in the cost of jute goods to the overseas buyer is the processing cost in India. In the time at our disposal, it has not been possible to examine this. There seems to be no uniform or scientific system of costing in most of the units constituting the industry. We were told for instance, that it has not been possible to have a consolidated balance sheet of the whole industry although efforts in that direction had been on foot for over ten years. The Chairman of the I.J.M.A. furnished us with figures of the costs of what he considered a reasonably efficient unit of his own group. Though raw material forms about 70 per cent. of the cost of jute goods, there have been increases in several items of the conversion costs and some of these probably need explanation. The industry assesses the increase due to the recent labour award at Rs. 50 a ton. Its contention is that the prices at which it has had to sell its goods in the first six months of the year have not been remunerative and many units have suffered losses. The Chairman of the Association in a speech made by him had assessed the monthly loss suffered by the Jute Mills at "an amount equal to $1\frac{1}{2}$ years average net profits over 15 years" and gone on to say that at that rate the industry would exhaust its total reserves of 27 crores of rupees in another ten months. On enquiry as to how the amount of losses suffered had been brought out, we were not furnished with actual figures showing the break-up of this total but were told that "a quick rapid survey of the position was made to get at the figures mentioned" and for confirmation were asked to see the reports of various companies, for the half year ending March 31st, which had been and were being furnished to us. Several of these show a loss. It is of course not possible to come to any considered opinion on the question of losses without proper investigation of the balance sheet figures and of the reasons given for the financial position indicated by the various items. It may however be said with some certainty that the margin between the price and the cost has certainly narrowed considerably in this period in comparison with previous years. Full and careful costing of the industry by an independent authority is very desirable.

18. Another factor that undoubtedly has some effect on the price of jute goods is the export duty, both raw jute and jute goods have been subjected to export duty for many years. Considerations of revenue led to the imposition of the duty. The Fiscal Commission of the early twenties came to the conclusion that these duties were not hampering the export trade in these commodities. An interesting comment the Commission made was that the monopolistic position enjoyed by these commodities might not continue for all times and that there were dangers ahead to which Government must be alive. A study on Burlap by the U.S. Tariff Commission mentions that the higher export duty on raw jute in comparison to that on hessian has made it necessary for the U. S. A. to import larger quantities of jute goods than raw jute.

19. The Export duty on raw jute, which was thus a blessing to the Indian Jute Mills, has with Partition and the imposition of an enhanced export duty on raw jute coming from Pakistan to India become a considerable burden. It means a difference of as much as Rs. 4 a maund to the price of Pakistan raw jute imported for Indian Mills. A suggestion has been made that some relief might be given to the industry by reducing the export duty on jute goods so as to offset the Pakistan duty on raw jute to some extent. This suggestion seems to gain force from the fact that the price of jute goods itself is now considered too high in overseas markets and the export duty on manufactures is yet another cause of the high price of jute goods, which is facing the maximum competition from substitutes. The incidence of the duty amounts to 6 per cent. of the value.

20. There is no certainly that if a reduction were given to offset the Pakistan duty that country would not raise its export duty on raw jute higher. knowing

that the main consumer would now be able to afford as much as in the preceding year. The real point is whether the cost of manufacturing jute goods and their selling price being what they are, the export duty is a hindrance resulting either in a lower volume of exports or in an unreasonable low return to the industry. We have already come to the conclusion that it is desirable to lower the selling price of jute goods to buyers abroad. This in itself irrespective of Pakistan's raw jute duty would have led us to recommend a removal of the export duty but for the fact that the marketing arrangements for jute goods are such that there is no guarantee that the removal of the export duty would mean cheaper supply to the overseas buyer. The presence of speculation to which we have referred means that if the export duty were taken off today, the price of gunny would rise by a corresponding amount and probably, if an optimistic view was taken, by an even larger amount. In these circumstances, we hesitate to recommend a step which might well mean a considerable loss of revenue without advantage to the export trade. If after the measures which we have indicated to check speculation have been taken and the costing of the industry has been completed, it still appears that a reasonable price for jute goods, inclusive of export duty, is such that the effective demand is below the production, there would undoubtedly be a case for reduction or abolition of export duty.

21. The system of personal and destination quotas, which with several variations followed the ending of jute control has it is urged been responsible for keeping the level of exports below what it might have been. The need to restrict the amount which any shipper would be allowed to export as well as to allocate quotas to countries was felt so long as the total demand for jute goods was well in excess of the supply available. There has been a material change in the last 12 months, and exports to hard currency countries have been free from all quota restrictions. A similar policy in respect of soft currency countries would now be justified. Until recently, jute goods had a special value in international trade negotiations so that against an allocation of jute goods, foodgrains and other essentials could be procured. In present altered circumstances, the simplest course would be to leave exports free.

22. Connected with this problem is the somewhat delicate one of South Africa. The decision to stop trade with that country was taken on political grounds. The industry feels that denial of opportunity to have direct trade relations has not prevented jute goods from reaching South Africa from other producing countries and even from India, by diversion through other countries. All that has happened is that South Africa has had to pay a higher price for its supplies and the beneficiaries from this higher price have been other countries. The continuance of the ban is a constant spur to research for substitutes, which if once established may damage the industry and the export trade in many other sectors. Whether these economic considerations should outweigh the political decision in force is a matter for Government to decide. We would however point out that in order to prevent goods reaching South Africa from other destinations, a great many restrictions are being imposed which have the effect of hampering trade with other countries. Thus, we understand that if goods shipped by any shipper to a particular country find their way ultimately to South Africa the shipper is penalised whether or not he himself was responsible. Then again, we understand that quotas for certain countries are deliberately kept at a low level because it is feared that jute goods would be re-exported from there to South Africa. The abolition of quota limitations should not, in our view be deferred because of this apprehension. Nor should the present system of penalising shippers whose exports are re-shipped from other coun-

23. Production is a necessary preliminary to export. Accordingly, the aim should be to increase rather than curtail the production of jute goods. The industry has hardly ever really produced as much as it possibly could. Production has on occasion been limited to assure profits or avoid losses. Estimates of world requirements of packaging material in the post-war period are at a higher level than pre-war. Accordingly, if jute can regain its position as the most economical packaging material, there is no reason why the industry should not be producing and exporting more than it has ever done.

24. Against this possibility which we should like to see achieved, we turn to consideration of the present curtailment in production. From May, the industry has been working below capacity. The first cut in May reduced hessian production but sacking production was increased, to maintain the total approximately as before. From July production has been cut by the decision of the jute mills not to work for one week in each month.

25. The reasons given by the I.J.M.A. for this curtailment were scarcity of raw materials, the need to carry on through the months of July and August and to build up sufficient supply during the months immediately following the jute harvest to meet full demand later in the year. An equally important point was the need to keep raw jute prices at a reasonable level so as not to have to raise the price of the finished material. It was also hoped to stabilise jute manufacture prices at the then prevailing level.

26. The stock position as given by the I.J.M.A. showed that the industry as a whole could have continued by using up their total stocks to work for July, August and upto the middle of September on the basis of full production. By curtailment in July and August it has saved two weeks supply. If curtailment is continued in September, it will save another three days at the most. But whether it continues to curtail or not, it cannot much longer keep out of the market. We have therefore to see whether the other two considerations justify a policy of future curtailment. The prices of raw jute have again been rising and in fact they are now approaching the prices prevailing during the last season. Whether the temporary decline in prices of the new crop for forward sales which took place early in July was occasioned by the policy of closure announced by the jute mills or whether it was a natural re-action to the then prevailing estimates of the size of the raw jute crop, which was being placed at hundred lakh bales, must remain a matter of opinion. On the other hand, it seems to us that in two ways the policy of closure is actually tending to raise rather than lower the price of raw jute. Firstly, it has engendered active opposition on the part of the Pakistan Government who have interpreted the action of the I.J.M.A. as calculated to exploit growers. Secondly, the fact that the price of jute goods has been rising so steadily has caused the grower of raw jute to feel that there is no reason why he should sell his raw jute at a lower price today than he did a year ago.

27. This brings us to the third consideration mentioned by the I.J.M.A. namely that of stabilising prices of jute goods. Far from stabilising the effect of the closure has been to cause uncertainty, fluctuation and a steady rise in prices. Even before the policy of closure had been definitely announced, the market had begun to react to rumours about the closure. As soon as the closure was announced, prices went up though no curtailment had yet taken place in production. The rise in price since then has been spectacular. At no time has sacking sold at such high prices as it is selling today.....at a time when every one is agreed that the prime need is to lower the price of jute goods to buyers. The I.J.M.A. are themselves emphatic that this rise in prices is not of their seeking and that the speculative market is solely responsible for it and is benefiting from it. We have been told however that

more than one foreign buyer is inclined to regard the closure as merely a price manouvre on the part of the manufacturers—a very serious matter from the point of view of goodwill.

28. Considering all the circumstances, in our view, continuance of the closure is not likely to serve any useful purpose and we would strongly urge that full production be resumed.

29. We are informed that within the Indian Union there are some quantities of raw jute left over from last year's crop which have failed to make their appearance in the Calcutta market on account of transport difficulties. It is very important that raw jute movement to Calcutta from every source should be expedited forthwith. All impediments in the way of smooth and continuous progress should be removed if necessary by undertaking special transport operations. Within the next two fortnights, as large quantities as possible should appear in Calcutta from both the old and the new crops.

30. The closure, apart from the other harm it may have done, has affected detrimentally the cost of manufacturing jute goods. It has been estimated by the industry that every ton of jute produced since the closure has cost 50 rupees more than that produced before the closure. This is equivalent to an increase of Rs 1/12/- a maund in the price of raw jute. It has been suggested that had it not been for the closure, the parlous financial condition of some of the units in the industry might have made it necessary for them to close down completely. The inference from this is that a rise in prices was most desirable from the point of view of at least these units. However, as we have pointed out above, this closure has meant a very appreciable increase in cost, not only to the units which were suffering losses but to those which were working at a reasonable profit. This in effect means that the inefficient unit becomes a burden to the more efficient units and the industry as a whole adds to the burden of the consumer. In our view, it would be much better to let those units which cannot work at a profit close down, while those which can break even or work at a profit continue operations fully. In fact, from the public point of view, it would be even advantageous if they were to expand production so as to make up for the loss in production caused by the elimination of the less efficient units, thus providing employment at least to a certain extent to the workers discharged from the less efficient units.

31. It has been represented that many units of the industry have suffered on account of delays in the issue of import licences for new machinery and spare parts, which have been on order and are in some cases ready for shipment. In the absence of import licences, we are told, machinery has been diverted to other countries. In our opinion delay of this nature causes damage to the national economy and should be avoided.

32. Some of the recommendations made above may seem unorthodox to those who think controls should only be applicable to commodities and industries producing essential articles for internal consumption. But jute manufacture, by virtue of its position as the biggest earner of foreign exchange is as vital to the interests of the country as food or cloth. Not even the most ardent supporter of free enterprise can argue that if those concerned in the manufacture, marketing and trading of so valuable an article consider only their direct interests, and take no thought for the public good, they should not be liable to regulation and control in the larger interests of the community.

TEA

The second largest item in our export trade is tea. Tea production has increased from 452 million lbs. in 1938 to 616 million lbs. in 1948. Total

exports for the year 1948-49 compare favourably with exports for any previous year.

2. The only unsatisfactory feature about tea has been the decline in exports to the hard currency area during the last financial year. We have endeavoured to ascertain the reasons for their decline. So far as we can judge, this has been very largely a question of price. Though the United States and Canada favour the Ceylon type of tea, which yields a flavoury liquor, yet Indian tea would have been acceptable, had the price been in its favour. Last year, Ceylon did not tender as much as it normally does to H.M.G. at a fixed price under the bulk purchase scheme. It consequently had a large quantity left over for sale by auction and the price fetched was lower than the Indian price. Accordingly America preferred to make its purchases in the Ceylon market. Contributory factors to the American lack of support for the Indian market were failure to refund the excise duty on exports promptly and to some extent sale of the South Indian tea preferred by Americans under a barter agreement to Russia. From this however it is not to be inferred that we oppose or in any way dislike barter agreements. We realise that in barter agreements one cannot always have one's own way and must naturally sometimes have to give things, which other customers may prefer. All that is necessary is, so far as possible, to avoid disturbing settled channels of trade. If a commodity has been bought by a particular market for a long period, it is desirable not to divert it to another market unless reasons of over-riding importance make such a transaction essential.

3. The principal problem that will arise in regard to the export of tea will be competition from Indonesia in another couple of years; it is as well that both Government and the tea industry should be prepared to face that competition when it comes. One method of facing it would be by reducing costs as much as possible at the present time and indeed by even selling to foreign markets at reasonable prices rather than attempting to obtain everything that the foreigner will bear.

4. We have noticed with considerable surprise that an Ad Hoc Committee appointed by the Commerce Ministry in February 1949 to report by the end of March 1949 has still not completed its labours. So far as we have been able to ascertain, it is at the stage of considering written representations. The issues before this committee are of special importance in view of the uncertainty regarding the continuance of the bulk purchase scheme, which on the whole has worked satisfactorily from the point of view of Indian exports and the industry. Tea is a commodity of the greatest importance to this country and we cannot but condemn this delay in the consideration of its extremely important problems at a time when prompt action in many respects is necessary to safeguard its continued prosperity.

5. We note with pleasure the absence of speculation in this commodity. Tea seems to be one of the rare commodities which is grown, packed, railed, sold and exported without any of those gambling transactions which seem to be the natural concomitant of such operations in many other commodities. As such, its difficulties deserve very special recognition. Two have come to our notice. One is the difficulty in getting supplies of suitable tea chests in adequate quantities. We understand that steps have been taken to licence certain indigenous firms to produce tea chests according to specifications laid down by the Indian Standards Institute and that imports of tea chests are allowed on the basis of the estimated production of such tea chests in India. The figure determined in this fashion for 1949 is 1 million chests. Regarding

the figure itself we have no comments but we would like to observe that protection to the Indian tea chest industry should not proceed to the point of causing difficulty to the tea industry itself. The container industry must be given second place in any assessment of the matter.

6. Of the million tea chests which were to have been imported this year, a bulk contract with Russia for half the quantity has been entered into by one association. The other half has yet to be licensed for import and we understand that among the reasons for the delay in the licensing are the selection of importers and the proposal to restrict licenses only to those who are able to enter into direct contracts with the supplying countries. We feel that neither of these two considerations are of such importance as to justify holding the import of containers of great importance to our tea exports. In our view, permission to import such articles should be freely given to the actual consumers and only to the extent the consumers themselves are not prepared to import for their own requirements should middle-men be selected. This is particularly necessary when owing to the limited volume of imports, competition among the importers would be absent and the industry might be made to pay unduly high prices for the limited stock available. Since complaints about the quality of tea chests have been fairly frequent and have been mostly about the indigenous tea chests both by the producers of tea and the overseas buyers, it is necessary that the measures to maintain the standards prescribed for such tea chests be enforced with strictness and no loop-hole left for the supply of inferior goods to the tea producers.

7. The other difficulty is the question of sales tax, which in certain provinces and states are not remitted on goods going to export markets. The situation is particularly serious in South India, because tea has very often to pass through more than one territorial unit and is thus subject to multiple taxation. Since the South Indian teas on account of their affinity to Ceylon tea are more in demand in hard currency countries, it is specially important that this difficulty should be removed and arrangements made for refund of duty without delay or under formalities.

8. While on the subject of taxation, we must refer to the export duty, 4 annas a lb. and the excise duty 3 annas a lb. which tea pays at present. In general we are opposed to the levy of export duties, and we have suggested earlier that the duty on tea should be removed at an opportune time. So long however as the export duty lasts, we feel that there is no reason to keep the excise duty one anna lower. The fear that the effect of an increase in the excise duty would be to raise appreciably the cost of the poor man's cup of tea is not based on a correct appreciation of the incidence of the extra excise duty.

9. Although there has been considerable increase in tea production, there has been an increase in the internal consumption of tea and therefore the increase in the volume of exports has not been as large as the increase in production. Overseas demand at present is not saturated and there is a possibility of increasing export. On the other hand, this can only be achieved by further increase of production or a curtailment of domestic consumption, neither of which can be pressed too far in view of the imminence of the revival of competition from Indonesia.

COTTON PIECEGOODS

The export of cotton piecegoods from India received a tremendous filip during the war years, when other producing countries were not able to compete in most of the markets. The highest export figure on record is in 1942-43 when exports amounted to 819 million yards as compared with a pre-war average of about 200 millions yards. Upto 1947 exports went fairly smoothly, the limiting

factor being India's willingness to allow exports rather than demand in foreign markets. A number of serious difficulties however arose about the beginning of 1948. The decontrol of cloth prices in the country led to a tremendous rise in internal prices with the result that it was more profitable to sell internally than to export. The export duty which was an *ad valorem* duty also became more and more burdensome with every increase in price. Since at the same time competition from other countries, particularly Japan, began to be felt, India's exports declined seriously. The 1948 figure of exports reached only 50 percent. of the target, 300 millions yards exclusive of Pakistan.

2. The consumption of Pakistan was formerly a part of internal consumption. It has now to be treated as a foreign demand. We have discussed the possible target for the export of cotton piecegoods with the Textile Commissioner and his view is that during 1949-50 and 1950-51, India can safely export a total of 800 million yards of cotton piecegoods to all countries including Pakistan. With this view, we are in agreement and suggest that this should be the target to be aimed at. This figure has been arrived at on the basis of current production and after allowing for an average consumption of 13 yards per head annually. Higher internal consumption than this does not seem likely in the next two years.

3. The abolition of the export duty, and quota and licensing restrictions have facilitated trade and combined with the prescription of ceiling prices for export have turned the overseas buyer once again to India as a source of supply. This does not mean however that the target of 800 million yards is within easy reach. On present indications, exports to other countries are proceeding well but the off-take of Pakistan is still uncertain, depending it seems on political factors no less than economic ones. The recent increase in import duties in Pakistan is going to be a further obstacle.

4. It has been suggested to us that the exports of finer varieties are being handicapped by the import duty of 2 annas per lb. on raw cotton except from Pakistan. A rebate of this import duty has been urged as a measure calculated to help in the export of these varieties of cloth. In actual increase per yard, the import duty of 2 annas per lb. would seem to amount to an insignificant sum. The rebate of this duty is not likely to give any great relief but in principle it is desirable that import duties on raw materials should not raise the price of the exported goods and since a request for such relief has been made by the industry, we have no hesitation in recommending it, provided the administrative machinery required to implement the concession is not likely to prove too cumbersome.

5. Although the excise duty on cotton piecegoods is not applicable to goods exported, considerable difficulty has been reported to us in obtaining refunds of the duty by the exporters. The procedure does not appear to be uniform in all provinces, and, apart from that, it is necessary for the exporter to fill in a very large number of details some of which are not readily available, before he can get the refund. This causes considerable inconvenience to exporters. We would suggest that the procedure be considerably simplified.

6. There has been in recent months a great deal said about the indifferent quality of Indian cloth and the unsatisfactory nature of its packing. These two have in fact been urged as factors which made overseas buyers turn to other sources of supply even if they have to pay a slightly higher price. We understand that the Indian Standards Institution is engaged in evolving a standard sea-worthy packing. As regards quality, there can and should be no attempt at standardisation. When catering to an overseas market, the requirement of the buyer must be supreme. What is needed is machinery to ensure that the buyer gets what he has ordered and agreed to pay for. The suggestion has been made that inspection of goods before export may be a

means of ensuring this. In our view such an arrangement would be impracticable. Inspection if undertaken at ports would mean unpacking of the goods and delay. Moreover the staff required would be large. Obviously it must be both efficient and honest in order to perform its task successfully. In many cases it may not be possible to detect defects and if goods go out with official approval and are found to be below standard, that would do more harm than good to the reputation of the country.

7. The real redress to the importer against the supply of goods of inferior quality lies not in inspection by another agency but in the inclusion of an arbitration clause in contracts. During the war when there was a scarcity of cloth and a sellers' market, sales often used to take place without such provision being made in every case and the practice still seems to continue. What is required is a standard form of agreement which will include a provision on the lines indicated below:—

"Any dispute as to inferiority or any other fault in the execution of this contract shall, failing an amicable settlement, be submitted to the arbitration of two recognised piecegoods merchants, one to be named by each party, and in the event of such arbitrators being unable to agree, of an umpire, appointed by them or by the..... Chamber of Commerce if the arbitrators are not able to agree upon an umpire. The decision and award of such arbitrators or umpire shall be binding and conclusive upon both parties, the loser to pay the fees".

8. In cases where the manufacturer himself does not export, a contract between the manufacturer and the exporter is also necessary. All such contracts should be on the basis of a given sample, which should be available with the manufacturer so that complaints if any can be investigated in full. The point has been raised whether arbitration alone is a sufficient deterrent to a firm which is prepared to indulge in dishonest practice. We feel that powers should exist with Government to take punitive action against individual firms, whether exporters or manufacturers, who have been found guilty of deliberate attempts to cheat the buyer. This action should be taken in addition to the normal arbitration arrangements provided for in the contract. In order that these cases, whenever they do occur, are investigated promptly and fully, it is necessary that detailed instructions should go out to Trade Commissioners as to the exact nature of the evidence which they must collect and forward to the Commerce Ministry whenever there is a complaint. In this connection, we note with regret that complaints made by the Trade Commissioner in Iran several months ago are still under investigation, although full details including the names and tex-mark numbers of the parties have been given. The investigation machinery must in all cases submit its report on a complaint within a month of its receipt.

9. One of the most frequent cause of complaint from overseas market has been the poor quality of packing resulting in damage to the cloth. We have already suggested that a standard packing should be evolved and the use of inferior materials prohibited. One of the reasons why mills are allowed upto 9 per cent. over the ex-mill price when selling to an exporter is that they have to provide better packing. Recently permission has been given to export goods made for local consumption on account of the large accumulation of stocks within the country. While we agree that it is very desirable that accumulated stocks should be disposed of as soon as possible, we consider it very important that the reputation of our exports abroad should not be affected by unsuitable goods unsuitably packed appearing in our foreign markets. The exports of internal cloth by land to Pakistan may do no harm but if goods with local packing are sent overseas, a spate of complaints is bound to arise. We would

urge that the question be reconsidered forthwith and orders issued that atleast these goods be packed with proper export packing before permission to export is given.

10. In addition to piecegoods, export of cotton yarn from India should also be increased. The Textile Commissioner's estimate of the surplus available for export is 200,000 bales, including exports to Pakistan. On a consideration of the production of yarn in this country, we see no reason to differ from his estimate. In the past this country has not been very anxious to export yarn because it had regarded it as an important raw material for the handloom industry. The handloom industry however is not able to consume yarn at the rate at which it used to because it is no longer able to find a ready market for many of its goods. Import restrictions in its main markets, particularly Pakistan and Burma have affected it detrimentally. This difficulty is not one which the trade can resolve for itself, and we recommend that Government should start negotiations with the governments of these countries.

11. More than 17 crores worth of cotton manufactures came into the country in 1948-49 mostly under Open General Licence XI which operated from September 1948 onwards. This can hardly be regarded as satisfactory. Even if there had not been plenty of Indian cloth available in the market considering the need to conserve foreign exchange, this additional supply should not have been allowed to be imported. In our view, the free import of cotton piecegoods from abroad has no place in foreign trade in the next two years atleast. We note that this item has been removed from the O.G.L. and we trust that if under licence any quantities are allowed, they will only be for very special reasons.

12. At present, the total addition to the ex-mill price that can be made is, if the manufacturer exports, 10 per cent.; or 15 per cent. if an exporter exports. **Over and above this, it is permissible to include 2½ percent. for commission to the overseas agent.** It has been suggested that this is insufficient in view of the **high commissions given by European countries and the limit of the commission should be raised to 5 per cent.** In our view, while there should be no objection **to the commission of even 5 per cent. being given to the overseas agent where necessary,** this extra 2½ per cent. should come out of the permissible additions to the ex-mill price indicated above and not be added on so as to increase the over-all cost to the foreign buyers. In normal times, for internal sales, most mills pay a commission to selling agents which comes to 1 to 1½ per cent, so that they should not find it difficult to meet this commission. As regards exporters, although the permissible margin to them is 7 per cent. over and above what the mill itself takes, in actual fact most of them claim to be working on very low margins of 1 to 2 per cent. They can therefore quite easily afford to pay the overseas agent another 2½ per cent. out of the margin already permitted to them. In fact, it has been suggested to us that the manufacturers' and exporters' margin is already too high and should be reduced. We feel however that the normal forces of competition will cause such readjustment in the margins as circumstances and conditions prevailing in different markets necessitate and it is not necessary to refix margins with every change in conditions.

13. While attempts are not lacking to export to the dollar areas, they have invariably foundered in the past on rocks of our export duty and the American import duty. The principal obstacles to such exports are distance from the source of manufacture and now the fall in the prices of competitive goods in the U.S.A. While opportunity may still offer for exports in particular lines, cotton piecegoods cannot, we are afraid, be regarded as likely dollar earners. Our natural markets lie on the shores of the Indian Ocean, Arabian Sea and

Bay of Bengal, upto Australia and New Zealand in the South Pacific and China and Hongkong in the North. Besides these, it is also possible to obtain share in the piecegoods import of the Middle East countries including Egypt and Sudan, of Turkey and South East and West Africa.

RAW JUTE

Since Partition, India has become a net importer of raw jute. Many of the varieties of raw jute grown in India have a special appeal to certain foreign markets while some are considered by Indian mills to be not quite suitable for their own consumption. During 1948, Indian exports of raw jute, though appreciably below previous years, still attained second place in dollar earning exports and the fourth in all foreign exchange earning exports. Fortunately the production of raw jute in India has been rising. From 16 lakh bales in 1947-48, it went up to 22 lakhs bales in 1948-49. This year's crop is estimated to be about 30 lakh bales.

2. The policy of exporting raw jute from India must always be governed by the consideration that the Indian mills have sufficient stocks. In 1948-49, the mills were opposed to any exports. With the larger crop estimate both in India and in Pakistan, they have been in favour of free exports in the current year. It is a moot point whether the decision to allow free exports to all countries can be maintained throughout the year. The estimates of the Pakistan crop appear more gloomy than was anticipated three months ago. The policy of free export will therefore have to be reviewed from time to time to suit the requirements of the mills.

3. The future of raw jute exports is very largely linked with the expansion of raw jute cultivation. With a crop even of the size of the current year, we cannot with confidence look forward to regular and steady exports. A larger Indian crop is essential. If this was attained the position of the mills would improve even though a larger portion of the Indian crop was exported because as the total overseas demand is limited, more of the Pakistan jute would become available to India.

4. Raw jute exports from India sustain the important baling industry. They also make a contribution to the Central Revenues on account of the duty of Rs. 15/- per bale. The corresponding Pakistan duty is Rs. 20/- a bale. A lowering of duty at present would encourage a large scale diversion of foreign demand to the Indian market. Accordingly it should be maintained at the present figure. In a reasonably good crop year of course the point might be worth reconsidering.

OILS AND OILSEEDS

Prewar, oilseeds ranked as one of the most important of our exports, the quantity exported from 1937 to 1939 being approximately a million tons a year. After the war, exports of groundnuts have been rigidly controlled on account of increased domestic consumption. The other edible oilseeds are also now in short supply for exports because of the increasing use of their oils within the country for cooking. Quotas for the export of groundnut and groundnut oil are declared annually after the size of the crop is known, ample provision being left for internal consumption in the shape of Vanaspati as well as groundnut oil. About 10 per cent. of the groundnut kernel is required for seed purposes and 5 per cent. for eating as nuts; the rest is either exported or pressed into oil.

2. Upto the beginning of 1949, oils and fats were under allocation by the International Emergency Food Council. The exportable surplus which India used to declare for groundnut and linseed was allocated by that body to different countries and a system of destination quotas was in operation. The price of Indian oilseeds was well below world prices for some years and there was keen overseas demand which had to be kept in check by measures of control. In fact, so great was the disparity in prices that it was thought by Government that both oil and oilseeds could bear an export duty. Internal prices however kept on rising throughout 1948-49, until it became practically impossible to sell all oils and oilseeds abroad. A sharp decline in the price of oils in the U.S. market led to decontrol by the I.E.F.C. and since then the disparity in prices has tended to increase. The belated removal of the export duty in the 1949-50 budget did not help, as speculators took the opportunity to raise prices further. The price position up-to-date has been that linseed has just been on the margin and business on a reasonable scale has been possible. Groundnut has met with much more resistance and the utilisation of the quota has been very poor. Groundnut oil and linseed oil however, which were exported in fairly large quantity in 1948-49, have remained unexportable and there have only been small occasional shipments to neighbouring countries.

3. On account of the very large increase in the production and consumption of groundnut oil and vegetable product, the exportable surplus is estimated to be in the region of 100,000 tons in terms of oil, if the crop is reasonable. In terms of kernel this means 250,000 tons. Since crop indications for 1949-50 are favourable, a total export of 100,000 tons in terms of oil of 250,000 tons in terms of seed is not likely to be a high target. In linseed the surplus is estimated to be 50,000 tons in terms of oil.

4. The one difficulty in achieving this target is the disparity between internal and external prices. The remedy that suggests itself is imposition of control over the prices of groundnut and linseed. To be effective however, the price of a number of other oilseeds, particularly mustard and sesamum, will have to be controlled although they do not enter the export trade at present, (except that mustard oil goes to Pakistan). It has been urged that it is particularly difficult to exercise effective control over oils and oilseeds and the problem is considered to be more difficult than in the case of sugar. On the other hand, it is conceded that it is less difficult than in the case of food-grains. We have no doubt that if it is really intended to control the prices of oilseeds, the effort will be successful in spite of many administrative difficulties. We would emphasise that the effort must be vigorous, sustained and comprehensive. Half-heartedness will do more harm than good. If it cannot be done properly it would be better not to do it at all. In effect, Government has been attempting to maintain control over the price of groundnut oil and seed through its control of the prices of the manufactured article from these products, Vanaspati. Such an attempt at control has been a complete failure; nor indeed could it have been expected to be anything else. A stage has now been reached in which we are told prices of Vanaspati have had to be raised twice during this year on account of increases in the price of the raw material. Vanaspati factories however still find oil prices too high and we were told that several have closed down and all are threatening to close down unless they are allowed to increase their prices still further. It was pointed out to Government as long ago as June 1947 that in this matter the only course that gave any chance of success was the straightforward one of controlling groundnut and groundnut oil prices. Two years of trial do not seem to have improved the position. It is suggested that at least now it be recognised that the effective way of holding the prices of oilseeds, so as to make groundnut, oil and Vanaspati available for export, is control

5. The rise in the price of groundnut as well as the other oilseeds has not been due to an increase in the cost or cultivation beyond the normal rise for all crops or to demand exceeding supply. If these were the only forces at work, the disparity between Indian prices and overseas prices would have at once corrected itself on account of the fall in exports, leading to a surplus in the country. Speculation however has had a great deal to do with the high level of prices. We have been told that speculation in foodgrains being to longer possible, all the money which used previously to be spread over a number of commodities is now being invested in oilseeds. Since some varieties are not readily perishable, stocks are said to be held by operators from year to year. An attempt has been made to restrict futures trading to some extent in Bombay. It has not been very effective and we understand that a futures market opened in Calcutta as a result of the attempts to close it in Bombay. The effect of speculation was nowhere better seen than in the rise in the price of oilseeds which immediately followed the removal of the export duties. We understand that only recently three big operators cornered almost all the available oilseeds in the Bombay Market. Stoppage of speculation provided it is made effective throughout the country will no doubt help considerably in lowering prices.

6. A factor which tends to encourage and even help the person who is inclined to hoard for speculative purposes is the attitude of provincial and state governments some of whom have placed restrictions on the movement of oilseeds particularly groundnuts. We understand that the power to restrict such movements has been taken away from provinces. In practice however some of them ban inter-district movement and thus secure the same effect. In addition to the provincial ban, another reason for local shortages is difficulty of transport, and a railway receipt for a wagon is sold many a time before it ultimately gets into the hands of the exporter who has to obtain it at a premium. Better movement to ports together with withdrawal of restriction by local administrations would be very helpful. Several States are important growers of oilseeds and it appears that the power to restrict movement as well as to tax the seed leaving their territories is still with them. We feel that in the interests of the trade generally and export in particular it would be advisable to remove these powers at once. Further sales and municipal taxes are also imposed which add to the price and thus reduce the competitive power of the commodity.

7. There is one more point which we should like to make. The method of allowing export through established shippers was necessary so long as there were internationally fixed destination quotas and conditions indicated that the demand was well in excess of the supply. Today, we should throw open exports completely and merely keep a statistical record of exports so that when the quota fixed has been exhausted further exports can be stopped. It would of course be desirable to announce the quota as early as possible on an appreciation of the crop position for the next year in December of the previous year. After watching the trend of exports, it should be possible to give the trade a month's notice before the quota is exhausted.

8. What we have said about groundnut applies equally to linseed and castor seed and their oils. The former is used to a very small extent for edible purpose and the latter not at all. The price disparity in the case of castor oil is formidable at present. Linseed is however nearer international parity. We suggest that castor seed like castor oil be decontrolled completely and linseed should be dealt with in the same manner as groundnut.

9. The natural desire to export the oil rather than seed has led in recent years to the fixation of separate quotas for oil and seed. The export of oil is preferable because oil earns more foreign exchange and the by-product, oil-cake, remains in the country. It would be a mistake however to have a rigid

system which means that if exports of oil are not possible the seed also remains unexported. We suggest that quotas should continue to be fixed separately for the oil and the seed but if the seed quota is finished before the oil quota, the position regarding conversion from oil to seed should be reviewed.

RAW COTTON

Raw cotton which was one of the most important items of our export trade in the pre-war period is now one of the least significant. Partly as a result of partition and partly because of the change in the varieties grown, our raw cotton exports are now confined to Bengal Deshis, Mathias and Comillas. The total production of these does not come to more than 1,92,000 bales. During the war we were faced with the problem of "orphan cotton", that is, short staple cotton, which could not be used within the country and for which the usual market, Japan, was closed. It is a moot point whether there would be any advantage in growing large quantities of some of these varieties now that the Japanese market is once again likely to buy. In our view it would be more advantageous to utilise whatever acreage can be devoted to cotton in growing only varieties likely to be useful to the Indian mills. Not to import is on occasion more important than to export and to grow more short staple cotton in order to export it and utilise the foreign exchange gained thereby together with additional sums in order to import slightly higher staple cotton which we ourselves need, would not be wise, however attractive it might appear on the export balance-sheet. Were it possible, this country would be well-advised not to grow any cotton for which there is no use in the country. Since however such a change over is not possible there will always be a certain amount, the best use of which will be for export. We do not consider any change necessary in the present policy regarding the export of these cottons.

(In the course of discussions it was brought to our notice that about 30,000 bales of damaged cotton, superior varieties of 1947-48 and earlier crops, which could not be used by the mills, were not being allowed to be exported. After verifying the facts, the C. C. E. has granted permission).

HIDES AND SKINS

HIDES

Hides fall into two categories, buff and cow hides. There are two schools of thought regarding the question of export of hides. One strongly holds that there should be free exports, another is equally convinced that such a course would be disastrous. The arguments of the first are that there is ample supply available in the country. Millions of cattle—at least 22 million cattle—die every year and it is only a question of making it worthwhile for the village Chamar to collect the skins, in order to obtain the whole available supply. Unlike the internal tanner, the exporter is prepared to find a use for every kind of hide. Accordingly, if free exports were allowed the largest possible quantity would be collected, thus conferring benefit not only on the foreign exchange position but also on the internal tanner who would get a wider range to choose from. The primary producer, that is the first collector, would also be benefited. The other side urges that the supply is by no means as extensive as the exporter would have us believe. Slaughter has been greatly reduced. With partition, this dominion has lost a considerable proportion of the hides that normally used to come to our tanneries. Moreover a big tanning industry has now been established in this country. To allow free exports would mean reducing the supply and increasing the prices of the raw material of this industry. To the exporters' objection that exports of tanned goods have also fallen, this school replies that increased internal consumption is the real reason for the fall.

2. These views have been represented vigorously at various meetings and conferences in the past. After the termination of the war, for a few months in 1946, free exports were allowed. It has been urged that during the period of the free exports prices did not rise. On the other hand, it is stated that because of the knowledge that exports were to be allowed, prices had already risen before the beginning of this period. We do not consider it necessary to come to any categorical decision on this question. The present position is that free export is allowed of buff and cow hides above certain specified weights, and it is permissible to export up to 2000 tons of weights lower than these freely to hard currency areas alone. As against these 2000 tons, actual exports are much smaller. The reason alleged is that it has not been possible to find a market in hard currency countries for all the varieties in the lighter weight categories and since the shipper has to purchase the hides in an assortment, he must be given permission to export the rest to the soft currency areas. We find considerable force in this argument and are of the opinion that the 2000 tons quota should not be confined to the hard currency areas but should be free for export to all destinations. We do not think it necessary to suggest any increase in this quota until its further utilisation and the effect of this relaxation on prices has been seen.

3. One of the main difficulties in regard to marketing of hides is the shortage of wagons with wooden floors. For the safe transport of hides such wagons are desirable and we would recommend that as many wagons should be made available as possible. At least wet salted hides and skins should be classed as perishables by the railways.

SKINS

Skins fall into two classes—goat and sheep skins. There is no control over the export of goat skins. The trade in these is reasonably satisfactory and they are important as dollar earners because kid skins are exported in very large quantities to the U. S. A. The U. K. and the U. S. A. have been the principal markets and at one time there was an arrangement between the buyers calculated to depress Indian prices. Even now these countries are reported to be buying in agreement so that the prices do not rise on account of competition. A curious episode in regard to goat skins deserves notice, as it sheds light on some of the methods adopted to obtain foreign exchange. Certain residents of a continental country have been importing these skins from India and selling them to the U. S. A. at a loss. The dollars so obtained are used for the purchase of luxury goods which on re-sale in soft currency countries yield such large profits that the buyers do not mind the loss on the sale of the skins for export. It is a curious commentary on the state of world trade that no effective measures can be taken to prevent such transactions without at the same time inflicting damage on that genuine export business which we are anxious to foster.

2. The bulk of the sheep skin exports of undivided India came from the areas that are now in Pakistan. Accordingly there is not much scope for export of this commodity in future. We understand however that some of the export of Amritsar type of goat-skin produced in the East Punjab has now been displaced on account of the evacuation of those who were primarily engaged in this trade. It has been suggested that the trade could once again be started in and around Amritsar provided capital and technical guidance were available. It is also said that the capital required is not large and the technical guidance not difficult to obtain. In the circumstances, we recommend that this question be forthwith investigated.

MICA

The export of mica during 1948-49 is the highest on record; the first six months of 1949 however show a decline particularly in respect of exports to U. S. A. The reason for the decline is stated to be the recession in the U. S. A. which has particularly affected electrical industries producing goods for domestic use such as refrigerators, electric irons, etc. Apart from the trade, the U. S. Government itself is a fairly large buyer for its stock-piling programme. The variety which the U. S. Government buys however is the block mica in which Brazil is a very serious competitor of India. India still holds a definite advantage over Brazil in splittings which are taken by the electrical industry but in this sphere too, Madagascar is reported to be underquoting India to some extent.

The Mica export of India is handicapped so far as its competitive ability is concerned by Provincial Governments' sales tax, Cess, and Shipping freight. The rates of these respectively are 1-9/16 per cent., 2½ per cent. (with option to increase it to 6 per cent.) and 4 per cent. At the same time the industry maintains that increase in wages has made its working even more uneconomic for though increase has not been more than the increase in the cost of living, the price of mica has not gone up in the same proportion. It is said that Indian wages are higher than those in Brazil and the productivity per man to-day is half of what it was before the war. There is a clear case for removal of the provincial sales tax which should not in any case apply to exports. Shipping freight is also said to be one of the highest for cargo other than treasure. We understand that pre-war it was levied on tonnage basis instead of *ad valorem* and there seems to be no reason why the shipping companies should not revert to their original practice. The Government of India, should we feel, take this matter up with them. Considering that competition from other countries is on the increase and demand on the decline, it cannot be to the interest of shipping itself to maintain a rate which the traffic will not bear. Regarding the labour welfare cess, it is reported that although this cess has been collected for nearly three years, no expenditure out of this fund has so far been incurred. While we appreciate fully the considerations which prompted the levy of the cess, there is the point that if the cess at all acts as a deterrent to a larger volume of export and therefore of production, it may well become a tax on labour itself. We suggest that the matter be reconsidered in this light.

SHELLAC

Shellac is a remarkable example of nature's bounty. Its supply is largely a matter of collection. Tiny insects placed at appropriate seasons on the branches of trees produce a rich harvest which is collected by small holders and finds its way in dribblets to country towns and thence after preliminary preparation to the principal markets and the ports. The chief elements of the cost of the raw material are the rent paid to landlords on whose trees the shellac insects are placed and labour for collection and protection from theft. It is clear that neither of these can be high and as such shellac ought not to be particularly expensive. Yet its price has risen so high that for certain uses it has ceased to be competitive. Synthetics have taken its place in some of its most important fields and in others too replacement is going on apace. The principal problem shellac has to face is price. At reasonable prices all the shellac that can be produced can be sold and can produce foreign exchange, for its internal use is very limited.

2. Here again, one of the reasons, perhaps the principal, for the rise in prices is hoarding and speculation. Stick lac (the original form of shellac before refining) is bought by "Arathdars" who hold stocks. Their interest lies in rising prices. Operators play the Fatka market in Calcutta. Those with

no interest in shellac operate solely as a gamble. Prices fluctuate widely thus depriving the buyer and the genuine trader of the advantages that accrue from a fairly stable level. Between 1942-45, when prices were controlled, the level was Rs. 64 a maund and later Rs. 71 per maund. Following decontrol in 1946, speculation took the price up to Rs. 170 per maund. Since then it has been fluctuating from month to month and is inclined to be somewhere around Rs. 140 in recent months. The trade considers Rs. 90 per maund FOB Calcutta a reasonable price, fair to the producer and consumer and likely to lead to the greatest volume of trade. If the export trade in shellac is to expand, the first requisite is the elimination to as great an extent as possible of speculation. We would suggest complete prohibition of Fatka operations in shellac.

3. Transport too is very important. Shortage of transport leads to shortage of stocks in Calcutta thus favouring speculative activity. It is very desirable that adequate transport should be made available to move stocks at the proper time.

4. Imported stick-lac from Siam is also used a great deal for refining in India and the finished shellac is then re-exported to U. S. A. It is very important that imports of stick-lac should not be subjected to any kind of restriction. The temporary stoppage of import licences for a period of six months shortly after the war was responsible for a decline in Indian exports and for stimulating direct exports from Siam to U. S. A. Since then Siam has been gaining ground in the American market and any restriction on imports from that country would do us a great deal of harm. Moreover, as with all speculative commodities, even a slight restriction on imports has the effect of raising prices quite out of proportion to the actual diminution in supply.

5. One of the main complaints from the principal consuming centre, namely, the U. S. A. is about the quality of Indian Shellac. Lack of uniformity, adulteration and failure to conform to specifications are alleged to be the main difficulties in some consignments. Since shellac is used in the U. S. A. in mechanical processes, the difficulty caused by any variation in quality is considerable. It has been suggested by the trade that complaints from overseas about the quality of shipments of poor shellac and seed-lac are not altogether the fault of Indian manufacturers and shippers. The buyers, who generally are not the actual consumers, sometimes demand shellac and seed-lac of poor quality. In fact the trade maintains that it is because the importers buy down to a price rather than up to a quality that there is so much room for complaint from the actual consumers.

6. In a sense, a reduction in the price of shellac will itself tend to eliminate the basic reasons for these practices. As a rule, shipments are made after analysis by public chemists in India and a section of the trade feels that insistence on Governmental inspection of each consignment will not really eliminate the complaints and may well delay shipments and cause other difficulties. On the other hand, there is much opinion both in the trade and outside in favour of inspection before shipment to make certain regarding conformity with proper standards. We understand that the Indian Lac Cess Committee in co-operation with the Indian Standards Institution is trying to evolve standards which will be internationally accepted and once the buyers' acceptance is secured, there would seem to be no objection to the enforcement of these standards by prior inspection.

7. With reasonable prices and proper standards there need be no apprehension about the expansion of shellac exports. We were told that there were certain schemes for increasing production. On further examination it turned out that only a very small area was under consideration for the next year.

Government forests in suitable tracts offer a rich field for the increase of this valuable dollar earning commodity and under proper guidance there is no reason why Government itself should not produce considerable quantities of shellac which could be marketed without many of the intermediaries that help to raise the price and make difficult the sale of ordinary shellac.

SUGAR

In pre-partition days sugar manufactured within the country used to supply the needs of the whole country including what is at present Pakistan. There has been no export to Pakistan after partition. About two months ago, Sugar interests were clamouring for some arrangement by which large quantities could be exported outside the country. Since then the surplus has been converted into a deficit.

2. The story of sugar is extremely interesting not only for its own sake but as shedding a light upon the methods and manners of powerful sections of our population at the present time. Sugar was decontrolled in December 1947. The control price was Rs. 20-14-0 per md. ex-factory for D 24 quality. We understand that on decontrol, sugar interests fixed a price of Rs. 35-7-0 per md. for the same quality. When the provincial governments of U.P. and Bihar saw this, they felt that a portion of the increase ought to go to the cultivators. They accordingly insisted that the sugarcane price be raised from Rs. 1-4-0 to Rs. 2 a maund. They also raised their cane cess from one anna to three annas in U.P. and from one anna to two annas in Bihar. This price of Rs. 35-7-0 continued up to December 1948 when in consultation with Government a lower price of Rs. 28-8-0 was agreed upon, the sugar interests promising that, if necessary, they would maintain this price by opening their own retail shops. After about half the year had passed, it appeared that there was a strong likelihood of a surplus and those most concerned began to press government to arrange export of at least 50,000 tons. Indian prices were out of parity with those abroad and in order to enable export, it was proposed that the Central Government should give up the excise duty of Rs. 2-12-0 per md. and the provincial government its sugar cess of Rs. 1-14-0 a md. The sugar factories would suffer a reduction of Rs. 2 a md. in the price and would also use the fifty lakhs they had collected by levying a four anna contribution per md. on sugar exported from U.P. and Bihar. With these arrangements, it was hoped that the price would be favourable for export and negotiations opened. Immediately ex-factory prices began to rise. Large quantities were consigned from the factories to consuming centres and an artificial scarcity created. When the question of abiding by the undertaking given to sell at Rs. 28-8-0 was raised by government, the answer was that the body which had given the undertaking regretted that it had no powers to enforce maximum prices. All it could do under its regulations was to fix minimum prices. Retail prices started rising and since there appeared every indication that prices would continue to rise, government were compelled to re-introduce control, fix prices and freeze stocks. By hoarding activities in the course of two months, an exportable surplus of 50,000 tons had been converted into a shortage necessitating regulatory action of a drastic nature.

3. This episode clearly demonstrates how the possibility and prospects of exports of sugar depend upon the maintenance of control. On average production there should be no difficulty in exporting at least 50,000 tons at reasonable prices, but it seems impossible either to have reasonable prices or a surplus available without maintaining full control. Once exports have started on this basis, government, we feel, should consider the advisability of allowing further scope for exports by an increase in the area and a reduction in the price of sugarcane. The long-term remedy lies in increasing the production of sugar.

COAL

In pre-war years, India has been an important exporter of coal. Indeed so great was the importance of the export markets to the Indian coal-mining industry that in 1924 one of the terms of reference to the Indian Coal Committee was to report on the measures to be taken

“to stimulate export of suitable coal from Calcutta to Indian and foreign ports.”

The level of exports immediately before the war was about 1½ million tons a year, though in 1940 a peak figure of 2.1 million tons was achieved. Exports in 1948 were about 600,000 tons. For purposes of comparison, exports to Pakistan cannot of course be taken into account since pre-war internal consumption included Pakistan supplies.

2. There is general agreement that we have not such large supplies of high-grade metallurgical coal as to be able to afford to export it in unlimited quantities. The general policy, we understand, is not to allow the export of metallurgical coal except for very special reasons. An expansion in the export of medium and lower-grade coal is certainly desirable.

3. The main difficulty is transport. A great many wagons are required for moving coal from the fields to the port of Calcutta but the wagon position at present is reported to be satisfactory and the real bottle-neck is the lack of facilities for shipment. Calcutta port cannot handle more than 300,000 tons a month. This has to suffice not only for the export markets but also for supplies to various points on the Indian Peninsula, such as Madras, Cochin and Bombay. In addition, approximately half of the coal exported to Pakistan has to go by sea. All this extra load on the port of Calcutta, is due to the inability of the rail transport system to cope in full with the internal movements as well as the requirements of Pakistan. In 1948, only one sixth of the handling capacity was used for export the rest having been occupied by coastal carriage.

4. Indian coal has a ready market in neighbouring countries like Ceylon, Burma, Malaya and Pakistan and there are also possibilities of export to Australia, Phillipines, Hong Kong and Japan. That Indian collieries could meet these demands in terms of medium and lower-grade coal is not in doubt. The point at issue is whether rail transport will improve sufficiently to enable the bulk of the internal supplies to be carried over ground. If so, present port facilities may suffice. It is however probable that as the capacity of railways to carry more coal internally improves, there will also be a reduction in coastal shipping freights, at present curiously enough much higher than railway freight. The bulk of coastal movement is thus not likely to be reduced. The Indian Coalfields Committee had recommended an annual target of 825,000 tons for export to Burma, Ceylon and Strait Settlements. To this must now be added at least about half the exports to Pakistan as well as any possible exports to other countries. This target can only be achieved if Calcutta is able to handle about 50,000 tons a month more coal traffic than at present. Accordingly the question of expanding loading facilities in the port of Calcutta should be considered expeditiously.

5. It has been represented to us that only three firms are allowed to export coal. In the time at our disposal, it has not been possible for us to examine this matter in detail. *Prima facie* the arrangement would seem to be inequitable. There may however be good reasons for it. We suggest that the whole question be gone into thoroughly by Government.

SPICES

Although export of spices is not a very important item in our total export earnings, it does at present play not insignificant part in exports to hard currency countries. In the pre-war years, the most important spice exported from India to the U.S.A. was cardamom. Pride of place now is taken by black pepper, owing to absence of competition from Indonesia. The price of black pepper has risen to a far greater extent than that of any other commodity. The very considerable increase is attributed largely to hoarding and speculation. It has been argued before us that these high prices while not doing any harm to us, increase the net earning of dollar exchange as overseas buyers are prepared to pay them. Expenditure on pepper in the budget of the overseas consumer is so insignificant that he really does not mind having to pay extra. While this may be so, we consider it desirable that no one should feel that he is being held to ransom because of our monopolistic position in any particular field. We would, therefore, urge upon all concerned, with pepper-growers, dealers and shippers alike—that they should attempt to reduce prices to a more reasonable level. Very large returns may last over a short period, but they have a habit of bringing sharp lessons in the end. We would have recommended more drastic action to restrict speculation here as in the case of other commodities but we refrain from doing so partly because of the low incidence of the increase in price on the individual consumer and partly because we are told that the high prices have encouraged the growth of black pepper production on modern lines in the form of pepper estates. This is a welcome development from national point of view. Competition from Indonesia is likely to be felt in another two or three years and it is desirable that meantime Indian production may be better organised.

2. An important factor affecting prices today is the policy regarding exports to soft currency countries. These we understand are freely allowed to those countries from which there is no danger of the goods being reshipped to dollar areas with consequent loss of dollars to India. If it appears at any time that the price factor has begun to deter exports to U.S.A., we think the situation can be remedied by placing a limitation on exports to soft currency countries. An announcement by Government that they would, if the price goes higher, take measures to stop such increase by allowing exports only to hard currency countries would probably help in keeping the prices at a more reasonable level.

3. An important point about black pepper is the quality. Poor quality of exports in eatable items generally has very often in the U.S.A. led to condemnation of the cargo by the Public Health Authorities. This is true not only of pepper but also of flee seed and other minor spices many of which have lost U.S. markets permanently. Commodities which are subject to special regulations in the importing countries should as far as possible conform to those specifications and steps should be taken firstly to publicise these standards and secondly to enforce them by prior inspection.

MANGANESE AND OTHER ORES

Prewar annual exports from India were over a million tons. During 1948, exports declined sharply on account of difficulties of transport although there was no export control on the commodity. It was known that there was a very large demand for manganese ore in the hard currency countries, particularly in the U.S.A. and it was decided to give special transport assistance to the ore going to the U.S.A. In practice, it was found that although the ore was railed ostensibly for the U.S.A. in the absence of control on reaching the port it was shipped to a more paying soft currency destination.

2. Manganese and other ores were brought under control in September last and after allowing for a period to work off old contracts exports are being controlled by the grant of destinational licences. Licences are allowed upto the known availability of transport from particular mining areas so as to ensure that commitments are not made in excess of what is likely to be exported. The transport situation which was difficult earlier in the year, particularly in the Calcutta sector, has since improved materially. In fact the position today is that there is more transport than ore available for export. The figures of actual export in the first half of 1949 show an appreciable increase over those of 1948, specially in the hard currency regions.

3. Over-all quotas for the export of manganese, kyanite and chrome ore, have been fixed with a view to conserve the stocks of those ores which are considered to be in not too abundant a supply. Since the value per ton of the ores in general is very small, the possibilities of obtaining a much larger volume of foreign exchange by stimulating exports are small. What is required is that the present annual targets of export be maintained and fulfilled. While the rail transport has been made easier difficulties in securing adequate supplies of petrol for moving the ore to the station are still reported. With the improved position, we feel there should be no objection to replacing destinational quotas by currency quotas within the next six months.

COTTAGE INDUSTRIES.

Government are alive to the possibilities of promoting exports of the products of cottage industries and there are proposals to open emporia in important cities both in Europe and America. Although not all the products of cottage industry are likely to find a steady and continuous market abroad, there are a number of them which produce artistic utilities the production and marketing of which can be considerably improved so as to assist in increasing our earnings of foreign exchange. Items which seem likely to yield results are brass work, wood and ivory carving, certain types of jewellery, papier-mache, gold brocade, silk handiwork. Some of these are luxury goods but of a kind which might find a wide and ready market especially in the States, where in relation to income levels their prices will not be too high. But the main difficulty is that their production is not organised for the purpose of export. It is usually in the hands of very small merchants and very poor workmen neither of whom have any idea of the export needs and their sale takes place purely by fortuitous circumstances. If the modern technique of salesmanship is applied to them and their production methods are adapted to yield a steady flow of standardised mass produced utilities having an artistic appeal it may add to our exports especially to hard currency areas. As regards soft currency areas it has to be remembered that many countries do not allow the import of luxury items.

2. In order to sell our goods various courses must be adopted. We must show them in foreign countries. This means on the one side participation in exhibitions abroad, on the other advertising in an appealing way in foreign periodicals with colourful display of the products for sale. Samples, etc., should also be distributed on a generous scale to embassies and consulates, etc.,—in other countries, where we have our diplomatic organisations. This will have an advertisement value.

3. It may also be desirable to appoint for a period of a few years a few high-powered American or European sales executives who will both organise sales and advise the domestic productive organisations as to the patterns likely to be in demand in the West.

4. The most well-organised marketing is never likely to succeed unless production takes place at home in adequate quantity, with reliable quality and according to certain standard patterns. The organisation of production at

home therefore is as important as marketing. We may begin with organising the production of the articles mentioned above. For this purpose after a preliminary study a number of industries may be selected which are likely to produce artistic utilities which may have a wide demand. To this more and more may be added in due course as other industries likely to satisfy the export market are discovered. The production of most of these handicrafts at present is in the hands of a system revolving round the indigenous small merchant who is a moneylender, supplier of material and the marketeer of the product of the industry. The worker is usually illiterate, extremely dependent and works on his own in an irregular and haphazard fashion. This system has to be replaced by one in which people are made to work for regular hours in establishments run and supervised on modern methods of business and asked to produce designs and patterns which would sell in the market instead of designs to which they are traditionally wedded.

5. For this purpose in respect of each industry a few modern technicians or business executives will have to be asked to study the patterns of production and their adaptation to the production of utilities. In other words, the direct responsibility in the manufacture of these goods has to be shifted from the small *bania* to well-trained business executives working on some kind of a pay plus commission basis under State industries departments. In some of the industries, like the brocade industry of Surat, co-operative organisations exist already and the creation of similar agencies in such centres as Jaipur, Banares, Travancore and elsewhere where a number of these small industries find their home should be organised through State initiative. With this kind of co-ordinated programme extending both to marketing and production fair results would probably be obtained.

6. It would seem that if such organisations are to succeed, the working charges will have to be provided by the Central Government.

MISCELLANEOUS ITEMS

In the foregoing pages, we have dealt at some length with the more important items of our export trade. We propose now to deal somewhat briefly with items which are individually of small value but in total account for a fairly good percentage of our export trade.

2. *Fruits, nuts and vegetables.*—The most important item in this category is cashewnuts, a valuable dollar earner. To a considerable extent, we rely on the imported cashew kernel which is processed on the West Coast and then exported to the U.S.A. The oil derived from the kernel is also a dollar earner. In order to maintain exports at a high level, the free importation of the cashew kernel is essential. Any obstacle to such imports will immediately affect our dollar earnings. Having learnt that this item had been omitted from the new O.G.L., we wrote to Government urging its immediate reinclusion in that licence. The industry also needs a fair amount of tin plates for packaging purposes and this should continue to be supplied liberally. An unfortunate development in the recent past has been that some poor quality cashewnuts have found their way to the U.S.A. where they have been condemned under the public health regulations governing edible items. We suggest that steps should be taken to ensure that Indian exports of cashewnuts conform to the standards laid down by the importing countries.

Walnut from Kashmir also has a market in the American Continent. Both U.S.A. and Canada have a demand for it and it can, like cashewnuts, be developed considerably. Pistachios and almonds imported from Afghanistan have in the past been re-exported to U.S.A. by India. Pakistan is now

trying to capture this trade. One way in which the Indian trade can be retained is by allowing full rebate of the import duty on them when they are re-exported.

Some fruits, we understand, have recently been placed on the permissible list for export to Ceylon. We feel that the concession should be extended to all destinations as there are some possibilities of these fruits finding a market even in Europe and America, if they go by air. Of course the volume of such exports cannot be large because air freight will make them very expensive. The air companies have, however, given concessional rates to stimulate such trade and during the last season mangoes did go in fair quantity to Europe. The export of bananas is prohibited at present because it is thought to be a valuable subsidiary food. There is a demand for it in countries like Switzerland and Sweden. We recommend that their exports should be allowed. In this, we have the support of the Vice-Chairman of the subsidiary Foods Committee, who feels that foreign exchange ought not to be sacrificed by refusing to export these fruits.

In regard to vegetables, the important item appears to be onions for which Ceylon used to be a good market. There are some difficulties in respect of quotas which are given to established shippers and newcomers but there are also quantitative limits which have kept the level of our exports considerably below the pre-war level. At present the export of onions is free to Pakistan and Pondicherry and exports to Ceylon are reported to be taking place from Pondicherry. We recommend that onions should be completely freed from all export restrictions.

3. Horns, Hoofs and pieces thereof.—These were brought under control and placed in the prohibited list in 1948. The reason for this ban, we understand, is that horn meal and hoof meal are valuable fertilisers, of which Government would like to see more made in the country. Horn meal, however, is not produced for its own sake. It is a by-product of the industrial use of horns in the manufacture of commodities like handles, toys, etc. A mere stoppage of exports therefore does not result in the increased supply of horn meal, unless the production of horn manufactures in the country goes up. Horns are found all over the country, wherever cattle die, and the extent to which they are collected and sent to various markets depends entirely upon the demand for them. If the export demands are shut out, their collection is correspondingly reduced. And there is no increase in the supply of the meal. There are many varieties of horns such as deer and elk-horns used for decorative and ornamental purposes which sell at a high price. The stoppage of their exports, when the foreign exchange earned by their export would pay for a very much larger quantity of chemical fertiliser which can be imported, is in our view a mistake. Some quotas for exports of horns have been already granted. We think that horns should be allowed to be exported without any licensing restrictions.

4. Crushed Bones.—This commodity had its largest market in Belgium and earned us hard currency. Bone-meal, the by-product, has to be sold to Government for fertiliser purposes at a stipulated price. The price of crushed bones in the buying markets has of late slumped considerably. The industry finds working uneconomic as it says the price of bone-meal which Government pays and the overseas price of crushed bones together are not sufficient to meet the present high cost of production. Many of the mills are working below capacity and some of them close down periodically. Neither exports nor the supply of bone-meal to Government are at a satisfactory level. One way to remedy the situation would be to increase the price of bone-meal. A fixed price for bone-meal will always be liable to be either too high or too low depending upon the market price for crushed bones which is not fixed but is

subject to ordinary market fluctuations. In the circumstances, it seems to us that the best course would be to remove control from both crushed bones and bone-meal and for Government to buy its requirements of bone-meal on competitive terms at international prices. This will probably result in a larger volume of exports and a larger bone-meal supply to Government than at present. The maximisation of production and export depends greatly on transport facilities for bones and the zoning restrictions should be removed as early as possible.

5. Tyres and Tubes.—We understand that the export of tyre and tubes is subject to restriction because the raw rubber is not available from indigenous sources in sufficient quantities and we depend on limited imports. The imported raw rubber is much cheaper than the indigenous rubber. We have no quarrel with a policy of protecting the indigenous rubber cultivation by not allowing imports to the extent of making indigenous production superfluous. But if by having larger imports of raw rubber we are able to increase the export of tyres and tubes, we shall be gaining foreign exchange without harming the indigenous rubber production. The increased import of rubber to the extent required for export purposes will not mean curtailed consumption of indigenous rubber. On the other hand, if the proportion of imported rubber to indigenous rubber increases the prices of tyre and tubes should on the average come down.

6. Manufactures of wood and Timber.—The Persian Gulf area is a good market for Indian furniture and cabinetware. It is true that for timber, we rely on imports to a considerable extent. But each ton of furniture exported pays for more than twice the values of the timber required to make it. Therefore there is a net gain of foreign exchange and to the extent that the timber imports profit insufficient for meeting both internal and export requirements, extra imports should be allowed. We recommend free export of furniture with corresponding increase in the import of timber if necessary.

7. Fish.—India has always been an exporter of fish. In 1948-49, the value of the fish exported was 1.4 crores of Rupees. There is no dearth of fish around our coasts. Exports are however at present restricted by quotas and licences. Fish is a commodity in which trading is peculiarly difficult to regulate by the grant of licences and there is no reason why export should not be made completely free.

8. Pharmaceutical Products.—During the war, the absence of supplies from Western countries helped the Indian pharmaceutical industry to find a market for its products in the neighbouring countries of Burma and Ceylon as well as in the Middle East and even as far as Egypt. Essentially, the Indian industry is a processing industry. It uses very largely imported ingredients. Restriction on the export of its products due largely to the imported origin of its raw materials has affected its exports seriously, more so, as competition from Western countries is once again severe. Recently there has been some relaxation of restrictions in the sense that medicines which do not contain certain specified drugs, or the ingredients of which are not predominantly of hard currency origin, are licensed for export freely. This arrangement has in practice not helped because proving that the composition of a particular pharmaceutical product conforms to the instructions laid down has presented innumerable difficulties. Each case requires *ad hoc* examination by appraisers who are not themselves technical men. Drugs are often needed at a moment's notice and delay in obtaining a licence may mean total loss of business.

We have throughout emphasised the importance of allowing goods containing imported raw-materials to be exported freely. In the case of pharmaceuticals, we understand, that the price of the finished commodity is many times

the value of its imported ingredients. As the demand abroad for Indian medicines is not very considerable, even were the policy to err on the side of liberality, no loss in the sense of a diminution of essential supplies is likely to be caused. The pharmaceutical industry is working below capacity and production has declined for lack of demand. We would therefore have preferred to recommend that chemicals and pharmaceuticals should be completely decontrolled for export purposes. In view however of the tightness of the dollar position, however, pharmaceuticals which contain one of the following medicines, namely, Streptomycine, Penicillin and Emetine, should continue to be under export control, the rest being free for all export restrictions.

If export on any large scale is to take place, drugs must be upto the proper standard. Even a few cases of bad quality shipped from India will destroy all possibility of our building up an export trade in this line. We understand that internally there is control over the quality of drugs produced and a system of inspection is enforced at least in some provinces. We consider that such inspection should be extended to all areas and if any manufacturer is known to be preparing goods which are not up to recognised standards, the exports of these should be banned.

9. Tobacco.—The possibilities of increasing the export of Indian tobacco should be considerable at present since dollar shortage has made many countries restrict the import of American tobacco. Unfortunately, the production of the first four grades of Virginian flue-cured tobacco which are mainly in demand is still not as large as it should be with the result that while demands for such tobacco remain partially unsatisfied, there is a surplus of lower grades of tobacco which it is difficult to market. Indian tobacco has in the past been mostly taken by the U.K. The interest of the continental countries has now been aroused and there are possibilities of increasing tobacco exports to Europe. The grading of tobacco has been successful and has created confidence among overseas buyers. An increase in the production of the better grades should lead to an expansion of exports—not only of unmanufactured tobacco but also of Indian cigarettes.

10. Chillies.—Ceylon is the main market for Indian Chillies although in the pre-war period some exports went even to the U.S.A. Export of chillies is subject to quota and licensing restrictions. The reason for these restrictions is stated to be that free exports may lead to a rise in price. Even if this happened, we do not think it would make material difference to Indian consumers since the amount anyone spends on chillies is insignificant. Chillies moreover can be grown almost anywhere. Increase in exports is more likely to lead to greater production than higher prices. At present on account of restrictions in India most of this trade has shifted to Pakistan, while some Indian chillies are reported to be finding their way to Ceylon through Pondicherry. The grant of small individual quotas to exporters is uneconomic and is a further impediment to exports. We recommend that restrictions on the export of chillies be abolished.

11. Magnesium Chloride.—Before world war I, Germany had a monopoly in the export of magnesium chloride. Between the wars, however Indian production began to be exported to many near and distant markets. World war II, when German supplies were shut out, gave a great impetus to Indian magnesium chloride which began to be exported in increasing quantities. The competitive position of the Indian industry is weakened on account of insufficient supply of the steel sheets, required for making containers. Increase in railway and steamer freights have also affected exports. Increased allocation of steel sheets and adjustment of the railway freight would certainly be helpful.

12. *Vegetable products (Vanaspoti).*—This industry which used to cater for the needs of undivided India and whose capacity has been steadily increasing is unable to work to full capacity at present and will not be able to do so in the future unless it is able to export. Its natural and established market was Pakistan, but owing to export restrictions from India that country has imported supplies which were specially manufactured for it by Holland and France. Foreign supplies are reported to be cheaper and more attractively packed, and although now India has agreed to allow free export to Pakistan, not much is being taken up by that country. The competitive strength of the Indian product in the Pakistan market can only be restored by a lowering in the price of Indian groundnut and groundnut oil—measures for which we have recommended separately. Apart from Pakistan, Burma, Malaya, Ceylon and other neighbouring countries should present opportunities for Indian vegetable product. In Burma import licensing difficulties stand in the way and negotiations at governmental level are necessary for their removal. Meanwhile, it is important that this item should be removed from the export control notification so that no one able to do business with overseas countries is handicapped.

13. *Myrabollam.*—The annual production is estimated to be about 100,000 tons of which approximately 50,000 tons are exported to America, Europe and other countries which need it as a tanning material. Although a monopoly of India, myrabollams have to face competition from other tanning substances—Quebracho from South America and wattle bark from Africa. Exports used to be handicapped by transport difficulties but the allotment of wagons now is reported to be satisfactory. The price of Indian myrabollam has however been raised by the provincial sales taxes in C.P. and Orissa and the withdrawal by the railways of the concessional rates of freight to the ports, which were in force till about two years ago. Both these impediments need to be removed.

14. *Carpet and raw wool.*—The export of Indian carpets shows a steady decline since the end of the war. Its value has fallen from 4.7 crores in 1946-47 to 2.7 crores in 1948-49. Exports to the hard currency countries in 1948-49 were approximately a quarter of what they were in 1946-47. The only country where exports record an increase is the U.K. The U.K.'s own production is largely catering for the export markets and the domestic consumer in that country is therefore prepared to buy any carpets that the U.K. will allow to be imported. The U.K. market may also be lost once British production becomes available for consumption in that country.

The main reasons for this fall in export are that the quality of Indian carpets no longer satisfies the foreign buyer. This has been largely due to the indifferent quality of the exports in the period when the demand was high. Equally, however, there has been a change in the taste of the buyer and the designs and texture which he needs are not what the Indian industry produces. The Namdas of Kashmir, the Galichas of U. P. and Drugets of Bangalore follow conventional designs and patterns. Their workmanship is not as good as it used to be and the quality of the material which they use is inferior. If this industry is to regain and retain the markets which it had found during the days of wartime scarcity, it will have to be reorganised with the specific object of meeting the requirements of consumers abroad.

The success of the industry depends very largely on the supply of good dyed wool yarn at reasonable prices. The finished goods cannot be satisfactory without good raw material, and Government must see that suitable yarn is made available. Workmanship also requires to be maintained and new and appealing designs have to be introduced. Carpets are produced mostly as a cottage industry and the producers require guidance and assistance in catering for consumers of whose changing tastes they do not have much idea.

It has been suggested that a ban on the export of raw wool or at any rate of tannery wool which goes into Drugget making will have the effect of reducing the price of the raw-material and making Indian carpets more competitive. In the markets of the world Indian wool is known as East India carpet wool. With partition, its supply has been greatly reduced and the volume of our exports has gone down from 59 million lbs. in 1938-39 and an average of 45 million lbs. in the postwar years ending 1947-48 to 15 million lbs. in 1948-49. The U.S.A. takes over two-thirds of our exports of raw wool. As the lack of raw wool does not appear to be the reason for the decline in carpet exports, we do not think any restriction on exports is justified at present. In order to regain the U.S. market for carpets, the attempt should be to adopt better methods of production. Once our exports of carpets increase, we could, if necessary, restrict the export of raw wool to ensure larger supplies to the Indian industry. Better grading of raw wool and better methods of marketing its exports would fetch much higher values than at present.

15. *Coir matting*.—Coir, coir yarn and coir mattings have been traditional items of Indian export. During the war years, exports of coir mats like those of carpets increased considerably. Of late, there has been a serious drop in exports particularly to U.S.A. which was the main market for coir mats. The decline is partly due to U.S. tariff policy protecting the American producer of woollen carpets. Equally, however, the trade has suffered on account of the indifferent quality of some exports and inability to introduce new and varied designs which would appeal to the consumer. Good workmanship and new designs are very necessary.

The import of floor covering in most countries is subject to various restrictions. While in the U.S. it is the tariff policy which impedes exports, in other countries there are import restrictions. Thus in New Zealand, we understand, the import of Indian floor coverings is not allowed at all although imports from the U.K. are being permitted. In the U.K. its import is limited by quotas. Negotiations to have these restrictions removed should be undertaken forthwith by Government.

16. *Aluminium utensils*.—The Indian industry has always catered for the requirements of the territories now included in Pakistan. In addition, there have been exports to neighbouring countries like Burma and Ceylon. Restrictions on the export of aluminium utensils which began in the days of the war have been continued much longer than necessary. This had a particularly adverse effect on supplies to Pakistan. Aluminium utensils made in India use imported aluminium to a considerable extent and since there is a protective duty on aluminium imports, the cost of the finished goods is too high for them to have a ready market in foreign markets. A special arrangement to facilitate exports to Burma was made in the past by allowing drawbacks of duty to two of the most important manufacturing firms. This concession however applies only to exports by sea. In order that exports to Pakistan may prove possible the same concession should be extended to exports by land and all restrictions on export should be removed.

17. *Disposal goods*.—It has been represented to us that a large number of items sold by the Disposals Organisation are of no possible use in the country but are not being allowed to be exported either because they are of American origin or because they fall under categories of goods which are not generally allowed for export. Many of these goods are not suitable for use in the country while there are others which can be used no doubt but for which the internal demand is not large enough to absorb all that is available in the market. It is obviously desirable that what is not usable in the country should be allowed to be exported. Any *ad hoc* examination as to whether or not a particular lot of goods can be used in the country when an applicator

for its export is received takes a great deal of time and very often means that by the time permission is given, the overseas buyer is no longer interested. It is necessary to deal with such cases on broad principle rather than by a meticulous examination of each application. Goods which are unusable in India because the power-supply in India is of a different voltage or because petrol for running the equipment is not likely to be available should immediately be placed in the exportable class. Goods which can only be used for military purposes must be treated as surplus since if they were required by our own army they would not have been sold through the Disposals. These goods should also be freely exported though if considered necessary exports may be allowed only to such destinations about which there is no political or strategic objection. Finally, as regards the bulk of items about which no general ruling is possible, the instructions should be that if the goods have remained unsold internally for any length of time, say one year, they should be considered as surplus and allowed for export.

18. *Miscellaneous seeds*.—Apart from oilseeds with which we have already dealt, there are a number of minor seeds in the exportable category. Thus flea seed and flea seed husks used to have a good market the U.S.A. Dillseed, poppyseed, fennelseed, cuminseed, corriander seed, fenugreek seeds, ajwanseed, turmeric etc. also used to be exported to Europe and America. There is also a demand in neighbouring countries. The loss of the export trade in these seeds is reported to be due to competition among exporters leading to a fall in prices which in turn resulted in a deterioration of the quality. Thus, several shipments of small seeds going to the U.S.A. have been detained and rejected on account of rodent excreta. A strict check over the quality of such exports would revive these markets.

19. *Tiles*.—There is scope for the export of tiles more especially from Mangalore. Demands from Australia have for some time past been coming in. Unfortunately, the first consignment that went there was not packed as it should have been and suffered damage. Since then, we understand conditions have improved. For the development of this trade, it is necessary that the exact demands of foreign markets in the matter of packing and specifications should be studied.

20. *Tanned hides*.—There is no reason why with the necessary technical knowledge raw hides should not be so treated in India as to be equal to the best finished material produced from them abroad. We feel that this is a matter which needs prompt action and we recommend that government take it up forthwith. We understand that there is some difficulty about the importing of quebracho from the dollar areas. This tanning material, we are told, is most necessary for the industry.

21. *Hemp*.—Hemp has been a source of considerable foreign exchange to India and its total exports in 1948-49 have been valued at Rs. 3.84 crores. Though the total quantity exported last year was the highest in recent years, it was still well below 1939-40. Another unsatisfactory tendency is the recent declining trend in the quantities exported to U.S.A. Production on the whole is much below 1939-40 level and if it is increased it should not be difficult to increase exports by at least 25 per cent. Every encouragement should, therefore, be given to the producers to achieve this object. Provision of adequate transport facilities, which has been a serious obstacle to the trade during the last year, direct trade with the continental markets instead of through London, re-introduction of concessional railway rates from Shinpur and other centres to K. P. Docks, better association of trade with the Agmarking schemes, provision of adequate retting water, avoidance of delay in sampling and grading and maintenance of uniformity in these respects from year to year will go a long way to improve the position.

INVISIBLES

The main item of invisible exports are shipping, banking, insurance and tourist traffic. The earnings from foreign countries by way of these constitute an addition to the country's foreign exchange in the same way as exports. India's earning on these accounts at present is very small, the main reason being that our shipping, banking and insurance facilities are not developed and we have to rely on other countries for these services. Measures to increase our earnings from these must include a development of these services as well as an increasing use of them by Indian trade.

2. This Committee has obviously no time to examine the development of Indian Shipping, banking and insurance. Accordingly it must restrict itself to general observations.

3. Banking is largely a matter of confidence. Branches of Indian Banks, particularly if they wish to flourish abroad, must secure the confidence of those who are to be their constituents. Once that has been achieved, progress is bound to be rapid. We understand that restrictions are placed by foreign countries on the opening of branches of Indian banks. It is for Government to see that no discrimination is practised against our nationals.

4. Indian Shipping services now ply between India and Europe as well as India and U.S.A. We understand these services are not being utilised by the trade to the fullest possible extent. One of the reasons for this is the slow turn-round of the steamers, which pick up cargo at different ports of the Indian Coast with delay at each place. This in turn is necessitated by the non-availability of full cargo at the port from which they commence their voyage. It is often suggested that as a positive measure of assistance to Indian shipping and in particular with a view to increasing our foreign exchange earnings, Government should bring some form of pressure, direct or indirect, on trade to utilise Indian Shipping. We feel that this is a matter where there is room for propaganda and publicity but not for pressure. Performance will bring its own reward. If Indian ships are able to offer as good or better service than foreign ships, there is no doubt that they will not lack cargo. Compulsion of any kind may have undesirable repercussions on the volume of our export trade, since Indian Services are still running at not-too-frequent intervals. There is yet another danger in any policy of compulsion, namely that the other countries might retaliate.

5. It is also sometimes urged that we should insist on all our imports being shipped f.o.b. and all our exports c.i.f. The very fact that the proposal rests on the adoption of two different systems of invoicing shows that it is impracticable. If we insist on such a measure, there is nothing to prevent other countries from adopting the same policy towards us. In particular, it has been urged that the shipment of jute goods from India to U.S.A. which takes place f.o.b. at present, should now be made c.i.f. Here again it is clearly desirable that the shipment should preferably be c.i.f. and the option of choosing the shipping should remain with the Indian shipper. It is not a case however where Government could or should interfere, particularly as Government's own purchases of foodgrains from the U.S.A. are all f.o.b. It is essentially a matter to be settled between the Indian shippers and their foreign buyers.

6. Insurance is again a matter of confidence. Those who are to insure with a branch of an Indian company must feel themselves safe in its hands and must be certain of receiving as good service as any foreign company can give. Insurance companies have often to face a great deal of competition but in the end character tells and business done on the right lines with low profits, low expense ratios, and prompt meeting of liabilities will do much more for the

spread of Indian insurance than any amount of Government assistance or favour. Here too reciprocity must be insisted on. So long as we have a fair field we need not ask for anything more. It is essential that all foreign exchange earnings of Indian insurance companies should be surrendered to the Indian exchange control. An insurance company does occasionally have to pay out more than it has received. Such a liability in terms of foreign exchange would fall on the Reserve Bank of India and it is but right and proper that the earnings of foreign exchange should also come to its credit. It is no answer to say that such insurance companies as do not credit their earnings to the Reserve Bank cannot claim foreign exchange from it. If an Indian insurance company operating on its own defaults in any payment because of shortage of foreign exchange, not only will that company but all other Indian insurance companies lose credit.

7. For the development of tourist traffic, the Ministry of Transport is responsible. We understand that various steps to improve amenities to tourists are under consideration and some arrangements have been completed. A Committee was appointed which first met in November 1948. No tourists seem to have arrived since then. We can only hope that the results of the Committee's efforts will be more successful in the next cold weather. Tourists from the U.S.A. spend a million dollars a week in France during the summer. Although the distance to India and the cost of coming here is much greater, there is really no reason why, considering the many attractions this country has to offer, the lure of the unknown and the desire for adventure, at least a twentieth of that sum should not come to this country for each week during the four winter months. Many people in America and Europe long to get away from their depressing winter, and November to February is the best part of the year with us. If however progress in planning for tourists traffic and providing necessary amenities proceeds at the same pace at which it has done in the past, not much of this rich harvest is likely to be gathered. Nor will the many restrictions which the governments of some of our provinces impose and wish to impose on social life and behaviour conduce to the increase of touring. It is no answer to say that the tourist personally will be exempt from restrictions. A visitor comes to a foreign country in order to meet the people and to have social contacts with them and anything that prevents this discourages tourism.

8. A point worth mentioning here is the evasion of exchange control. Estimate as to what proportion of our total dollar earnings are not being properly credited to the country's foreign exchange account but are being held abroad by Indian nationals vary from 5 to 15 per cent. of total foreign exchange earned. The manner in which this is being done is said to be the under-invoicing of exports and over-invoicing of imports, the difference between the correct value and the value shown in the invoice being credited to the American account of the exporter or importer. Although every exporter has to undertake to surrender to the Reserve Bank the declared value of his exports, there is no machinery at present to ensure that the declared value is the correct one. In the United Kingdom this responsibility falls on the Customs staff. In India too, if effective arrangements are to be made, the task must be left to the Customs. We however do not wish that anything should be done to the detriment of the export trade. We would not suggest the stoppage of any consignments on the ground that they were undervalued. Where Customs officials consider that the value is too low, the matter should be taken up with the exporter after the goods have been shipped. The examination should be made by a sufficiently senior officer who is in a position to distinguish between under-invoicing and selling at very low margin (as one must to a hard currency country).

9. On the import side, over-invoicing is mentioned as being responsible for a good deal of leakage. In addition, licences are obtained sometimes on false pretences and by giving an incorrect and misleading description of what is sought to be imported. Thus, it has been reported that sun glasses were imported against a licence for optical instruments. Evasions like these are difficult to check or detect. Consequently the need is all the greater for exemplary punishment, when a case is detected. The antisocial character of the wastage of dollars has not been realised by the people. Public opinion needs to be aroused against individuals who take advantage of their country in this fashion.

CONCLUDING REMARKS

In conclusion, we desire to express our thanks to our Member-Secretary, Mr. L. K. Jha. His wide knowledge of the subject we dealt with, remarkable industry and diligence, cheerful and amiable personality have been of invaluable assistance to us in our labours.

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(Sd.) J. N. RAY.

(Sd.) RATILAL M. GANDHI.

(Sd.) G. EUTHYMOPULO.

(Sd.) ABDUL JALIL.

(Sd.) U. N. BARMAN.

(Sd.) HARIHARNATH SASTRI.

(Sd.) L. K. JHA.

Bombay,
13th September, 1949.

STATISTICAL APPENDIX.

BEST YEARS OF EXPORTS

(Based on exports from 1934-35 to-date.)

	Unit	Quantum of Exports	Best year of export	Exports in 1948-4
<i>Food and Drink, etc.—</i>				
Tea	In millions of lbs.	405.7	1944-45	405.9
Tobacco	"	75.3	1946-47	55.8
Spices	In '000 of cwts.	657.8	1947-48	458.0
<i>Raw Material</i>				
Coal	n '000 of tons	2008.9	1939-40	1132.0
Mica	In '000 of Cwts.	293.9	1937-38	339.9
Lac	"	833.9	1936-37	490.0
Hides and Skins Raw	In '000 of tons	48.8	1935-36	12.2
Manganese ore	"	1001.0	1937-38	308.8
<i>Oils—</i>				
Groundnut	In '000 of gallons	8702.6	1940-41	8900.8
Linseed	"	3317.5	1947-48	2280.5
Castor	"	5638.2	1947-48	3009.1
<i>Seeds—</i>				
(i) Groundnut seed	In '000 of tons	835.1	1938-39	38.2
(ii) Linseed	"	318.3	1938-39	25.0
(iii) Castor	"	68.7	1934-35	..
Cotton Raw	"	762.1	1939-40	76.0
Jute Raw	"	820.5	1936-37	212.7
<i>Manufactured Articles.—</i>				
Hides and Skins, Tanned	In '000 of Tons	31.9	1939.40	14.5
Iron and Steel manufactures	"	96.3	"	12.0
Manufactures	"	1083.3	"	925.6
Cotton Piecegoods	In millions of yards	819.1	1942-43	340.8

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TABLE No. I

Export of principal commodities during the first halves of 1948 and 1949 both in terms of volume and value.

Commodities	Quantity in 000 of tons		Value in Lakhs of Rs.	
	Export during 1st half of 1948 (January-June)		Export during 1st half of 1949 (January-June)	
	Quantity	Value	Quantity	Value
Jute Manufactures	464.1	7292	379.2	5581
Jute Raw	160.1	1681	83.6	1051
*Cotton Piecegoods	106.5	1150	156.2	1483
Cotton Raw	69.1	1226	33.4	587
Cotton Waste	32.7	323	34.1	327
Hides and Skins Raw	9.0	318	9.2	321
Hides and Skins Tanned	7.0	615	8.3	795
Groundnut Seeds	50.4	363	38.5	309
Linseed	23.3	142	22.3	131
Groundnut Oil	30.4	524	16.6	295
Linseed Oil	5.5	99	3.7	65
Castor Oil	13.7	240	1.4	25
Mica	10.2	319	6.7	238
Lac	15.3	526	9.6	345
Manganese Ores	162.3	87	269.2	179
Tea	68.2	2370	89.1	3160
Tobacco	7.6	307	10.5	458

*In millions of yards.

TABLE No. II

Export to Hard Currency Areas during the first halves of 1948 and 1949.

Quantity in 000 of tons. Value in Lakhs of Rs.

Commodities	Exports during 1st half of 1948 (January-June)		Export during 1st half of 1949 (January-June)	
	Quantity	Value	Quantity	Value
Jute Manufactures	202.8	3596	151.9	2545
Jute Raw	21.6	505	33.4	408
Tea	9.0	326	9.5	337
Lac	9.2	298	4.9	165
Fruits and Vegetables		145		193
Mica	7.5	219	3.7	176
Hides and Skins Raw	5.7	277	4.2	133
Hides and Skins Tanned	0.6	82	0.1	29
Cotton Raw and waste	28.2	410	28.4	381
Spices	2.6	64	3.6	162
Oils	4.9	87	1.1	29
Manganese Ores	96.3	48	182.4	119
Others		380		354
TOTAL		6437		5948

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TABLE No. III

Export of Jute manufactures to principal countries during the first halves of 1949 and 1948.

	Quantity in 000 of tons.	
	January-June 1949	January June 1948
U. S. A.	91.8	126.3
Australia	48.6	59.5
U. K.	43.5	63.4
Argentina	32.2	26.1
Pakistan	19.4	1.7
Thailand	7.8	4.8
Chile	7.4	7.0
Burma	7.4	9.1
Canada	7.1	14.7
Newzealand	8.7	7.3
Other Countries	109.3	144.2
	<u>379.2</u>	<u>464.1</u>

TABLE No. IV

BALANCE OF PAYMENTS, 1948

Current Transactions

(In crores of rupees)

	Receipts	Payments	Net.
1. Merchandise (Exports f.o.b., imports c.i.f.)	433.7	478.4	-46.5
2. Non-monetary gold movement	..	0.1	-0.1
3. Foreign travel	..	4.1	-4.1
4. Transportation	4.6	9.0	-4.4
5. Insurance	1.7	3.4	-1.7
6. Investment, income	12.2**	30.0†	-17.8
7. Government not included elsewhere	24.6	105.6‡	-80.4
8. Miscellaneous	28.1	18.2	+9.9
9. Donations§	16.0*	5.8	+10.2
10. Unclassified	23.2	14.6	+8.6
11. Total Current Transactions	<u>542.1</u>	<u>664.6</u>	<u>-122.5</u>
Errors and Omissions	..	1.5	..

*Receipts under this item are likely to include some on account of insurance and freight charges which it has not been possible to separate, but both Receipts and Payments exclude transactions under Government barter deals.

**Includes the interest on the sterling assets of the Reserve Bank of India.

†This figure is composed of receipts by mission any institutions remittances from Indians abroad (of which a provisional estimate has been made), and other unilateral transfers into the country.

‡A provisional estimate to be verified later when the Census of Foreign Investments complete.

§Includes the amount of Rs. 60 crores paid for stores under the terms of the Indo-U.7 Financial Agreement.

¶This figure is composed of receipts by missionary institutions remittances from India abroad (of which a provisional estimate has been made), and other unilateral transfers into the country.

45555

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