Congress Golden Jubilee Brochure No. 6

INDIAN TARIFF POLICY

PUBLISHED BY
ALL INDIA CONGRESS COMMITTEE
SWARAJ BHAWAN, ALLAHABAD

1935

Congress Golden Jubilee Brochure No. 6

INDIAN TARIFF POLICY

For favour of review.

PUBLISHED BY
THE ALL INDIA CONGRESS COMMITTEE
SWARAJ BHAWAN, ALLAHABAD

1935

PRINTED BY
MURALI MANOHAR PRASAD
at
The Searchlight Press, Patna.

NOTE

The Congress Jubilee Brochures, written in popular style, are meant to educate the general public and furnish them with a working knowledge of the current Indian political and cultural problems. The Congress, as an organisation, may be said to be in general agreement with the conclusions of the different authors, although it may not be possible for it to subscribe to every detail of what has been written. There may be minor points of difference here and there for which we, as publishers, or the Congress, as an organisation, can take no responsibility.

SWARAJ BHAWAN,
ALLAHABAD.
December 15, 1935.

J. B. KRIPALANI,
General Secretary,
ALL INDIA CONGRESS COMMITTEE

CONTENTS

Indian Tariff Policy

INTRODUCTION

Customs duties on goods imported from abroad have been an acknowledged source of revenue in most countries. The position of this source of revenue in the financial system of different countries varies but, on the whole, it may be said that it occupies quite an important place. Besides, customs duties are the principal method by which schemes for the protection of industries are enforced in countries where a protective policy is in operation. In view of this dual character of customs duties we find that several countries have developed a highly scientific tariff which is used for one or both of these purposes. In more recent times a tendency towards trade agreements between different countries has grown and one of the ways in which these agreements are made is to have mutual concessions in the customs tariffs of the countries concerned for the goods of each other. In certain cases customs duties are levied as a retaliatory measure against the goods of another country which may be an offender in certain respects, chiefly economic. They are also used in self-defence to safeguard the industries of a country against the goods of another country which has a depreciated currency or which gives special bounties for the export of certain goods. Under either of these cases the goods of the other country can be dumped into outside markets at

specially low prices. Such a state of affairs would be against the interest of home production, which would then require special measures of assistance. These invariably take the form of anti-dumping legislation, or higher customs duties on such foreign goods.

FREE TRADE.

In the revenue system of India Customs has been comparatively a small source of revenue till 1914. The reason for this was that India was a free trade country till recently, and that customs duties could not be raised even for revenue purposes, lest they might have a protective effect. This policy was obviously due to our political connection with Great Britain. Among the countries of the world Britain was the only important country which stuck to free trade as a policy for many years, though it did not find favour in other countries. Due to her early start in the development of industries and her need for an unrestricted exchange of raw materials from abroad with her own manufactured products, England found it convenient to adopt a free trade policy at a time when other countries were building up protective tariffs. The officers of the East India Company and, later, of the Crown applied the principles of free trade, which they by then considered of universal application, to India without due regard to her economic requirements. These officers were trained in the Classical School of Economics, taught by Adam Smith and his successors. Whereas some of them were sincere in their belief for some time regarding the universal application of free trade, others did realise at an early stage that what was true of England was not necessarily true

of India. With the growth of the Cotton Mill industr from the sixties of the last century in Bombay, an later in other centres, it was gradually realise that India was not likely to be willing to con tinue to be a producer merely of raw material but that she had legitimate ambitions fc modern industrial growth. For this purpose she wa specially fitted in various ways, especially with referenc to certain industries. An abundant supply of ra materials, a wide home market, an improved system c internal communications were, among other things, th factors which gave an impetus to this desire. The nee for such progress was all the greater because of increas ing population, particularly due to peace and a sense o security which followed the establishment of British rul in this country. There were obvious limits to an increas in production in agriculture, and it was natu ral tha there should grow a desire in the country for mor industrial production. While these ideas were gradually growing in force, it would have been wise for England tc give them a proper direction and help the people of this country in realising their legitimate ambition in good time. It is well-known that the British first came to this country for trade, and one of the chief reasons why they even now like to be in this country is also for trade. It is at the same time common knowledge that trade depends more on the goodwill between the parties concerned than on anything else. Once this goodwill is lost, it is difficult to recover it. Unfortunately, however, the opportunity that the British authorities had of giving to India at an early date a start in her industrial career, was lost.

Instead of being a source of help, the British put obstacles in the way of Indian Industrial Progress. To come in the way of such natural economic progress in the country was to deny to the people their natural rights to exploit their own resources for their own benefit. The free trade policy, which was deliberately imposed on India till recently, amounted to such a denial. In the absence of protective assistance the industries of this country were not likely to have a chance against competition of both British and foreign goods. And it is well known to all that those who come late in the field of industrial development increase their difficulties.

EARLY HISTORY.

It is not necessary to go into the details of the history of Indian Customs tariff. Authoritative researches * have been made and published by well-known scholars who have established the fact that the customs tariff of India was kept low lest it may have a protective effect against certain classes of British goods. Throughout this history the general concern was with reference to cotton goods. The Lancashire cotton mill industry happened to be the most important export industry of England. Among the imports of India the imports of British cotton goods happened to be the largest single item. Enterprising people in India found in the cotton industry the possibility of an industrial growth at an early stage, and mills began to be started in Bombay in the sixties of the last century. This was a particularly favourable period because at this time fabulous wealth had been made by

(*) Refer to the works of Sir. J. C. Coyaji, Professors Banerjee and Vakil, and Dr. N. J. Shah on this question

certain parties out of the American Civil War, which led to a phenomenal increase in the prices of raw cotton. It was this wealth that was seeking fresh avenues of investment and which ultimately was invested in cotton mills. The small revenue duty of 5% on cotton twist and yarn imposeed in 1859 was opposed by the Manchester Chamber of Commerce. In consequence, the Secretary of State for India asked for the abolition or reduction of this duty, in spite of the fact the Indian Government could ill-afford the sacrifice. The attempts to revive this duty met with strong opposition from time to time. The agitation ultimately took the form of a resolution in the House of Commons in 1877, which in effect laid down a free trade policy for India. In view of this, we find that in 1882 the general import duties including the duties on cotton goods were abolished. Unfortunately for the Government of India, they were passing through a period of financial difficulties, due to the fall in the exchange value of the rupee, from 1873 onwards. When other sources had been exhausted the Government of India were forced to have recourse to import duties in 1894. In spite of the opposition of the Government of India cotton goods were exempted from the operation of a 5% general import duty by the orders of the Secretary of State.

THE COTTON EXCISE DUTY.

The attempt to remove this exemption in the following year was met with considerable opposition and led to an acute controversy. Ultimately, it was decided to levy a small revenue duty of 3½% on cotton goods, counterbalanced by an excise duty on woven goods of all sorts in India.

This excise duty was universally condemned by all parties in India, and the injustice of it has been since acknowledged by responsible parties in England. In any case, it remained a great sore till it was abolished in recent times, and has been pointed out as the classical instance of the way in which the political power of England was used to advance her economic interests in India without regard to the needs of this country.

WAR TAXATION.

A few changes were made in customs tariff in the beginning of this century before the War. Partly due to this and partly due to the increase in trade, customs revenue gradually rose and amounted to about 11 crores of rupees in 1913. Important changes in the rates of duties took place during the War period and also during the years following the War. The first war taxation was levied in India in 1916. In this year the general import duty was raised from 5% to 7½%; the free list was curtailed; a 10 % duty was levied on sugar; and for the first time export duties were levied on tea and jute. The duties on cotton goods were left untouched at 3½%. In 1917 the Government of India gave a special war contribution of £100,000,000 to the Imperial Treasury. For this purpose additional taxation became necessary. Among other things, the export duty on jute levied in the preceding year was doubled, and the duty on cotton goods was raised from 3½% to 7½%, the excise on cotton goods of Indian manufacture remaining at 3½%. This was immediately followed by an agitation in England which was, however, silenced by pointing out tne special war contribution of

India. On account of this and other increases in customs duties, the revenue from Customs rose to 32 crores of rupees in 1920, in which year the revenue from Land was also about the same.

THE REFORMS OF 1921.

With the inauguration of the Montagu-Chelmsford reforms in 1921, the finances of the Government of India were for the first time separated from those of the provinces. The legacies of the War, on the one hand, and the burdens of the new constitution, on the other, required more money. Though during the War period customs duties and income tax had been raised considerably, still in 1921 and in the following years till to-day the Government of India have found that these are the only two important sources which are capable of expansion to meet financial difficulties. Large increases in the rates of duty were made in 1921 and again in 1922. Without going into all the details, it may be of interest to refer to a few important cases only which have been summarised in the following table:--

Rates of Customs Duties in percentages Ad Valorem unless otherwise specified.

	1920-21	1921-22	1922-23
General rate ...	7½	11	15
Cotton piecegoods ...	7½	11	11
Cotton yarn ...	...	...	5
Matches (per gross of boxes.) ...		12 as.	Rs. 1-8

Sugar ...	10	15	25
Luxury Articles ...	7½ to 10	20	30
Cigars and cigarettes	50	75	75

In 1922-23, along with the increase in the general rate of duty to 15 %, there was a proposal to raise the duty on cotton piecegoods also to the same level. This was coupled with a proposal to raise the excise duty from 3½% to 7½%. The proposal for an increase in the excise duty was defeated in the Legislative Assembly. In view of this, the proposal to raise the import duty on cotton goods was dropped and it was left at 11%.

THE FISCAL COMMISSION.

In the meanwhile, the Indian Fiscal Commission had been appointed and had recommended in favour of a policy of discriminating protection. This policy was accepted by the Assembly in February, 1923. The main idea was that those industries which fulfilled certain conditions were to be given suitable assistance by the State. The chief conditions were that the industries seeking protection should have an abundant supply of raw materials, a large home market, an efficient labour supply and should be such as would be in a position to stand on their own legs in due course. Before granting the protection an enquiry was to be held into the conditions of the industry by the Tariff Board, the appointment of which was recommended by the Fiscal Commission.

In view of the third condition of the policy of discriminating protection, it was implied that the protection given to an industry would be for a limited period, and

would be modified according to circumstances from time to time. This, in turn, involved periodical inquiries into the condition and progress of the industry which had received protection, in case further assistance was demanded. Under this arrangement, several enquiries have been made since 1923 by the Tariff Board. The Government of India have introduced legislation to give protection to some of these industries with or without modification of the recommendations of the Board. In other cases recommendations of the Board have been rejected. On a review of events since 1923, however, we find that we have already a protective section of the customs tariff of some magnitude. Along with this the customs tariff, which had already become high on financial grounds alone, had to be raised to still greater heights because of the deficits in the budgets of the Government of India from time to time. Some of these high rates of duty have had a protective effect in practice. This means that, besides the encouragement to industries given by means of the protective tariff, some encouragement accrued to other industries because of the high revenue tariff. This latter help has been, however, of a precarious type, because revenue duties are liable to change at any moment, and an industry dependent for its existence on such duties may suddenly find itself in difficulties.

Though this is true, in some cases high revenue duties have shown the way and industries, which came into existence under the shelter of such duties, have succeeded in establishing their claims for protection. Without going into the details of changes in the customs tariff since 1923, we propose to consider briefly a few leading changes in recent times, which will enable us to

concentrate attention on the more important aspects of the tariff and the problems connected therewith. This will also enable us to discuss another feature in the customs tariff which has grown in recent times, namely, the preferential duties. In order to grasp fully the present position and problems of the tariff we shall, in the first place, refer briefly to the protective schemes in connection with certain industries, namely, steel, cotton, sugar and matches.

PROTECTION TO THE STEEL INDUSTRY

The first inquiry by the Tariff Board related to the steel industry. Besides the general conditions laid down by the Fiscal Commission for granting protection, they had suggested certain exceptions. The exceptions related to what are called key industries or those which are required for national defence. On this ground the Commission had specially mentioned the steel industry as one which could be an exception. It may be noted that the Tata Steel Works of Jamshedpur proved of immense value to the Government during the War in connection with important requirements for war supplies. It was realised for the first time by the British authorities during the War that if India were better equipped in certain industries, which could be turned to useful account for purposes of war, it would add to the strength of the Empire. In view of this and in view of the services which the Tata Steel Company rendered to the authorities during the War, they naturally got the first consideration under the new policy. The Steel Protective Act, passed in 1924, contained a combination of import duties on different classes of steel and bounties on production according to certain rates.

Unfortunately, this Act almost became a dead letter by the time it received the sanction of the Governor-General. This was due to unexpected events elsewhere. Among the competitors of Indian steel were certain Continental steel producers, chiefly Belgian and French. The currencies of these two countries were not stable at the time and began to depreciate further in 1924. The Indian Tariff Board had recommended rates of protective duties on the calculation of prices at which competitive imports came to India. These calculations were now upset because, with depreciating currencies, Belgian and French steel goods could be landed in India at rates much cheaper than those anticipated by the Tariff Board. Under the Act the Government of India were empowered to raise duties to meet such emergencies. Instead, the Government referred the matter to the Tariff Board and ultimately got a Supplementary Act passed by the Legislature, by which the bounties were increased temporarily. The position was reviewed again in 1925, when the additional bounties were reduced.

THE STEEL ENQUIRY OF 1927 AND THE BEGINNING OF IMPERIAL PREFERENCE.

The original Act of 1924 was for three years only, and it was laid down that a statutory inquiry should be made into the condition and progress of the steel industry in 1927, with a view to revise the scheme of protection. Accordingly, a fresh enquiry was made in 1927. By this time the gold standard had been restored in England, and the exchange value of the rupee was also fixed at 1sh. 6d. gold. The Tariff Board found that the prices of British steel goods competing with

India were steady, and could be calculated. On the other hand, they found that the prices of Continental steel goods were lower than those of Britain and were constantly fluctuating. In view of this, the Board recommended that the scheme of protection should provide a basic duty calculated with reference to British prices. This would give a definite measure of protection to the Indian steel industry to that extent. Besides, there should be additional duties on Continental steel goods, the details of which were worked out according to the information then available. It was, however, laid down that the Government of India should have power to vary these additional duties according to fluctuations in prices from time to time. This particular method of introducing Imperial Preference, as if by the backdoor, was strongly criticised in and out of the Assembly at the time. It was, however, defended on the ground that this measure was due to the special requirements of a particular industry and did not in any way involve the acceptance of the principle of Imperial Preference.

We shall have occasion later to see the development of this step. The protection thus granted in 1927 was to run for seven years. A further inquiry into the condition of the steel industry was made before the expiry of the period and a fresh Act for protection of the steel industry was passed in 1934. We shall refer to this legislation later in connection with certain new developments which have in the meanwhile taken place.

THE TREATMFNT OF THE COTTON INDUSTRY.

The cotton industry had a flourishing time during the War and in the years immediately after the War.

The millowners, however, did not build up adequate reserves out of the large windfalls that they received. Instead, on the one hand, they gave away large dividends and, on the other, overcapitalised the industry. The cotton industry was the first to feel the effects of depression as early as 1923. Several representations were made on behalf of the industry for help from the Government about this time. The first step that was taken in this connection was the suspension of the Cotton Excise Duty in December, 1925. This duty has not been re-imposed thereafter. Though this step removed the long-standing grievance of the Indian industry, their difficulties were now gradually increasing. Besides the effects, of the world depression which had by now become acute, the millowners could, on the one hand, point out the advantage of Lancashire by the rise in the rupee to 1sh. 6d. and, on the other, the increasing competition from Japan, due particularly to inferior conditions of labour and, later, to depreciating exchange. A special Tariff Board was at last appointed to investigate the position of the cotton industry in 1926. The Board, however, was divided in its opinion and the Government of India, therefere, were not in a mood to take any special action. Besides, certain defects in the internal management and the organisation of the industry were pointed out and unless the industry was ready to put its house in order, it could not expect the State to give special assistance. After some agitation, however, a small duty of 5 per cent. on cotton yarn was levied. A few other minor steps were also taken about this time.

In the years that followed, we hear more and more of the tale of woe of the cotton industry, on the one hand, and of the financial difficulties of the Government of India, on the other. At the same time political discontent in the country was growing in intensity. The political movement was accompanied by a well-organised propaganda in favour of Swadeshi goods. This propaganda laid special emphasis on the use of Khaddar and the spinning of cotton by all classes of people. The propaganda in favour of Khaddar gave a special impetus to the use of Indian mill made cotton goods, as the second best alternative. Later, for some time the boycott of British goods was preached which affected chiefly the imports of British cotton goods, giving indirectly an encouragement to the greater use of Indian mill made goods. In spite of this voluntary assistance from the people the Indian mill industry was not out of its difficulties. At the same time, the British authorities felt that it was desirable to do something for the Indian cotton industry which may remove the sting against the use of British goods. The Lancashire industry, at the same time, found itself in grave distress and was in need of special help. In view of this, we find on the one hand that the Government of India try to adopt a protective policy for the Indian cotton industry even without reference to the Tariff Board; on the other hand, the effort is being made to see that special preferential rates of duty are imposed on British goods. The tug-of-war between the conflicting claims of the Indian and British industries is reflected in the hesitating nature of the frequent changes in the duties on cotton goods,

that have taken place in recent times. This will be obvious from the brief survey of recent events in this connection which is given below.

SECOND STEP TOWARDS IMPERIAL PREFERENCE

Without an inquiry by the Tariff Board the Finance Bill for 1930-31 provided for an increase in the revenue duty on cotton goods from 11% to 15%. In addition to this, it was proposed that a protective duty of 5% on goods of non-British origin be levied. This proposal raised some controversy, but was at last passed with a slight modification to the effect that plain grey goods of British origin, which competed with Indian production, were also to pay the protective duty. It will be noted that whereas preferential duties on non-British goods were for the first time imposed on steel goods in 1927 after a detailed inquiry by the Tariff Board, in the present case a similar action was taken without such an inquiry. In other words, it was assumed that the protection required by the Indian industry was less as against British industry compared with non-British industries.

In the budget of 1931-32 a surcharge of 5% was levied on the general import duty, including the cotton duties. Though this was done purely for financial reasons, the protective effect of the existing duties could be said to have increased to some extent. Unfortunately for the Government of India, they found within a short time that their budget expectations could not be realised and that the deficit was likely to increase. An extra-ordinary step was taken to meet this emergency. In September, 1931 the Finance Member introduced

a Supplementary Budget for the following eighteen months, that is, to cover the remaining six months of the then financial year, 1931-32, and also to cover the following financial year, 1932-33. Besides other financial measures, the one that concerns us here is the imposition of a surcharge of 25% on all import duties, including cotton. The effect of this was that we had a duty of 25% on British cotton goods and of 31¼% on non-British cotton goods. It appeared for some time that, apart from the question of preference, the Indian cotton mill industry had got adequate protection. But this expectation could not be realised because Japan, who had already obtained a strong hold over the Indian market, was determined to take steps to maintain its hold. The Japanese Yen continued to depreciate about this time, making it cheaper for the Japanese goods to be sold in the Indian market with success in spite of heavy duties. In view of the Anglo-Japanese Trade Convention, it was not possible to levy special anti-dumping duties against Japanese goods as such. But the Government of India found, in the existing practice of preferential duties on British goods as against non-British goods, a convenient method to give relief to the Indian industry. After a hasty reference to the Tariff Board, legislation was passed in August 1932, by which the duty on plain grey goods of non-British origin was raised to 50%. But even this step did not suffice to meet the competition of Japanese goods in view of the continued depreciation of the Yen. In view of this, the necessary notice to terminate the Anglo-Japanese Convention was given in April, 1933, and in June of the same year the 50 duty on non-British goods was raised

to 75%. This action was greatly resented in Japan where retaliatory measures were adopted. The Japanese decided to boycott Indian raw cotton and put their resolution into action without delay. By this time the worst effects of the world depression were being felt, especially in the agricultural industry. The prices of raw materials fell to a greater extent compared with those of manufactured products. The Indian farmer was particularly hit by this world event as he could realise only a smaller return on his products. On top of this difficulty, the Japanese boycott of Indian raw cotton made the position of the grower of raw cotton in India very precarious. This state of affairs could not last long and an arrangement was desired by which the interests of both the industrialist and the grower might be safeguarded. At the same time the growing competition between Japanese and British cotton goods in markets outside India was creating additional difficulties for Lancashire. Proposals to put a stop to such competition and to arrrive at an understanding for the division of markets between England and Japan were being discussed. These forces resulted in the invitation of a Japanese Trade Delegation to India to discuss the terms of an agreement between India and Japan.

About the same time a British Delegation, representing the cotton industry, headed by Sir William ClareLees, also came to India to watch British interests in these negotiations, on the one hand, and to sound the Japanese for a wider agreement for the division of cotton markets all over the world. As a result of these visits, we had the Mody-Lees Pact and the Indo-Japanese Agreement, the details of both of which will be considered later.

PROTECTION TO SUGAR INDUSTRY.

In the case of sugar, we have seen that the revenue duty was raised to 25% in 1922. In 1925 the duty on superior quality of sugar was raised to Rs. 4/8- per cwt. which worked out at 30% *ad valorem*. On sugar of inferior quality the 25% duty was continued. In 1930 the specific duty on sugar was raised to Rs. 6/ per cwt. which worked out at 50% *ad valorem*. Due to the high rates of duty prevailing over a fairly long period, new sugar factories were gradually coming into existence. It may be noted, however, that the protective effect of the duty imposed in 1930 was partly nullified due to the great fall in prices about that time. In the meanwhile, the case of the sugar industry had been investigated by the Tariff Board, which recommended a protective duty of Rs. 7-4-0 per cwt. for the first seven years, and for the remaining period at Rs. 6-4-0 per cwt. In the budget of 1931-32, the Finance Member anticipated this recommendation by raising the revenue duty to Rs. 7-4-0 per cwt. This was turned into a protective duty in April, 1932, when the Sugar Protection Act was passed. The Tariff Board recommended the grant of protection to the sugar industry for a priod of 15 years. The Government, however, accepted half the period, at the end of which a further enquiry would be instituted.

PROTECTION TO THE MATCH INDUSTRY.

In connection with the changes in customs duties during the War period, we noted that a revenue duty of Rs. 1-8-0 per gross of boxes of matches was levied. The position of the match industry, which grew up under the shelter of this revenue duty, was investigated

by the Tariff Board, which was satisfied that the maintenance of the same rate of duty would be sufficient to give adequate protection to the match industry. This recommendation was made in 1926, legislation was passed in 1928, changing the revenue duty to a protective one. There was one difference in the case of the match industry, compared with the other industries which received protection, that no time limit was laid down in connection with this duty.

We do not propose to go into the details of other enquiries by the Tariff Board. We have, referred at some length to cotton and steel, because, besides being large and important industries, in their case we have, for the first time, the introduction of preferential duties. We shall also see later that a new feature in the Fiscal system of the country has been recently introduced in the form of an excise duty on the production of steel, sugar and matches in India. For a proper understanding of these features the facts related above will be useful.

THE UNITED KINGDOM ADOPTS A NEW ECONOMIC POLICY.

We shall now try to explain how the policy of discriminating protection was gradually super-imposed by a policy of Empire preference. The protective duties which came into existence in the Indian Customs Schedule, for the first time, in 1924, were deflected from their proper effects by new circumstances which were gradually gathering force. When preferential duties were first imposed in the Steel Protection Act of 1927, and again in the Cotton Duties of 1930, it was not realised that these isolated measures were part of a

larger policy designed to bind together the economic ties of the Empire. For a clear grasp of this new development, it is necessary to review in brief some of the relevant changes in the economic policy of the United Kingdom.

As early as 1903, Joseph Chamberlain started a Tariff reform campaign in England. He was in favour of protective and preferential duties for the Empire. His ideas fell on deaf ears at the time, because in spite of definite arrangements by the Dominions asking the United Kingdom to join in a scheme of reciprocal preferential duties, she was not willing to give up her cherished principles of free trade. It was left to the two distinguished sons of Joseph Chamberlain to put into effect his ideas in more recent times.

In 1915, Mr. McKenna had to raise more revenue from customs duties, some of which were protective in effect. This first departure from strict adherence to free trade had to be tolerated on account of the War. In 1919, Sir Austin Chamberlain introduced preferential duties on certain Empire products. At the same time, a series of measures were introduced under the Safeguarding of Industries' Act. Some of these mild attempts at protection were temporarily suspended in subsequent years for short periods when the Labour Government was in power. From 1931, however, the National Government, with a large Conservative majority, found it possible to give definite shape to a new economic policy for England and the Empire. The Parliament gave power to the Executive to help industries which were in difficulties by protective duties. The Import Duties Act of 1932 introduced a

large variety of duties on almost all articles of trade. Under this very Act, a notice was sent by His Majesty's Government to the Dominions and India that certain articles on which duties had been imposed by them would, in their case, be exempted from duty till November 1932, and that the United Kingdom would be willing to continue the exemption, if the Government of the Dominions and of India entered into an agreement giving preference to certain British goods entering their respective countries. It was in this connection that the Ottawa Conference was held where a Trade Agreement between the United Kingdom and India was agreed upon.

THE OTTAWA TRADE AGREEMENT.

The Indian Delegation at Ottawa was not representative of Indian Commercial interests. Adequate information regarding the object and scope of the Conference was not available to interested parties in this country. The people of India knew for the first time in August, 1932, from a brief communique issued by the Government of India, that the agreement embraced a large variety of articlces. It was not possible to realise the full implications of the agreement from the brief summary that was issued. In spite of this, a few special studies which were made on the basis of this communique drew public attention to the vast changes that were being hastily introduced. The exact position could not be studied unless the report of the Indian Delegation at Ottawa was published. Even in this connection the authorities did not take the public into confidence. The report was published in the first week of November 1932, a few days before it was to be

discussed in the Legislative Assembly Though a summary was available, a copy of the report could not be had in important centres like Bombay and Calcutta, for some time. In spite of these difficulties in the way of proper study and understanding of the Agreement, severe criticism was offered in the Assembly when the discussion on the subject took place. A compromise was, however, effected, and a Committee of the Assembly was appointed to review the position and report on the same. The work of this Committee was equally hasty. It did not last for more than a few days, on most of which the sittings were held for a few hours after the regular work of the Assembly had finished. Though the proceedings of this Committee were not published, it is well-known that the evidence of the few experts, who were invited at short notice to appear before the Committee, was adverse to the Agreement. The attitude taken up by the authorities was that unless it was proved that the Agreement was positively injurious it should be assumed to be beneficial. The lay members of the Committee did not realise that it was the duty of the Government and of those who were party to the Agreement to prove to the satisfaction of all concerned that this Agreement was both desirable and useful. The main issue having been thus side-tracked, the majority of the members of the Committee came to a compromise. This was passed in the Assembly with the modification that the Agreement should be for three years only, and that, at the end of each year, a report on its working should be placed before the Assembly. A report on the working of the Agreement signed by Dr. Meek, Director General of Commercial Intelligence, was snbmitted last year. A second report was submitted

to the Assembly in September, 1935. This is to be discussed in the Assembly in February, 1936. As the Agreement comes to an end by the end of 1935, it would have been proper to hold this discussion before the end of 1935.

THE DETAILS OF THE AGREEMENT.

By the terms of this Agreement, the United Kingdom granted preference to certain goods, continued the existing preference on certain other Indian goods, already in operation, for example, tea, and agreed to exempt from duty certain other Indian goods, e. g. jute, rice, and shellac. In return for this India granted a preference of 10% on a large variety of British goods, mainly manufactured articles. The existing preference to British goods, in the case of steel and cotton goods, was taken into account in making this arrangement.

The chief ground of opposition to this Agreement from the Indian point of view was that there was not adequate reciprocity in the arrangement. It was likely to divert Indian export trade from non-empire countries to the United Kingdom. The amount of export trade, for which India was dependent on non-empire countries, was considerably larger, or about 65% compared with 35% going to the Empire. Besides, the higher duties which the foreign countries would be required to pay on their imports into India were likely to create resentment which might result in retaliatory measures. At the same time, some of the preferences granted by the United Kingdom were not real. For example, the continuation of the preference on tea meant little to India, because the same preference was available also to Ceylon, and between them India and Ceylon supplied

the greater portion of the British requirements of tea. Besides, it was very unlikely that the British Government would put into operation the threat of levying a duty on Indian tea, in case the Agreement was not made, because, on the one hand, it would hit the average British consumer of tea, or reduce the profit of the British tea planter in India. Similarly the exemption from duty of a monopoly product, like jute, need not have been mentioned at all.

As against this, the position of a variety of small industries which had come into existence partly due to the impetus of high revenue duty and partly due to the Swedeshi spirit was not even considered. The entry of British goods at a preferential and, therefore, lower duty in a large number of cases was likely to affect adversely some of these infant industries. Neither the report of the Ottawa Delegation, nor the proceedings of the Legislative Committee could throw light on this question. For example, the members of the Committee, sitting in November, 1932, were not aware that large quantities of good quality Indian toilet soap was being manufactured. It may be noted that the two reports on the working of the Agreement, which have been since issued, entirely ignored this question of the position of Indian industries as affected by the Agreement. Another curious thing about these reports is the fact that though they were intended to supply that proof about the desirability and beneficial nature of the Agreement, which was wanting in 1932, they frankly evade the issue by saying that in view of complications introduced into world trade by other major factors, it is impossible to isolate the effect of this Agreement

on India, and, therefore, to come to any definite conclusion either way.

COTTON INDUSTRY AND PREFERENCE.

We are now in a position to see how this new policy was likely to affect the protective schemes in this country. Though this Agreement would come in for revision at the end of three years, it was possible in the meanwhile to introduce the principles underlying it in at least two important cases on a more permanent footing. We have seen how the cotton industry in India met with temporary relief during 1932-33. The Cotton Protection Act of 1930 was due to expire in three years. A Tariff Board enquiry was instituted in 1932. The report of the Tariff Board on this enquiry was submitted in September, 1932. It was about this time that the Ottawa Agreement and other issues were being considered. The Tariff Board had recommended the grant of substantive protection to the cotton industry. The report, however, was not published immediately. In the meanwhile, the Ottawa Trade Agreement had passed; the Mody-Less Pact, relating to the cotton industry, had been made; and the Indo-Japanese Agreement had been signed. It was after this that the report of the Tariff Board was published in 1934, when the Government could say that circumstances had considerably altered since the report was made. In view of this the Cotton Textile Act of 1934 ignored the recommendations of the Tariff Board and legalised the terms of the Mody-Lees Pact, and the Indo-Japanese Agreement.

THE MODY-LEES PACT.

The important clause of the Mody-Less, Pact may be thus summarised. The claim of the Indian cotton industry to protection against the United Kingdom was recognised, but it was laid down that the industry required a higher level of protection against other countries than against the United Kingdom. With reference to piece-goods, it was agreed that when the Government of India might find it convenient to remove the general surcharge of 25 % imposed in October, 1931, fresh proposals would not be made regarding British goods by the Indian side. A small reduction in the existing duties on cotton yarn was also agreed upon. With reference to artificial silk piece-goods, it was agreed that the duty on British goods be reduced from 50 % to 30 %, if the goods were 100 % artificial silk, and from 35 % to 30 % if the goods were mixture fabrics of cotton and artificial silk. In return for these concessions the British side agreed to see that advantages arranged for British goods in other overseas markets were extended to Indian goods. Besides this general help for the sale of Indian cotton goods in other markets, promises were given to the effect that greater efforts would be made to use more Indian raw cotton in the United Kingdom. It may be noted that whereas the British Delegation was fully representative of British interests, the Indian side was represented only by the Bombay Millowners' Association. In other words, important interests in the cotton industry outside Bombay city had no voice in the matter. It may further be pointed out that whereas definite reductions in duties on British goods were agreed upon along with the

principle of preference to British goods, in return the British side gave nothing substantial, except promises for the greater use of Indian raw cotton, or for help for the sale of Indian cotton goods in outside markets.

THE INDO-JAPANESE AGREEMENT.

The Indo-Japanese Agreement was made on entirely different principles. In the first place, an upward limit was laid on the duty which India might levy on Japanese goods. This was 50% or 5¼ annas per lb. whichever was higher. The other part of the Agreement provided for a quota arrangement on the following lines. The basic quota was an export of 1 million bales of raw cotton from India to Japan in a given year, (*) and the export of 325 million yards of cotton goods from Japan to India in a corresponding year. With reference to this basic arrangement, detailed provisions were made for adjustments in the export of Japanese cotton goods to India with reference to the excess or deficit of the export of raw cotton from India to Japan compared with the basic figure.

As we have already seen, the Textile Protection Act of 1934 embodies the provisions of this Agreement, ignoring at the same time the recommendations of the Tariff Board of 1932. The Act of 1934 is nominally for five years, but before this period expires its provision will be liable to change at least on two occasions. The Indo-Japanese Agreement comes to an end on 31st March, 1937, and changes may take place according to our relations with Japan at that period. The Mody-Lees

(*) The Cotton Year is from 1st, January. The corresponding piece goods year is from the following 1st, April.

Pact comes to an end earlier on 31st December, 1935. This short duration was intentional. In the first place, the principles of the Pact in favour of British preference on cotton goods were to be given a legislative sanction. This was done in the Act of 1934. Once the fundamental principle was thus embodied in an Act of the Legislature, arrangements could be made for changes in the detailed rates of duty. The Pact provided for an enquiry into the basic rates for British goods before the date of its expiry. It was further understood that in connection with any such enquiry British interests would be heard. In view of this, a new Tariff Board has just been appointed to review the position of the cotton industry. But the terms of reference to this Board are limited. The Board is asked to ascertain the nature and amount of protection required by the Indian Industry as against British Industry. The aid of protection is defined to be a fair selling price for the Indian product which will equate the prices of Indian goods with the prices of the corresponding British goods. We have seen at some length the way in which the cotton industry has been treated. The protective measures for this industry have been introduced in a piecemeal fashion. Besides, the principle of preference to British goods with reference to the cotton industry is assumed in connection with the latest reference to the Tariff Board. It may be noted that this is being done at a time when the entire question of preference is in the melting pot in connection with the renewal of the Ottawa Trade Agreement.

Apart from the manner and method of dealing with these important questions which are open to grave

objections, an important question of principle is involved in the present policy. The question is whether the object of the policy of Discriminating Protection does not suffer by the introduction of preferential duties in protective schemes. What seems to be of greater importance to the authorities is the acceptance of preferential duties by the Indian Legislature in important industries like cotton and steel, in which the British are interested. The amount of protection and perhaps even the mere grant of protection may depend on the acceptance or otherwise of British preference as the condition precedent. It has been pointed out that both the cotton and the steel industries ought not to have accepted in the past, and ought not to accept in the future, such conditions. The industries are, however, put on the horns of a dilemma. Protective measures usually take the form of taxation bills. The taxation bill can be initiated only by the Government. The Legislature can either accept, reject or modify it in the downward direction. Under the circumstances, the position of these industries is either to accept the limited amount of protection, tinged with preferential duties, or not to have any protection at all, because in the absence of preferential duties it is possible that the Government may withdraw the scheme of protection. The industries, therefore, seem to be following the policy of half a loaf is better than none, though they are sacrificing an important principle from the national standpoint.

EXCISE DUTIES: (A) SUGAR.

Another important feature was introduced in 1934, when an excise duty on the production of sugar, matches and

steel in India was levied for the first time. The emergency surcharge of 1931 had increased the protective rate of duty in effect on some articles. It was now arranged to fix the import duty on sugar to that level as a permanent feature and at the same time impose an excise duty on local production so that the difference between the two duties may amount to the rate of protective duty laid down by the Tariff Board. In spite of this apparent difference, it is obvious that the consumer of sugar would now have to pay not only the protective duty but also the additional excise duty. Under the circumstances, it is bound to re-act unfavourably on a growing industry.

(B) MATCHES.

The new rates of excise and import duties imposed on Matches in 1934 may be summarised as under:—

	Excise		*Import*	
	Rs.	as.	Rs.	as.
If the average number of matches is:—	(per gross of boxes)		(per gross of boxes)	
(a) 40 or less	1	0	1	10
(b) between 40 and 60.	1	8	2	7
(c) more than 60.	2	0	3	4

It is obvious from this table that the protective rate of duty of Rs. 1-8-0 per gross of boxes is now reduced, and at the same time arrangements have been made to raise a large reveuue from this necessary articles of daily use. In this case also the consumer will have to pay more than before.

(C) STEEL.

In connection with the revision of the scheme of protection of the steel industry, a fresh Act was passed in 1934. This Act is a combination of the new scheme of protection, plus a scheme of excise duties on steel produced in India. It has been laid down that steel ingots produced in British India have to pay an excise duty of Rs. 4 per ton. The level of protection has been reduced in most cases. The new protective duties are related to the excise duty, the rates varying on different articles. At the same time the protective duties are at a lower rate on British goods.

We need not refer to the complications which will be introduced by the new administrative machinery that will have to collect the excise duty. Besides, there will be some arrangements necessary with the Indian States regarding the excise duty on sugar and matches produced in their territory. Without going into this problem, we find that the policy of protection may not succeed in its aim because of these excise duties. The usual argument against the scheme of protection is that it leads to high prices for the consumer. The imposition of excise duties will make these prices still higher. We find a curious confusion of revenue and protective considerations in the levy of these mixed duties, and we may not be surprised if the latter is subordinated to the former.

THE NEED FOR REVISION.

The magnitude of Customs as a source of revenue to the State may be realised from the fact that in the budget for 1935-36, a revenue of about 52 crores of rupees is expected from this source, that is, more than half the total revenue of the Central Government. We may also point out that due to hasty changes in the customs tariff since the War and due to a variety of complications introduced by ordinary preferential duties, within protective schemes, and by excise duties, we find that the Customs Tariff of India is in urgent need for a thorough revision. The existing tariff legislation was consolidated in a new Act in a 1934, but the tariff still requires a better classification leading to simplicity of understanding and execution. It should at the same time be made an effective instrument of a properly worked out national economic policy.

CONCLUSIONS.

The following general conclusions may be drawn from this brief survey of the Indian Customs Tariff and relevant problems:—

1. Customs revenue occupied only a subordinate position in the revenue system of India till the beginning of the War.

2. The determining factor in this connection was the rigid application of the principles of free trade to India without regard to her requirements and desires.

3. In this effort obstacles were put in the way of the growth of Indian industries, for example, the excise duty on cotton goods produced in India.

4. Customs duties were considerably raised during the War for the first time on financial grounds. Even after the War this source of revenue could be relied upon with great effect from time to time when more revenue was required.

5. The policy of discriminating protection was adopted in 1923 and put into operation in 1924. The conditions for the grant of protection under this policy are difficult of fulfilment. In spite of this, a few industries have succeeded in obtaining protection under this policy.

6. Imperial preference was introduced for the first time in the Steel Protection Act of 1927. It was again introduced in the Cotton Protection Act of 1930. These features, which were considered temporary and special at the time of introduction, have become permanent parts of the Indian system. It may be said that in the absence of preference the steel and cotton industries may not get any protection at all.

7. The principle of preference was embodied in connection with a large number of articles by the Ottawa Trade Agreement which came into operation in January, 1933. This has been a subject of acute controversy and the Agreement is due for revision very soon.

8. The position of some of the industries receiving protection, for example, sugar, matches and steel has been rendered difficult by the imposition of excise duties on their production in 1934.

9. The Customs Tariff of India yields about 52 crores of rupees of revenue, that is, more than half the total revenue of the Central Government.

10. A tariff of such magnitude and importance must be worked out scientifically in all its details, and must be based on an economic policy intended to serve the true national interests of the country. An overhauling of the tariff from this point of view is urgently required.

LIST OF CONGRESS PUBLICATIONS

		Rs.	a.	p.
1.	Constitution of the Indian National Congress (1935)	0	2	0
2.	Congress Bulletin No. 1 (1935) ...	0	1	0
	Congress Bulletin No. 2 (1924-35) ...	0	4	0
	No. 3 „ ...	0	3	0
	No. 4 „ ...	0	4	0
	No. 5 „ ...	0	4	0
3.	Indian National Congress (1920-23) (Congress, A.I.C.C. and Working Committee Resolutions):			
	Full cloth ...	1	8	0
	Half cloth ...	1	0	0
	Paper cover ...	0	8	0
	Do. Do. 1924 ...	0	5	0
	Do. Do. 1925 ...	0	4	0
	Do. Do. 1926 ...	0	8	0
	Do. Do. 1927 ...	0	8	0
	Do. Do. 1928 ...	0	8	0
	Do. Do. 1929 ...	0	8	0
4.	Public Debt Report Vol. I	1	0	0
	Do. Do. Vol. II	1	0	0
5.	Decalogue of Public Debt Committee Report	0	2	0
6.	Punjab Martial Law Report Vol. I ...	0	8	0
	Do. Do. Vol. II ...	1	0	0
7.	Guru ka Bagh Enquiry Committee Report	2	0	0
8.	Assam Opium Enquiry Report ...	0	8	0
9.	Allahabad Congress Report ... (1910) ...	2	0	0
	Do. (soiled copies) ...	1	8	0
10.	Cawnpore Congress Report ...	1	8	0

		Rs.	a.	p.
11.	Calcutta Congress Report	1	4	0
12.	Karachi Congress Report	1	0	0
13.	Nehru Report 3rd edition ...	1	8	0
	2nd edition Paper cover ...	0	8	0
	Card board ...	1	0	0
14.	Supplementary Report to the above ...	0	8	0
15.	Summary of Proceedings of All Parties Conference, Lucknow, August 1928 ...	0	4	0
16.	All Parties Convention Report ...	2	0	0
17.	National Demand	0	2	0
18.	Dominion Status and Indian States ...	0	4	0
19.	Agrarian Distress in U. P. ...	1	8	0
20.	Poona Statements and correspondence between Mahatma Gandhi and Jawahar Lal Nehru (September 1933)	0	2	0
21.	Resolutions of the following Congress Sessions:			
	Madras 1927	0	1	0
	Karachi 1931	0	2	0
	Bombay 1934	0	1	0
22.	Calcutta Congress (1928):			
	Presidential Address of Pandit Motilal Nehru	0	4	0
	Karachi Congress (1931)			
	Presidential Address of Sardar Vallabhbhai Patel	0	4	0
	Bombay Congress (1934);			
	Presidential Address of Babu Rajendra Prasad	0	4	0
23.	Dr. Kitchlew's Address of Welcome (Lahore Congress)	0	1	0
	Dr. Choithram's Address of Welcome (Karachi Congress)	0	1	0

		Rs.	a.	p.
	Mr. K. F. Nariman's Address of Welcome (Bombay Congress)	0	1	0
24.	Lahore Congress Report	1	0	0

Hindi Publications

25.	Gauhati Congress Report	0	12	0
26.	Presidential Address of Pandit Jawaharlal Nehru at Lahore Congress 1929 ...	0	2	0
27.	Do. Do. of Sardar Vallabhbhai Patel at Karachi Congress 1931 ...	0	2	0
28.	Public Debt Committee Report Vol. I ...	0	12	0
	Do. Do. Vol. II ...	0	6	0
29.	Resolutions of Karachi Congress ...	0	2	0
30.	Congress and Muslims by Syed Fazlur Rahman	0	2	0
31.	Resolutions of Calcutta Congress ...	0	2	0
32.	Nehru Committee Report	1	8	0
33.	Supplementary Report of the above ...	0	8	0

Congress Golden Jubilee Brochures

No. 1.	Satyagraha—in Gandhiji's Own Words	0	12	0
„ 2.	Village Industries and Re-construction—by Bharatan Kumarappa ...	0	6	0
„ 3.	Some Aspects of Khadi—by Gulzarilal Nanda	0	6	0
„ 4.	Rural Indebtedness in India—by Prof. K. P. S. Malani	0	4	0
„ 5.	The Public Debt of India—by J. C. Kumarappa	0	6	0
„ 6.	Indian Tariff Policy	0	6	0
„ 7.	Public Services in India—by Prof. K. T. Shah	0	6	0

		Rs.	a.	p.
No. 8.	Defence of India or Nationalization of Indian Army—by Nirad Chand Chaudhury	0	8	0
„ 9.	Woman in India—by the Rajkumari Amrit Kaur and L. M. ...	0	4	0
„ 10.	Indian Transport—by Dr. H. R. Soni, M. A., D. Sc., (London.) ...	0	6	0
„ 11.	Indian Currency and Exchange ...	0	6	0

J. B. KRIPALANI,
General Secretary, A. I. C. C.

N.B.—Proportional Representation by Single Transferable Vote (in Hindi) by Mahavir Tyagi, Dehra Dun, price As. 4. To be had of the author.


ALL INDIA CONGRESS COMMITTEE
ALLAHABAD