



**REPORT**

**ON**

**STEEL CONTROL**

**October, 1963.**

**GOVERNMENT OF INDIA**  
**Ministry of Steel & Heavy Industries**  
**(Department of Iron & Steel)**

*Ra. 1/a*

## FOREWORD

We were appointed by the Government of India in September 1962, to examine the system of planning and distribution of steel. Our terms of reference were : (a) to examine the existing system of planning of production and control over distribution of iron and steel materials exercised by the Iron and Steel Control Organization; (b) to streamline and revise the procedure for ensuring equitable and speedy distribution; (c) to examine the function of Stockists, both Controlled and Registered, and to make recommendations about their future role; and (d) to examine the system of control and distribution of pig iron.

During the last year, we have visited Calcutta, Bombay, Hyderabad, Madras and Ranchi as well as the steel plants at Tatanagar, Rourkela and Bhilai. We have had discussions with a large number of persons, associations, and official agencies concerned directly or indirectly with the production, distribution and consumption of steel.

In January, 1963, we presented an interim report to the Minister for Steel and Heavy Industries embodying our provisional conclusions. Our intention in submitting this report was to have the benefit of comments and criticisms from administrators and others concerned with steel control before preparing our final report.

The completion of the final report has been delayed somewhat by the fact that a number of official and non-official agencies took some time to formulate and transmit to us their views on our interim report. But we are happy that representatives of all sections of steel industry and trade and of all steel-consumers, as well as steel control authorities, have been able to give their reactions to our tentative findings. They have responded generously to all our inquiries, both about the legal and formal aspects of steel pricing and distribution and about the not-so-well-known phenomena in the steel markets of India. We take this opportunity to acknowledge our debt to all of them.

We have also had several discussions with the Minister for Steel and Heavy Industries, Shri C. Subramaniam. For his courtesy and for the stimulus provided by these discussions we are very grateful.

In framing our proposals we have tried to ensure that the new control system has structural consistency. If it is to be given a fair trial, it is important that in implementing our proposals this should be

fully recognized. The enforcement of a few selected proposals may do more harm than good.

Finally, we would like to acknowledge the many-sided contribution made to our work by the Secretary of the Committee, Shri C. A. Nair. He has given us untiring assistance all through, and several of our recommendations have taken the shape they have under his questioning and counsel.

K. N. RAJ (Chairman)

RAJ KRISHNA (Member)

C. A. NAIR (Secretary)

K. S. KRISHNASWAMY (Member)

October 7, 1963.

Delhi,

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## CHAPTER I: BACKGROUND

Steel control in India dates from the Second World War. During the War and immediate post-War years, the control system was gradually evolved and extended to cover all categories of steel. Following a return to more normal conditions of demand and supply, control over selected categories was partly relaxed between 1949 and 1955. The Second Five Year Plan generated a sharp increase in the demand for steel coupled with an acute shortage of foreign exchange. Consequently, from the end of 1958, control over the 'relaxed' categories was reimposed. After 1960, however, control over all but a few categories has been again relaxed in view of the realized and expected increases in domestic production.

In the course of the last two decades and a half, the annual apparent consumption\* of finished steel (excluding steel used in imports and exports of machinery, transport equipment, and other products of light and heavy engineering) has grown nearly fivefold in India. As will be evident from Table 1.1, the whole of this increase has taken place since 1948-49.

Table 1.1 : *Apparent Consumption of Finished Steel*

	Million tons			
1937-38	..	..	..	0.95
1948-49	..	..	..	0.91
1955-56	..	..	..	1.93
1960-61	..	..	..	3.43
1962-63	..	..	..	4.74

Before the War, approximately 40 per cent of domestic steel production was directly absorbed by the Government for railways, public works and other purposes. Of the total available supply (including imports) the share of the Government was however smaller, and about two-thirds was perhaps available to the private sector.\*\*

In the War period, though there was some increase in domestic production, there was no increase in the total availability of steel for consumption on account of the reduced volume of imports. But the share of the Government rose sharply and military off-take alone accounted for about two-thirds of domestic steel output. After meeting the other priority requirements of the Government (such as for railways), the amount left over for private purposes was, therefore, relatively small.

It was in this context that steel control was first introduced. The Iron and Steel (Control of Distribution) Order of August, 1941, on which is based the control system now in existence, provided for fixation of quotas

\*Apparent consumption is taken here as equivalent to domestic production *plus* imports of finished steel. Exports have been negligible during this period. Data are not available regarding stocks.

\*\*A part of the steel supplies to the private sector was, of course, absorbed in the fabrication of articles required by the Government, but the share of the Government in the final consumption of steel is still unlikely to have been higher than about one-half of the total.

†*Statistics relating to India's War Effort*, Ministry of Commerce, Government of India, February 1947, Table 24.

and priorities, control of rolling programmes, and distribution through licensed agencies. However, for most of the War period, there was no statutory price control over commercial supplies of steel, and prices were fixed only for War supplies by agreement between the Government and the main producers.

### Changes in the Pattern of Consumption of Finished Steel

The increase in the total consumption of steel after the War has been accompanied by some changes in the pattern of consumption. These will be evident from Table 1.2.

Table 1.2 : Percentage Share of Important Category Groups in Rolled Steel Consumption in India

	1937-38	1948-49	1955-56	1960-61	1962-63
Railway materials (mainly track)	9.5	18.7	15.5	10.5	16.3
Structurals, bars and rods ..	46.3	40.7	45.1	47.9	46.2
Plates and sheets (including strips and galvanized sheets) ..	26.4	26.4	23.8	24.2	22.1
Tinplate .. .. .	7.4	8.8	6.7	6.0	2.7
Others .. .. .	10.4	5.4	8.9	12.4	12.7
	100.0	100.0	100.0	100.0	100.0

Table 1.3 : Percentage Share of Selected Categories of Steel in Total Rolled Steel Consumption

Country	Period	Percentage Share of Railway Materials (mainly track)* Structurals, Bars and Rods	Plates	Percentage Share of			Total
				Sheets (excluding galvanized sheets)	Tinplate		
U. S. A. .. ..	1955-57	25.3( 2.4)	14.5**	31.2**	5.9	51.6	
U.K. .. ..	"	40.3( 4.1)	18.8	21.3	4.5	44.6	
West Germany .. ..	"	40.8( 3.8)	18.9	21.9	2.1	42.9	
Japan .. ..	"	38.4( 4.2)	26.3	11.2	3.2	40.7	
Italy .. ..	"	40.6( 3.6)	17.0	17.8	3.0	37.8	
U.S.S.R. .. ..	"	51.7(10.0)	13.6	13.4	0.6	27.6	
Poland .. ..	"	52.2(11.8)	13.4	15.4	0.2	29.0	
Yugoslavia .. ..	"	51.4 (8.7)	16.6	14.0	2.2	32.6	
Brazil .. ..	"	42.9(12.5)	10.3	5.7	13.2	29.2	
Mexico .. ..	"	43.0(16.3)	11.1	12.0	8.5	31.6	
Egypt .. ..	"	60.5( 9.5)	7.2	7.5	4.4	19.1	
India .. ..	"	57.6(11.9)	6.0	11.7	4.9	22.6	
India .. ..	1962-63	62.5(16.3)	8.4	10.6***	2.7	21.7	

\*Percentage share of railway materials is also shown separately within brackets.

\*\*The United States definition of sheets does not correspond to the usual 3 mm. limit but covers approximately sheets and medium plates; the share of sheets is thus over-stated and that of plates under-stated.

\*\*\*Includes a small amount of imported galvanized sheets.



It has been the common experience of developing countries that construction activity forms a large part of total capital formation, and therefore the share of railway materials, structurals, bars and rods in the consumption of steel tends to be high. However, the share of these categories generally falls as development proceeds, and that of flat products rises (See Table 1.3)\*. It will be seen that in the developed countries the share of structurals, bars and rods is smaller and that of plates, tinplate and sheets larger than in the developing countries. These latter categories (with the exception of galvanized corrugated sheets) are used mainly by manufacturing industries—plates generally for the manufacture of machinery and equipment as well as for non-residential construction, and sheets and tinplate mostly for the manufacture of consumer goods.

### Production and Imports

It is significant that, in spite of the substantial expansion in domestic production since the end of the War, and the importance attached to the manufacture of machinery and transport equipment within the country, the share of plates in the total output of finished steel is lower now than it was before the War; the share of plates and sheets taken together has remained almost unchanged. On the other hand, the share of bars and rods, which are used mainly for residential construction, has gone up. These changes in the relative importance of different categories in the domestic output of steel will be evident from Table 1.4.

Table 1.4 : Domestic Output of Finished Steel in India (according to main categories), 1937-38, 1955-56 and 1962-63

	1937-38		1955-56		1962-63	
	Quantity (m.tons)	% of total	Quantity (m. tons)	% of total	Quantity (m. tons)	% of total
Railway materials (mainly track) ..	0.09	13.3	0.14	11.3	0.54	13.7
Structurals .. ..	0.13	19.1	0.21	17.0	0.70	17.8
Bars and rods .. ..	0.20	29.1	0.45	36.2	1.41	35.8
Plates .. ..	0.07	10.3	0.06	4.8	0.31	7.9
Sheets (excluding galvanized sheets)	0.63	4.4	0.13	10.5	0.29	7.4
Galvanized sheets ..	0.08	11.8	0.13	10.6	0.15	3.8
Tinplate .. ..	0.06	8.8	0.07	5.6	0.09	2.3
Others .. ..	0.02	3.2	0.05	4.0	0.45	11.3
<b>TOTAL ..</b>	<b>0.68</b>	<b>100.0</b>	<b>1.24</b>	<b>100.0</b>	<b>3.94</b>	<b>100.0</b>

\*Source of data for the period 1955-57 : U. N. Economic Commission for Europe, *Long Term Trade and Problems of the European Steel Industry*, 1959, p. 11.

Much significance should not be attached to a comparison of category wise shares in the post-War and pre-War period, since the absolute pre-War output was small. It is significant, however, that, of the increase of 3.26 million tons in the output of finished steel between 1937-38 and 1962-63, bars and rods accounted for over 43 per cent while the shares of plates and sheets were only about 7 per cent and 8 per cent respectively.

Since the pattern of development in recent years has been such as to raise the share of plates and sheets in the total demand for steel, and lower the share of bars and rods (see Table 1.6) one should expect relatively greater pressure to develop in the market for the former. Imbalances of this kind, which are to some extent inevitable, have been sought to be corrected so far mainly through changes in the degree of control exercised over the demand for different categories and through adjustment of imports.

The categories whose domestic supply has been supplemented by imports, and the proportion that imports form of the total available supply of different categories, are shown in Table 1.5.

*Table 1.5 : Share of Imports in Total Supply of Finished Steel*

	1937-38		1960-61		1962-63	
	Quantity (million tons)	% of total supply	Quantity (million tons)	% of total supply	Quantity (million tons)	% of total supply
Railway materials ..	—	—	0.18	50.0	0.23	29.9
Structurals .. ..	0.04	23.5	0.05	12.2	0.01	1.4
Bars and rods ..	0.05	18.5	0.11	8.9	0.07	4.7
Plates .. ..	—	—	0.11	8.9	0.09	22.5
Sheets (excluding galva- nized sheets) ..	0.03	50.0	0.13	27.1	0.20	40.0
Galvanized sheets ..	0.04	33.1	—	—	—	—
Tinplate .. ..	0.01	14.3	0.09	52.9	0.04	30.8
Others .. ..	0.10	100.0	0.42	97.7	0.15	25.0
<b>TOTAL ..</b>	<b>0.27</b>	<b>28.4</b>	<b>1.09</b>	<b>31.8</b>	<b>0.79</b>	<b>16.7</b>

It will be seen that the share of plates and sheets in total imports has been recently much higher than before the War, while that of structurals, bars and rods has fallen.

Even in 1960-61, when imports amounted to over 1 million tons of steel or nearly one-third of the total supply, the excess demand in the case of plates and sheets was still 45 per cent of the estimated demand for these categories, as compared to 12 per cent in the case of structurals, bars and rods (See Table 1.6). In the case of railway materials, in 1960-61 about one-half of the total supply came from abroad, but in the following year, with an increase in output of railway materials at Bhilai, only 30 per cent had to be imported.

Table 1.6 : Estimate of Excess Demand in 1960-61

	Demand*	Supply	Excess Demand	Excess Demand as percentage of Total Demand
	(in million tons)			
Railway materials .. .. .	0.96	0.36	0.60	62.5
Structural .. .. .	0.59	0.41	0.18	30.5
Bars and rods .. .. .	1.27	1.23	0.04	3.2
Plates .. .. .	0.44	0.22	0.22	50.0
Sheets (excluding galvanized sheets) ..	0.79	0.48	0.31	39.2
Galvanized sheets .. .. .	0.25	0.13	0.12	48.0
Tinplate .. .. .	0.17	0.17	—	—
Others .. .. .	0.44	0.43	0.01	2.3
<b>TOTAL</b>	<b>4.89</b>	<b>3.43</b>	<b>1.56</b>	<b>31.9</b>

### Sale Prices of Steel

Thus imports have been supplementing domestic output in varying degrees in the case of different categories. We shall now consider how far the relative scarcities for different categories have been reflected in the structure of sale prices during this period. The changes in price of certain selected categories are summarized in Table 1.7.

Table 1.7 : Sale Prices of Selected Categories of Steel  
(Rs. per ton)

	October 1939 (F.O.R. Calcutta)	June 1948 (F.O.R. Main Ports)	June 1959 (F.O.R. Railheads)	September 1963 (F.O.R. Railheads)
Light bars .. .. .	170	333	600	626
Heavy bars .. .. .	158	316	590	616
Structurals .. .. .	160	325	610	645
Plates .. .. .	157	354	685	742
Sheets .. .. .	190	387	630	813

It will be noticed that sale prices have approximately quadrupled between 1939 and 1963. Changes in the relative prices of different categories have been however of a relatively small magnitude, particularly since 1949. Between 1949 and 1963, the increase in the sale prices of the different categories varied only between 90 and 100 per cent.

The following elements have gone into the fixation of sale prices since 1949

- (i) allowance for works costs and overheads in the 'retention' prices fixed for producers;
- (ii) a general surcharge mainly for meeting freight charges (for delivering indigenous steel at the same railhead prices all over

\*Source : Dastur & Company, Steel Consultants

the country)\* and for subsidizing part of the imported steel whenever its price has been higher than the price of domestic steel; and

(iii) excise duties imposed by the Government (both on ingots and on finished steel).

The share of the surcharge and of the excise duties, in the final sale prices of certain categories of steel for selected years, is shown in Table 1.8.

Table 1.8 : Share of Special Levies in the Final Prices of Steel

	June 1949			June 1959			September 1963		
	Sur-charge** (Rs. per ton)	Excise Duty***	% of Final Sale price	Sur-charge** (Rs. per ton)	Excise Duty***	% of Final Sale Price	Sur-charge** (Rs. per ton)	Excise Duty***	% of Final Sale price
Light Bars	94	5	29.7	149	46	32.5	68	76	23.0
Heavy Bars	95	5	31.6	152	46	33.6	77	76	24.8
Structurals	95	5	30.8	147	46	31.6	67	76	22.2
Plates	94	5	28.0	199	46	35.8	63	58	21.7
Sheets	95	5	25.3	57	46	16.3	64	103	20.5

The percentage these levies have formed of the total sale price of different categories bears no obvious relation to change in demand conditions. The most important factors (apart from the freight element) determining the size of the surcharge in each case have been the retention price allowed to producers and the cost of the corresponding category of imported steel (since the higher this cost the larger has been the subsidy needed for equalizing prices). Thus, with increases in the retention prices allowed to domestic producers and the sharp fall in the prices abroad, the surcharge has been reduced significantly since 1959. While excise duties have also been levied in this period, no significant difference has been made by them to the structure of steel prices.

It would, therefore, be broadly correct to say that, though sale prices have been raised from time to time, the extent of the price rise for each category has been based mainly on assessed costs of production and delivery (i.e. works costs, overheads, and internal freight charges) and on charges in the cost of imported steel. Demand conditions in the domestic market have, on the whole had very little impact on the pricing of steel.

#### Likely future trends in demand and output

We have so far considered the past trends. In order to have an idea of the nature and extent of the pressures that are likely to develop in the steel sector in the next few years it is necessary also to take a view of the foreseeable future.

\*The system of delivering indigenous steel at uniform rail-head prices was introduced in 1956.

\*\*The fall in the surcharge between June 1959 and September 1963 was the consequence of an increase in the 'retention' prices (allowed to producers) unaccompanied by a corresponding increase in the sale prices fixed for producers. The element of internal freight cost in the surcharge is estimated at approximately Rs. 15 per ton in 1949, Rs. 48 per ton in 1959 and Rs. 57 per ton in 1963.

\*\*\*The estimate of excise duty per ton of finished steel is only a rough approximation; it includes an allowance for the duty on the ingots used.

In the nature of the case, an extrapolation of past trends cannot by itself provide a meaningful basis for assessing the outlook for the future since the development programme aims at changing these trends to some extent. The forecast has to be based on certain assumptions about the rate and pattern of development that is being programmed.

Reproduced in Table 1.9 are estimates of demand for finished steel in India in 1965-66 and 1970-71, and an estimate of the output that is likely to be realized in 1965-66 as a result of the programme of expansion of existing plants now in progress.\* The demand estimate for 1970-71 indicates the magnitude and product-mix of the targets for steel that may be set in the Fourth Five Year Plan.

Table 1.9 : Estimates of Future Demand and Output of Finished Steel

	1965-66				1970-71	
	Demand (m. ons)	% of total demand	Output m.tons) tons)	% of total output	Demand (m. tons)	% of total demand
Railway materials ..	0.84	11.5	0.83	14.5	1.33	10.1
Structurals ..	1.00	13.7	1.00	17.5	2.07	15.8
Bars and rods ..	2.20	30.1	1.80	31.4	3.81	29.1
Plates .. ..	0.60	8.2	0.40	7.0	1.29	9.8
Sheets (excluding gal- vanized sheets) ..	1.78	24.3	1.23	21.5	2.34	17.8
Galvanized sheets					1.15	8.8
Tinplate .. ..					0.25	3.4
Others .. ..	0.65	8.9	0.32	5.6	1.14	8.7
<b>TOTAL ..</b>	<b>7.32</b>	<b>100.0</b>	<b>5.73</b>	<b>100.0</b>	<b>13.13</b>	<b>100.0</b>

It will be seen that while the domestic output of railway materials and structurals is likely to be adequate to meet the demand in 1965-66, there may be a shortfall of about 20 per cent in the case of bars and rods, 33 per cent in the case of plates and sheets, and 40 per cent in the case of tinplate. It will also be seen that a trebling of the output of plates, sheets and tinplate, and a doubling of the output of structurals and of bars and rods, will be necessary in the period of the Fourth Five Year Plan if the demand in 1970-71 is to be met entirely from domestic production.

\*The estimates of demand and output for 1965-66 have been furnished by the Ministry of Steel and Heavy Industries. The estimate of demand for 1970-71 is that of the Perspective Planning Division of the Planning Commission.

## CHAPTER II : AN APPRAISAL OF THE PRESENT CONTROL SYSTEM

The present system of control over steel operates mainly at four points :

- (a) regulation of demand for different categories of steel;
- (b) framing of the production programmes of the main producers and re-rollers of steel;
- (c) determination of prices for the different categories of steel; and
- (d) nomination of wholesale and retail agencies for distribution.

In the last few years, as a result of improvements in supply, control has been relaxed over several categories of steel. The distinction between 'relaxed' and 'unrelaxed' categories of steel turns, however, only on the method and extent of control sought to be exercised over demand. In the case of the 'unrelaxed' categories (at the moment, only sheets) control over demand takes the form of fixation of quotas for each consumer (or group of consumers) by various sponsoring authorities recognized for the purpose; no consumer can place orders for amounts in excess of the allotted-quota. In the case of the 'relaxed' categories, on the other hand, there are no sponsoring authorities and also no quantitative limits to the demand that can be registered (though, when considered necessary, cuts in demand are made at a later stage by a process described as 'screening'). There is no difference between 'relaxed' and 'unrelaxed' categories in regard to the control of production programmes, agencies of distribution, and control over prices.

### The Role of the Iron and Steel Controller

The administration of the control system is centralized in the office of the Iron and Steel Controller. All indents for steel, whether of the 'relaxed' or 'unrelaxed' category, have to be routed through this office; all priorities (fixed by the Ministry of Steel and Heavy Industries) are administered by the Controller; the rolling programmes of all the producers have to be approved by him; and his office has to be notified of all deliveries of steel by producers.

Some of the important decisions which affect steel distribution are, however, taken by other agencies outside the office of the Iron and Steel Controller. Thus,

- (i) the prices allowed to producers for the 'base sections' of each category of steel (*i.e.* 'retention' prices) are fixed by the Ministry of Steel and Heavy Industries on the recommendations of the Tariff Commission\*;
- (ii) the ceiling on imports of steel is set each half-year by the Ministry of Finance through foreign exchange allocations;
- (iii) the bulk allocation of the total estimated supply of the 'unrelaxed' categories, as between the various sponsoring authorities, is done by the Ministry of Steel, and the fixation of individual quotas is then left to the respective sponsoring authorities.

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\*Prices of other sections in each category are fixed by the Iron and Steel Controller through the determination of 'extras'.

Essentially the function of the Iron and Steel Controller is to ensure that the rolling programmes of the producers achieve the maximum utilization of plant capacity and, at the same time, conform as closely as possible, given the technical constraints, to the pattern of demand for steel; and more particularly, that the producers give due priority to the requirements considered important from the national point of view. To prevent accumulation of backlogs on the order books of the producers, and the resulting delays in delivery of steel, the Controller is also expected to cut demands to the extent required by suitable administrative measures. Further, the Controller is expected to enforce the statutory price control.

For forming a view on this control system, it is necessary to consider (a) how far the Iron and Steel Controller succeeds in carrying out his responsibilities effectively and (b) to what extent the existing arrangements, including those which fall outside the direct responsibility of the Iron and Steel Controller, are necessary and adequate for achieving the objectives of control.

As indicated above, in the case of the 'unrelaxed' categories, the matching of demand with likely availabilities is done through the grant of individual consumer quotas by various sponsoring authorities within the bulk allocations made to them by the Ministry of Steel; no further cuts need be made, therefore, within the office of the Iron and Steel Controller. No cuts are required either in the case of 'relaxed' categories which are available in adequate quantity. However, in the case of categories which have been 'relaxed' but are still considered 'critical' (*i.e.* those for which there is still considerable excess demand), 'screening' of indents has to be done for cutting the demands. This presumably is one of the reasons for requiring that all indents be routed through the Iron and Steel Controller's office.

The main reason, however, for routing indents through the Controller's office seems to be that it is considered necessary for distributing the indents as between the various plants and for exercising control over their rolling programmes. In 'planning' the indents, the Iron and Steel Controller is expected to take into account the production capacities of each plant, and indicate the priority (if any) to be accorded to the indents. The producers are then supposed to formulate their rolling programmes on the basis of the orders booked and the priorities attached to them; and to make sure that they do so, they are required to get the final approval of the Iron and Steel Controller for each rolling programme.

### **Administrative Aspects of Control**

We shall first consider briefly the administrative aspects of the routing of indents through the Controller's office. The processing of indents within the Iron and Steel Controller's office, prior to their being 'planned' on the producers, is reported to take anywhere from 2 to 6 months. It is only after this that the indents are placed on the order books of the producers and financial arrangements made between them and the customers. At this stage neither the producers nor the customers have any idea as to when the supplies may be made available. The actual timing of the supplies depends on when the orders are taken up and put on the draft rolling programmes forwarded to the Iron and Steel Controller by the producers, and what changes are made in these programmes by the Controller. There is no arrangement for informing the customers at any stage about the likely date of delivery. Moreover, there are complaints of failure on the part of

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the Iron and Steel Controller's office to reply to correspondence concerning indents, of indents being returned after considerable time on flimsy grounds, and of indentors having to canvass in various ways to get their indents through.

Some of these deficiencies are traceable to the volume of work that has to be handled by the office of the Iron and Steel Controller and to bad organization and administrative procedures. The office receives no less than 50,000 indents a year, each of which has to be scrutinized and checked, and against which an equal number of 'planning notes' have to be issued. The organization of the office and the administrative procedures followed are not adequate either to handle this volume of work or to prevent abuses and irregularities.

We reproduce, in this connection, some of the observations made in a report by the Organization and Methods Division of the Cabinet Secretariat on the basis of a work study of the office of the Iron and Steel Controller undertaken about two years ago :

"There is considerable time-lag in complying with the requests of indentors for re-planning/amendments/cancellations. This occurs mostly on account of the following reasons :—

- (a) Old and current records are lying mixed up in the sections in an unsystematic manner.
- (b) Indents are placed in folders without any particulars order.
- (c) Incoming dak is received through the Central R. & I. Section. Some papers are diarised in the Section according to the discretion of the diarist/section in charge while the remaining papers are passed on undiarised to the dealing persons".

"At present, indents are being planned having regard to the sections which are being manufactured by certain Producers/Re-rollers but without reference to their capacity and/the existing outstanding orders, although this data is partly available in the Office of the Controller".

"Apart from the monthly returns received from the producers showing the position of outstanding plannings for which works-orders have not been issued or outstanding works-orders for which despatches are yet to be made, there is no independent record with the Iron and Steel Controller to show the position of outstanding with the producers. There is no record to show the break-up of such outstanding according to (a) categories of steel, and (b) priority and non-priority indentors. Even the elementary information regarding the extent of priorities already allotted during a particular period is not forthcoming in these circumstances".

"At present, in the absence of information regarding category-wise and priority-wise outstanding with producers, the organization is not able to exercise any effective control over the quarterly rolling programmes of the various producers which come to them for approval".

We have been told that improvements in organization and procedure have been made on the basis of this report. It is, however, our impression that despite these improvements several of the deficiencies still persist. For



instance, we have been told by the Iron and Steel Controller that, though the arrangements for dealing with incoming mail are now much better than before, all the incoming mail is still not being systematically diarized and routed. We have also not been able to get from the Controller's office data regarding outstandings of priority indents category-wise.

It is our view that, though many of the administrative procedures can perhaps be further improved without much difficulty, the lapses in the office of the Iron and Steel Controller are, in considerable part, due to its unaccountability to either the producers or the general run of indentors, and the scope for malpractice and corruption which the control system in its present form offers. The methods and channels of malpractice are now apparently so well established that the extent to which the organization can be made to function better seems to us limited in relation to the tasks which this office is expected to perform.

### Regulation of Demand

We need, therefore, to examine closely the different functions of the Iron and Steel Controller and see to what extent the present procedures, which involve routing all indents through this office, are really necessary for achieving the objectives. We shall consider first the two main ways in which demand is expected to be regulated by the Iron and Steel Controller, namely 'screening' of indents in the case of the 'critical' categories and administration of priorities.

It is clear that, even under the existing arrangements, the problem of 'screening' has arisen only because control was relaxed over certain categories before the supply was really adequate to meet the demand. In fact, if such premature relaxation had been avoided, the cutting of demand (to the extent necessary) in the case of all categories for which there was excess demand would have continued to be done by the respective sponsoring authorities through the quota system, and there would have been no need for the Iron and Steel Controller's office to involve itself in any kind of screening of indents for this purpose. It is not clear to us why control on certain categories was 'relaxed' when there was no prospect of supply being adequate to meet the demand, and when it only meant replacing the quota system of rationing by a more unsatisfactory system.

As regards priorities, the Iron and Steel Controller gives different ratings of priority according to the nature of each case. Thus some indents receive 'over-riding' priority and some others 'top priority'; the categories of priority have further proliferated and we understand that there is now even a category of 'red hot priority'! The majority of indentors claiming priority are, however, given just ordinary priority. These priority ratings are based partly on an identification of what have been called the 'core projects' in the Five Year Plans and defence requirements, and partly on a variety of *ad hoc* considerations.

As already pointed out, the Iron and Steel Controller's office does not have with it data relating to outstanding orders with the producers classified according to priority and non-priority indents. (Data regarding total outstandings, category-wise, are given in Statement I in the Appendix). 'Planning' of new orders on the producers is, therefore, done without any precise idea of *priority* orders still outstanding. For the same reason, there is no systematic checking as to whether the priorities are in fact being respected by the producers.

Since several priority ratings are given by the Iron and Steel Controller, there are, within the broad category of outstanding priority indents, several queues with different ratings. The general instruction given to producers is that a certain proportion of indents in each category of priority should be taken up when framing each rolling programme, some from even among those which have not been allotted any priority at all. When demand is considerably in excess of the available supply (and this is true not only of sections in the 'unrelaxed' categories but also of several in the 'relaxed' categories), and the cuts made on the demand side are not adequate to prevent accumulation of outstanding orders, the accordance of priority does not, therefore, really carry with it any assurance as to the period within which the supply asked for will become available. For all these reasons, the allotment of a priority by the Iron and Steel Controller seems to have only limited practical significance unless the indenter is in a position to apply pressure and persuasion at a number of points within the chain of agencies associated with the production and distribution of steel.

In fact, in the context of the heavy outstandings for the scarcer categories of steel, and lack of properly classified data with the Iron and Steel Controller regarding the accumulation of priority indents with each producer, the producers have opportunity to pick and choose the orders that suit them for each rolling programme. We are not sure how far the Iron and Steel Controller is really able to exercise effective supervision over them.

The rolling programmes of the producers are based on technical considerations such as the design and capacity of their plants, availability of rolls, etc., and also considerations of profitability and overall output performance. There is no doubt that adjustments are made to accommodate indents which are given 'over-riding priority' by the Iron and Steel Controller, and also any other indents which are similarly kept track of and pushed. The choice of sections by the producers for each rolling programme does not, however, seem to be significantly altered by the indent-wise 'planning' done by the Iron and Steel Controller; we also doubt whether priority ratings are observed in all cases and the indents placed on the order books taken up strictly on 'first come first served' basis within each category of priority.

A priority has, in fact, no meaning unless it is linked with the assurance that the supply will be made available within a specified period of time. The present system gives no such assurance. When demands are met after very long delays, the precise length of which is itself completely uncertain, the final deliveries can seldom serve the purpose for which the demands are initially registered. Such long-delayed deliveries of steel are perhaps the main feeders of the black market. For this reason, anything which helps to reduce the time-lag between the sending in of indents and the final delivery of steel must be regarded as an improvement on the present system.

### **Control of Production and Prices**

We turn now to the system of production planning by the Iron and Steel Controller. One of the main objectives of this system is to ensure that the producers include within their rolling programmes, to the extent necessary and feasible, certain categories and sections of steel which are generally considered "difficult" to roll. In the absence of the routing of indents through the Controller, it is feared that there might be a tendency for producers to corner (through their sales organizations) orders for categories and sections which are considered by them either "easier" to roll or otherwise convenient. Under the present system, the producers can get only the indents

'planned' on them by the Iron and Steel Controller and are obliged to roll, at his instance, the "difficult" categories and sections to the extent considered necessary and feasible by him.

It is important to draw a distinction between *technical* considerations which come in the way of a plant rolling certain categories and sections (such as unsuitability of the installed plant, non-availability of the required rolls, or inadequacy of storage space) and *economic* considerations which might make it simply unworkable. If the obstacles are of a truly technical character, mere issue of directives by the Iron and Steel Controller cannot make any difference. But if the obstacles are economic in character the reluctance to roll such categories and sections would be greatly reduced provided the additional costs involved are adequately allowed for in the price payable to the producers. We would like to emphasize that seemingly 'technical' considerations, such as the high proportion of 'rejects' in the rolling of certain kinds of rails, are sometimes not really technical obstacles to their rolling but of a kind that could be corrected by an appropriate pricing policy.

It is our view that the pricing policies followed hitherto in regard to steel have not taken adequate account of the need for the prices of different categories and sections to reflect their relative costs. As a result, prices have exerted pressures of a distorting character on the pattern of steel production.

The retention prices payable to producers for different categories of steel have been based until now on the recommendations of the Tariff Commission. The recommendations of the Commission, which are confined to the prices of the base sections in each category, have been governed however by a variety of considerations. Until its Report of April, 1962, the main objective of the pricing policy recommended by the Commission was to make it possible for the two private sector plants (TISCO and IISCO)\* to earn profits large enough to finance part of the expenditure on their approved expansion schemes, after earning a specified rate of return on their gross block capital. With this in view, the Commission worked out (at the then existing labour costs and prices for the various intermediate goods required for steel production) an *over-all average price* per ton of steel which had to be guaranteed to each of these plants. For categories which were produced by *both* the plants (described as 'common' categories), prices were then fixed with reference to the works costs and overheads of the plant with the comparatively higher level of costs (namely, the IISCO). But, for others (*i.e.* the 'non-common' categories), prices were fixed merely with a view to ensuring that the plant producing them (namely, the TISCO) would not get for the 'common' and 'non-common' categories put together a weighted average price per ton of steel higher than was required for the objective initially set out. Naturally, the prices recommended for the 'non-common' categories bore no direct relation to their respective costs of production.

The Commission was aware that a structure of relative prices determined in this manner would tend to distort the pattern of production, in so far as the producers would have a bias against rolling products whose costs were less adequately covered than of others. But, as will be obvious from the following extract from the Commission's Report of 1956, such tendencies, it was thought, could be corrected by persuasion and by the direct control over rolling programmes exercised by the Iron and Steel Controller.

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\*TISCO : Tata Iron and Steel Company.

\*IISCO : Indian Iron and Steel Company.

"It is recognized that if the pattern of production were determined by purely commercial considerations, a structure of prices based on a uniform average price might create the possibility of certain undesirable shifts in production between the common and the non-common categories.....With the co-operation of the producers and, where necessary, by using the power vested in Government to regulate production, it should be possible to avoid any undesirable shifts in production" (pp. 22-23).

This method of fixation of prices for the different categories of steel was modified by the Commission in 1962, in the light of a directive from the Government that what was required was not "equality of the weighted average price of *each company*" but "equality of the prices of *common categories*" produced by them. The inclusion of a development element in price was also considered no longer necessary. The prices that have been recommended by the Commission in its latest Report for each category are based, therefore, on an assessment of the work costs and on an allowance for overheads.

When prices are fixed on an assessment of costs, there is always a tendency to inflate costs, and not to allow adequately for cost reductions that may in fact be feasible. This will be true both in the case of works costs and certain items of overheads. We are not in a position to judge whether, and to what extent, this factor has been taken account of in the estimates used for fixing retention prices of steel. (For the works costs and overheads allowed by the Tariff Commission for TISCO, see Statement II in Appendix). It is, however, our view that, whatever the inflation under other heads, the allowance made in these estimates for one of the important items under overheads, namely provision for replacement of plant, has been inadequate.

Thus the need to link the value of plant and equipment to their replacement costs does not appear to be fully recognised. According to the estimates of the Commission, the value of the gross block per ton of rated capacity of saleable steel will not fall below Rs. 1900 in the case of the new Hindustan Steel (public sector) plants even after their next stage of expansion; yet, for the purpose of fixing the retention price of steel, it has chosen to take the value of gross block at Rs. 1,300 per ton, of saleable steel. The latter figure is based on the estimated gross block of the TISCO though, as the Commission has itself pointed out, "about 25 to 30 per cent of the block of TISCO represents old plant and machinery installed before 1954-55 and only the balance of 70 to 75 per cent is comparable to that of the new plant and machinery of HSL"\*. This procedure keeps the provision for depreciation lower than is required on replacement-cost basis, though it is possible that the over-estimation of other elements in the retention price makes up for the deficiency wholly or in part.

The treatment of overheads in the present method of pricing of steel affects, in particular, the relative prices of different categories. In distributing them between the different categories of steel, allowance is not made adequately for the fact that the output of mills measured in tonnage tends to vary with the categories of steel that are actually rolled. (The same has been true of fixation of 'extras' for different sections within the same categories, although this has not been done by the Tariff Commission but by the Iron

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\*The gross block of TISCO amounted to about Rs. 370 per ton in 1938-39 and about Rs. 590 per ton in 1948-49.

and Steel Controller)\*. For technical reasons, the rolling time per ton is greater for certain categories and sections than for others. Estimates of rated capacity are based on an assumed product-mix, and distribution of overheads on the basis of such estimates of rated capacity creates, therefore, a bias against moving away from the assumed product-mix if the total output (in *tonnage*) is likely to fall as a result below the rated capacity. This can become a very important factor when a shift is desired in the direction of the lighter sections. It can also affect the attitude of producers when they are asked to produce more tested steel in so far as it takes more time to do so or leads in other ways to a smaller volume of saleable output.

In this connection, we would like to point out that the tendency to judge the performance of individual steel plants in terms of the actual tonnage rolled and the percentage it forms of the rated capacity is also an important factor in persuading the managements to turn out a product-mix that has no necessary correspondence to the pattern of demand. This danger has become particularly serious in the case of the public sector plants which show great anxiety to achieve and, if possible, exceed their rated capacity. Another factor which works in the same direction is the linking of bonus payments to workers with the tonnage rolled.

Thus, partly due to the unsatisfactory basis of fixation of retention prices, and partly on account of the tendency to judge the performance of steel plants with reference to the tonnage rolled (rather than in terms of *value* of the steel, produced), there are built in resistances to the adjustment of the output pattern to the pattern of demand even when there are no technical obstacles to such adjustments. Unless the sources of these resistances are removed, the ability of any administrative agency to make the producers roll the product-mix that is required by the consumers is likely to be subject to serious limitations in practice.

### Technical Considerations

One important reason, other than price, why producers prefer not to roll certain sections is simply that they often do not have enough orders for what they consider an economic rolling tonnage. Estimates of economic rolling tonnage depend on the technical characteristics of the mills. Orders to roll smaller tonnages result in lower production and higher costs. In countries where there is excess capacity and producers have to compete in a buyers' market, there may be willingness to settle for rollings of smaller tonnage in order to satisfy the customer. In a country like India, however, where capacity is inadequate to meet the growing demand for steel, the objective must be to secure the fullest possible utilization of plant capacity. Where the resistance from producers to rolling certain sections is on account of the anxiety to make full utilization of capacity for rolling sections for which there is unsatisfied demand, it would not, in our view, be correct to force them to do otherwise unless there are special considerations.

One of the important factors which comes in the way of fuller utilization of plant capacity is the wide range of sections and sizes offered by producers to the consumers of steel. The total number of sections and sizes for which the producers are now committed to accept orders is about 3000; and

\*We learn that the question of revision of 'extras' is now under consideration by the Extras Committee appointed by the Iron and Steel Controller. While the revision of 'extras' by this Committee may correct the present under-estimation of overheads to some extent, the net overheads allowed for particular sections might still be inadequate if the present practice of deducting the extra receipts *in toto* for arriving at the prices for the 'base sections' is continued.

the consumers naturally proceed on the assumption that the producers will roll to any of these specifications. The dispersal of demand over such a large number of sections and sizes is responsible to a great extent for the smallness of the orders for many of them and for the difficulties faced by the producers in making up economic rolling tonnages. Rolling to complicated specifications results also in considerable loss of time in the mills and in foregoing a larger output that could otherwise be rolled with the same capacity. The more closely the steel supplied conforms to the various requirements of consumers, the less will no doubt be the wastages at the consuming end; but we should take note of what is lost on the production side in making supplies conform to a wide variety of specifications. If it is known in advance that ordinarily only a limited number of sections and sizes will in fact be rolled, the designs drawn up by engineers for the consumers of steel will take this into account and avoid, as far as possible, the sections and sizes which are not likely to be readily available. The failure to rationalize sections and sizes, together with inadequate plant specialization, has in our opinion come in the way of a fuller utilization of available capacity.

The production of sections and sizes for which the demand is not large enough to provide economic rolling tonnage at sufficiently frequent intervals for the main producers could, in principle, be left to re-rollers whose plant and equipment are more suited to smaller rollings. In fact, this is one of the ways in which the re-rollers in the country could be usefully fitted into the newly-developing structure of the industry. However, most of the re-rollers are not yet equipped to produce such sections and sizes, and continue to roll precisely those sections and sizes which the main producers seem to be in a position to roll at least as efficiently. The present price structure does not give adequate incentive to re-rollers to instal the necessary equipment for rolling the more 'difficult' sections and sizes which it would be relatively uneconomic for the faster mills to roll.

To sum up, it seems to us that the present system of production planning has not succeeded either in ensuring the fullest possible utilization of available capacity or in making the rolling programmes of producers conform to the pattern of demand to the full extent feasible. There has been inadequate recognition of the role a suitable price policy could play in realizing these objectives.

### **Regulation of Distribution**

We turn now to the arrangements for the distribution of steel and, more particularly, the present system of distribution through stockists approved by the Iron and Steel Controller (See Statement III in Appendix for data regarding the number and State-wise distribution of approved stockists).

Under the present system of distribution, a consumer can obtain steel either directly from the main producers at, what are called, 'Column I prices', or from the 'controlled' stockists (who are wholesalers) at 'Column II prices', or from the 'registered' stockists (who are retailers) at 'Column III prices'; in the last resort, he can also have recourse to the black market at, what are often referred to as, the 'Column IV prices'. The 'Column IV prices' depend on market conditions, and sometimes they are even below Column II and Column III prices for certain categories.

Because the sale price of the producers is lower than that of stockists, consumers have now a direct incentive to get the supplies directly from the plants. There is, however, the restriction that, in the case of direct orders

placed on the main producers, the minimum tonnage of each section asked for, of certain categories, should be at least 10 tons and the total quantity of the order at least a wagon load. This restriction keeps out consumers who require small quantities, and makes it necessary even for the larger consumers to rely on stockists when the demand for any particular section is of a small magnitude.

However, in the case of the larger indentors, the hope of getting at least some supplies directly from the main producers at Column I prices leads many of them to send in indents directly to the Iron and Steel Controller while they also try to secure what they can from the stockists. This results to some extent in double-ordering, subsequent reduction or cancellation of orders, and resale of some of the Column I supplies (if and when they are received by the consumers).

Due to the heavy pressure of demand, it has not been necessary for most of the stockists until recently to hold large stocks for long periods. They have functioned more as commission agents passing on the available supplies to the consumers (or other traders) soon after they arrive. As a result, a high proportion of even the 'controlled stockists' (who are supposed to be, in principle, wholesalers who can store and handle large amounts of steel) have not taken the trouble of developing adequate warehousing facilities. The element of patronage in the appointment of stockists—particularly in the case of 'registered stockists' sponsored by the State Governments—has also led to the recognition of a number of traders who have neither the financial resources nor the other qualifications necessary for being efficient distributive agencies. In an industry such as steel, in which standardized bulk production by high-speed mills is a necessary condition for the efficient use of installed capacity and the time interval between rolling different sections may be considerable, stockists have really a very important function to perform; but they can perform this function only to the extent that they have adequate storage capacity and are also willing to instal equipment for loading and unloading, shearing, etc.

The 'controlled' and 'registered' stockists complain that their relative margin has shrunk over time with the rise in the price of steel, since their absolute statutory margins per ton of steel handled have remained unchanged for a long time. This complaint has a basis only to the extent that the prices realised by the stockists have in fact conformed to the statutory fixed prices.

The distinction drawn between the 'controlled' and registered stockists has only limited significance, since both categories of stockists (as well as consumers) can obtain steel from the main producers at Column I prices. Further, there is no means of ensuring that the actual prices realized by stockists conform to the statutorily fixed prices. It is our impression that, through various channels established by the trade, the prices actually charged from the final users by a large number of stockists are, in the case of scarcer categories and sections, nearer to those prevailing in the black market. Only the book entries may conform to the requirements of the control system. Since it is the small consumers who are more dependent on private stockists for their supplies, the incidence of these free market prices falls more heavily on them than on the larger consumers who get their supplies directly from the producers. We have found that, generally, most of the small consumers are able to get only about one-quarter or less of their supplies at the controlled prices, while many of the larger consumers manage to get as much as two-thirds to three-fourths at these prices and rely only marginally on the free

market. It seems fairly clear that the small consumer of steel does not benefit from the present system to the extent generally believed (*See Chapter 7*).

Table 2.1 below shows the relative share of Government, stockists, and others in the total despatches of finished steel in recent years\*. It may be mentioned that part of the despatches to stockists is on account of Government orders; only the remaining is, therefore, available for meeting private demand.

*Table 2.1 : Share of Different Sectors in Despatches of Finished Steel 1957-58 (in percentages)*

					<i>Public Sector</i>	<i>Stockists</i>	<i>Others</i>	<i>Total</i>
1957-58	..	..	..	..	47.7	6.2	46.1	100.0
1958-59	..	..	..	..	46.4	12.8	40.6	100.0
1959-60	..	..	..	..	36.5	25.6	37.9	100.0
1960-61	..	..	..	..	31.9	38.7	29.4	100.0
1961-62	..	..	..	..	31.2	38.2	30.6	100.0
1962-63	..	..	..	..	46.6	40.9	12.5	100.0

The growth of the share of stockists in the total despatches indicates the increasing extent to which, with larger availability of steel, private consumers depends on them for their supplies even under the present control system.

The number of traders associated with the distribution of steel at the moment is, however, much larger than the number of legally-recognized 'registered' and 'controlled' stockists. The recent increases in the output of steel plants have necessitated larger holdings of stocks than before but most of the recognized stockists do not seem to have the required holding capacity. A large number of other 'unrecognized' stockists have thus sprung up to make good the deficiency, and the recognized stockists pass on to them a substantial portion of the supplies which they receive. A very complicated network of distributive agencies has thus developed which has no correspondence to the officially-recognized network. A recent order issued by the Iron and Steel Controller to enforce the legal prohibition of unrecognized dealers has not made, and in our judgment *cannot* make, any significant difference to this state of affairs. Further, the unrecognized traders harbour grievances against the existence of a closed group of recognized stockists, many of whom receive their fixed margins as privilege rents for just passing on steel (without much storage or risk) to the unregistered traders or 'consumers'. Injustice to new entrants is inherent in any system of distribution with a fixed list of recognized traders.

Stockists complain of large and irregular despatches of supplies to particular centres by the main producers and the difficulties they have in taking delivery of them and storing them. While some rationalization of the rolling and despatching programmes of producers may be possible, the phenomenon of bulk despatches is closely linked up with the modern technology of steel production and the need to make fullest possible utilization of plant capacity. It is, therefore, our view that the distributive system must be adapted to the requirements of bulk production by fast mills, and not the other way about. With the existing bottlenecks in rail transport (and these are likely to persist for some time to come), bulk despatches to distributive centres, in rake loads rather than wagon loads, may also be necessary to ensure quick movement. From this point of view, it seems to us much more important to build up additional storage capacity in the distributing centres than in the steel plants themselves.

\*For the data from which Table 2.1 has been computed, see Statement VII in Appendix.



### CHAPTER III : AN OUTLINE OF THE PROPOSED STEEL CONTROL SYSTEM

In this chapter we shall outline the system of steel control that we would recommend in place of the existing system in the light of our evaluation of the latter in Chapter II. The proposed system is designed to avoid introducing excessive rigidity while creating sufficient safeguards to withstand pressures; and, at the same time, to serve well-defined purposes in each of the four main aspects of control :

- (a) regulation of consumption;
- (b) regulation of production;
- (c) regulation of the distribution network; and
- (d) regulation of the price structure.

In the absence of control, the market does allocate the scarce supply between consumers in a certain way. Even when control exists, the market often reallocates what is allocated administratively in the first round; but market allocation may be unsatisfactory in some respects. For developing a rational control system it is, therefore, necessary first to identify the specific features of market allocation that need correction on the basis of social considerations, and then to frame administrative mechanisms which do have the effect of altering the allocation in the desired way.

The four important social objectives which unregulated market allocation may not fulfil are : (i) the availability, on a priority basis, of steel for 'essential' capital projects and for current production requirements of 'essential' units; (ii) the availability of intermediate products, e.g. pig iron and billets, to processors other than the producers of these products (who are likely to prefer processing the whole or most of the available supply in their own plants); (iii) the availability of a "fair share" of the supply to the "small" man; and (iv) a "fair" regional distribution of scarce supplies. Control in some form is necessary to secure these objectives, particularly under conditions of scarcity.

#### Administration of Priorities

It follows from our analysis that the first step must be the determination of 'essential' consumption. The dangers to be guarded against are : (i) the tendency to dilute the concept of 'priority' over a period, so that a large number of really non-priority demands get 'priority' labels of one kind or another; (ii) inflation of priority demands; (iii) failure to relate priorities to time-schedules of delivery of supplies; and (iv) abuses of discretionary power by plant executives or steel control officers in response to *ad hoc* pulls and pressures exercised at all levels.

All steel demands should, in our view, be divided into three, and only three, classes : (A) Over-riding Priority Demands; (B) Priority Demands and (C) Non-Priority Demands. 'A' class demands should consist only of defence needs. 'B' class demands should cover the demands of basic industries, e.g., coal, steel, oil, heavy machinery and heavy electrical equipment, fertilizers, agricultural equipment and machinery, ship-building, and road transport equipment; and of vital social overheads, e.g.; transport and communications including ports, shipping, railways, posts and communications, irrigation and power. All other demands should be treated as 'C' class demands.

Priority should be fixed according to the end-use of the supplies demanded, and not according to the agency or unit which makes the demand. All demands of even the Ministry of Defence need not automatically qualify for priority rating; this is even more true of the demands of other Ministries such as Agriculture and Railways. For any system of priorities to work effectively, conditions of eligibility for priority allocation must be made extremely strict. When less essential uses are given priority status, the label of priority becomes useless.

Once the demand of a project or of a production unit is accorded priority, *all* the categories and sections required should get the same priority grading. If some categories and sections are delivered on a priority basis, but not others, the purpose of assigning priority may be nullified\*.

We recommend the following administrative machinery to scrutinise demands for priority rating and determine bulk allocations for different groups of priority demands.

The Ministry of Steel should set up a standing "Steel Priority Committee" in the Ministry. Just before the beginning of every half-year period, the Defence Ministry and Ministries responsible for the basic industries and vital overhead projects mentioned above, should present to this Committee their aggregate demand for each category of steel for the following period, indicating the major components of the demand and the end-uses for which they are required. After examining all the demands received and discussing them with the Ministries concerned, the Steel Priority Committee should determine the bulk allocations of different categories of steel to be made available on a priority basis to each group of priority users in the six-monthly period. If the priority allocations of steel are rigorously determined, we expect that a reasonable proportion of the supply of most categories will be left for non-priority indentors.

The priority allocations made by the Steel Priority Committee should then go to the Joint Plant Committee (see section below) as a directive governing the planning of indents by the latter. The Joint Plant Committee should receive the individual indents from priority users and 'plan' them on the producers in accordance with the directive; these indents should be accompanied by documents providing that supplies are indented against the bulk allocations made by the Steel Priority Committee.

The task of following each priority indent up to the point of final delivery (to ensure that the promised time-schedule is adhered to) should be one of the main functions of the Iron and Steel Controller in the future. Once the priority demands are defined and met through this administrative machinery, the task of allocating the remaining supply among consumers could be left to the channels of distribution indicated in the later sections of this report.

### **Organization and Functions of the Joint Plant Committee**

The processing of each and every indent by the office of the Iron and Steel Controller is, in our judgment, unnecessary for securing the objectives of control. Indents should go directly to a Joint Steel Plant Committee consisting of the General Manager of *each plant* (or his nominee) and the Iron and Steel Controller (or his nominee) as Chairman. The Committee should meet

\*The use of imports for meeting priority requirements which cannot be met internally is discussed in Chapter VI.

as frequently as necessary, but at least once a week, and take such decisions as are required regarding the indents received in the intervening period. In any quarter, the Committee should first include, in the rolling programme of the two following quarters, the priority indents received in accordance with the directives of the Steel Priority Committee. Such of the other indents which cannot be included in full or in part in the rolling programmes of these two quarters should be rejected and decisions to this effect communicated to the indentors forthwith.

The Joint Plant Committee should establish the principles and general conventions for allocation of indents between plants. These should take into account the need for specialization among plants, the importance of ensuring economic rolling tonnages, the technical requirements of 'balanced' rolling programmes, the need to reduce as far as possible the time-lag between the receipt of indents and the despatch of supplies, and the importance of avoiding unnecessarily long leads in transport. In particular, the Joint Plant Committee should specify, from time to time, the products (including sections and sizes) in which each plant is to specialize; in the case of categories and sections which are to be rolled by more than one plant, the Committee may fix the broad proportions in which indents for them may be distributed between the plants. The Joint Plant Committee should regularly receive from the plants detailed data regarding works orders, despatches made, and the outstanding orders for different categories and sections. In the light of these data, the Committee should determine the quarterly rolling programmes of the producers. In doing so, we expect that the Committee will be advised by the engineers associated with actual production in each plant.

The Joint Plant Committee should have a Statistical Unit attached to it, which should be responsible for maintaining and supplying data showing the number of indents received every week, the categories and quantities demanded, the proportion accounted for by priority indents, the indents 'planned' during the week, the quantities delivered against priority and non-priority indents, outstandings at the end of the week, the regional distribution of the non-priority indents and of the supplies despatched, etc. Judging from the present flow of indents to the Iron and Steel Controller's office, the number of indents reaching the Joint Plant Committee seems unlikely to exceed, on the average, 150-200 per day for some time to come. With mechanical processing and tabulation, the volume of statistical work involved is therefore not likely to present any serious difficulty once the basic procedures and formats are established. The important thing to recognize is that planning of production and distribution on the scale required, if it is to be efficient, must be statistically-controlled.

The office of the Joint Plant Committee should also include, at the higher executive level, a representative from the sales organization of each of the main steel plants.

The allocation of indents by the Joint Plant Committee is likely to have several advantages over the present system of 'planning' by the Iron and Steel Controller. The Committee will have a more realistic and up-to-date knowledge of outstanding orders, technical peculiarities of the plants, and the quantities of various products likely to be effectively produced and despatched during a given period. With each plant represented on the Committee, and the responsibility for planning the rolling programme fixed on this Committee, it is likely to be much more concerned than the Iron and Steel Controller's office with not making and accumulating promises which

are unlikely to be fulfilled within a reasonable period of time. Direct indenting on the Joint Plant Committee will also eliminate the present delays involved in the processing of indents in the Iron and Steel Controller's office.

The role of the Iron and Steel Controller in the Committee should be two-fold : (i) to help resolve any serious differences that may arise between plant representatives on the Committee, and (ii) to see that demands accorded priorities 'A' and 'B' are in fact given priority in the rolling programmes carried out by the plants.

Indents on producers other than the main plants need not be processed through the Joint Plant Committee. As will be indicated later, the role of re-rollers will have to be conceived in terms of giving flexibility to the production system by meeting special requirements of regions, and of sections for which there are only small orders. For this purpose, it is our view that the re-rollers should be free to book the orders directly from the consumers (*See Chapter IV*).

#### Arrangements relating to Indents

We consider that, as a rule, the main producers should receive only "large" indents. Reasonable minimum sizes for orders for different categories should be determined on the basis of (i) the tonnage which it is technically possible to roll at a stretch before the rolls require redressing, (ii) the storage facilities available in the plants, and (iii) arrangements which, under given transport conditions, will facilitate the quickest movement of supplies from the producing plant to the distributing centres. Orders of small size may be entertained, but there should be a system of levying additional charges as the scale of the order becomes smaller in order to discourage such orders as far as possible. As high-speed mills are installed, more plant specialization becomes feasible, and the need for rationalizing wagon-use increases, it will be increasingly important that the orders are generally large enough to be economic to roll and despatch.

Simultaneously, the facilities for storage and distribution of steel should be improved so that small individual demands can be met adequately and promptly even though the main producers may execute only large orders (see the section below on distributive agencies).

In order to discourage over-indenting of scarce categories, the financial arrangements accompanying the acceptance of orders *for these categories* should be made stricter. It should be made obligatory for indentors to deposit with the producers, when their orders are accepted, a specific percentage of the value of the orders; these deposits should carry interest at the market rate. Letters of credit, and 'financing' through brokers who merely stand guarantee, should not be regarded as a substitute for advance payment against orders in these cases. The proportion of advance payment required to total value of the order should be adjusted from time to time by the Joint Plant Committee in accordance with the relative scarcity of the categories and sections concerned. As a quid pro quo, the Joint Plant Committee should ensure that plants promise and adhere to firm delivery dates to indentors. It should also be obligatory for plants to allow adequate rebates when there are delays beyond the promised dates of delivery.

In this connection, we may mention that some Government departments placing orders on steel fabricators advance to them 90 per cent of the total cost of the materials required for executing the orders as soon as these

materials are acquired. The arrangement encourages the fabricators concerned to indent for larger amounts of steel than they really require during a given period. We suggest, therefore, that this arrangement be reviewed to ensure that only quantities actually required during any given period are indented for and held.

There is also a very strong case for *reduction* in the number of sections which the plants are called upon to roll. Immediate action should be taken by the Ministry of Steel, in consultation with fabricators, design engineers, traders, and consumers to standardise the sections to be rolled by the big plants. The wide range covered by the new ISI specifications and the numerous customary specifications, while they may be desirable from the consumers' point of view and from the point of view of physically economising steel in some sense, seem to us to be based on very scant consideration of the economies of large-scale rolling. The sections for which total demand is rather small may, as far as possible, be left for supply by re-rollers or from imports.

We may mention here that, following the publication of our preliminary report last February, an engineering association consisting of some important fabricators of steel in India has investigated into the scope for rationalization in the sections now used for the fabrication of their products. It has come to the conclusion that the number of sections required by these fabricators (which producers are presumably expected to roll) could be reduced from 553 to 129 without creating any difficulties. After examining the practical effects of applying the reduced range of sections to a number of existing projects, the Association has also found that, except in the case of one project, the increase in the weight of steel consumed would be negligible. This investigation, it should be emphasized, did not presuppose any general changes in design; if the over-all designs are modified, weight increases resulting from rationalization are expected to be even smaller.

Standardization and reduction of the number of sections which the big plants will roll should be accompanied by provision of small-scale mechanical facilities (for shearing, cutting, drilling, etc.) near the centres of consumption for adjusting standard sections and sizes to the specifications required by individual consumers. This, in fact, must be regarded as one of the important functions of the larger stockists in the main centres.

### **Distributive Agencies**

We turn now to the problem of distribution. Our review of the present system (see Chapter II) has led us to two basic conclusions. Firstly, there is no effective way of checking the resale of supplies from the producers after they are received by the first recipients. Therefore control can and should be really exercised only over first deliveries from the producers. Secondly, the only distinction between different first recipients that can be effectively administered are : (i) between those who get a priority rating and those who do not, and (ii) between those who place "large" orders and those who place "small" orders.

It is our view that anyone should be free to place indents directly on the producers and to receive supplies at the producers' price. Sale and resale transactions after first deliveries should not be sought to be controlled except, of course, in the case of priority deliveries for which a condition of allotment should be that there will be no re-sale.

Once the financial arrangements accompanying orders are made stricter, and there is no control over the prices at which re-sales are made by indentors (whether traders or consumers, there is no rationale left for maintaining the distinction between 'controlled' and 'registered' stockists or between 'recognised' and 'unrecognised' traders. Anyone should be free to be a trader in steel.

But, with the introduction of freer trading in non-priority steel, we consider it necessary that the Government should hold a small proportion of the non-priority supplies as stocks of its own to meet special needs. We recommend that stockyards under government control should be opened in selected centres dispersed throughout the country. Some of these may be stockyards of the main plants; others may be established and operated directly by Government or Government agencies; still others may be private stockyards requisitioned or commissioned by the Government. Government depots stocking and supplying steel to small industries or agriculturists may also be recognised as stockyards.

The functions of these stockyards will be to (a) stock and supply to consumers (particularly 'priority' users) uncommon and matching sections which may not be readily available from the producers or from the open market; (b) ensure, as far as possible, that the small-scale industries receive a certain minimum amount of their requirements at regular intervals; and (c) make available supplies of steel in regions where, either due to transport difficulties or inadequacy of resources among private traders or other reasons, there is a tendency for acute shortages to develop.

Bulk allocations of different categories of steel required by the stockyards should be fixed by the Steel Priority Committee for each six-monthly period. Against these allocations, the Joint Plant Committee should be directed to accord to the indents from stockyards the same priorities as for the 'B' category demands. Though this constitutes a deviation from the end-use principle, which we have said should be the governing factor in regard to priorities, this special treatment for stockyards' indents may be justified as a means of safeguarding to some extent the interests of disadvantageously-placed regions and small purchasers.

If the objectives mentioned above are to be fulfilled by the stockyards, they should be required to sell the steel held by them at fixed prices. These prices should be equal, in the case of each category and section, to the first sale price of producers plus a specified margin to cover operating expenses. In order to reduce the risk of a few buyers taking up all the supplies of scarce categories offered through stockyards, the maximum amount that can be purchased at any one time should also be fixed for each category (even though it still leaves open to some extent the possibility of the amounts so purchased being cornered by some buyers). If necessary, an agency may be established by the Central Government to supervise and coordinate the operations of these stockyards.

### **Price Policy**

We have also some recommendations to make regarding price policy. There are four different aspects of the present steel price policy which require consideration :

- (a) the general level of the price of steel allowed to producers;
- (b) the relationship between the prices for different steel products allowed to producers;

- (c) the relationship between prices charged at different stages of marketing; and
- (d) the relationship between prices paid by different sets of consumers, and consumers in different regions.

(a) and (b): We have argued in Chapter II that the present retention prices do not provide adequately for the replacement of plant at current (or prospective) replacement cost. It is our view that the gross block should not be underestimated simply out of the fear that the general level of steel prices will have to be raised or that the valuation at replacement cost might enable the older plants in private ownership to accumulate larger surpluses. If they accumulate larger surpluses as a result of higher retention prices, but do not deploy them for modernization and expansion, other measures can be taken; it would be wrong to allow the fear of misuse of profits to be made the basis of a price policy which provides inadequately for replacement and expansion. Moreover, if producers' prices are fixed on the basis of anything less than current replacement costs, the public sector plants which are being set up and expanded will be placed in a position of disadvantage and will not be able to earn even the rate of profit that can be earned by the private sector plants set up earlier at lower capital cost.

It seems to us that the fuller provision which needs to be made for plant replacement at current or prospective costs can, and should, be done without a uniform upgrading of the prices of all categories of steel. (The additional provision should be made as far as possible through adjustments in the relative price structure of steel which, as it stands, does not reflect true relative costs.) There need not be, therefore, a sizeable increase in the *average* price for steel allowed to producers but only increases in the prices of the scarcer categories and more difficult sections. A shift of this kind in the relative price structure is required in the prevailing circumstances.

It is also our view that there should be more flexibility in the fixation of the relative prices of different categories than is allowed by the present system of fixing these prices on the basis of the recommendations of the Tariff Commission. The recommendations of the Commission are based on records of costs already incurred, and the prices finally fixed on the basis of its recommendations take effect retrospectively. If relative prices are to perform their function of directing the use of existing production capacity to the lines where shortages exist, and away from those in which surpluses develop, it should be possible to change these prices more frequently and through less elaborate procedures. For this reason, we suggest that the fixation of the first sale prices of all the main producers should be left to the Joint Plant Committee. These prices should be subject to the approval of the Government. Fixation of prices by the Joint Plant Committee will eliminate *inter alia* the anomaly of 'base' section prices and 'extras' being determined by different agencies, and simplify the whole procedure of fixation of prices.

The Joint Plant Committee should adjust prices from time to time according to demand conditions. A revision of the relative price structure should, in fact, be undertaken immediately keeping in mind the considerations indicated above. The fact that cost data, in terms of the optimal product-mix for each mill, are not yet available for the new plants is no reason for postponing such price fixation since there will be always new plants coming into production. Prices based on rough approximations are good enough.

Under the new system, it will be necessary to introduce a safeguard against the accrual to the steel producers of much larger surpluses than may on broader social considerations be thought to be warranted.\* We suggest that ordinarily, when free market prices are such as to justify an increase in first sale prices by the Joint Plant Committee, but the latter are already high enough to more than cover producers' costs and requirements of replacement and expansion, action may be taken by the Government to adjust the sale price realized by producers through imposition of excise duties or other fiscal devices. The Government may also issue directives to the Joint Plant Committee in regard to price fixation when necessary.

With the revision of the price structure, the method of fixation of bonuses to workers should also be changed in the plants where they are now related to tonnage rolled; the profits, or the value of output, of each plant provide a more rational basis.

(c) and (d) : As indicated earlier, there is no point in trying to control prices beyond the first stage in the delivery line. A free market in steel in respect of sales subsequent to the first sale by the main producers should be, therefore, legally recognised.

Free market prices would reflect from time to time the degree of scarcity or abundance, in the market, of different categories of steel and have the normal effect of adjusting *non-priority* demands to the available *non-priority* supplies.

The difference between producers' prices and the free market prices will accrue to the intermediaries. If this margin becomes excessively large, the Government could, and should, use (as indicated earlier) the device of excise duties to mop up part of the difference between the producers' and free market prices.

As a general principle, the assignment of priority to particular consumers should not carry with it the implication that they will get any kind of price preference. The price charged in each case will be governed by the same considerations as for others. However, for those users of steel who, it is felt, should be given a price advantage as well, there should be a system of drawbacks allowed by the Government in respect of steel directly purchased from the producers or from Government stockyards. The consumers who are to be given the privilege should be carefully determined and on very strict considerations; the drawbacks should also be allowed only when the actual use of the steel for the purpose asked for has been duly certified by an appropriate agency of the Government. Even subsidised steel should not be sold at prices which are below costs of production: drawbacks should be permitted only in regard to the *excess* of the sale prices charged to consumers over actual costs.

It is possible that sometimes the free market prices of some categories of steel may rule below the producers' prices. In such circumstances, priority consumers may want to purchase from the free market and there is nothing in the proposed system preventing priority consumers from doing so.

One of the important questions relevant to the fixation of sale prices is that of freight equalization. When freight charges are equalised, there is no incentive to minimise the leads in transport or avoid unnecessary cross-haulages. In consequence, a certain amount of avoidable burden is imposed on the transport system. Further, while freight equalization undoubtedly

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\*We assume that the prices proposed by the Joint Plant Committee will naturally be such as will include a reasonable rate of return on capital to producers.



benefits the more distant consumers, it deprives those situated close to the producers of their locational advantage. It is difficult to decide, without further investigation, whether or not this effect on the closer, but relatively less developed, areas is more than offset by the benefits derived through diversion of supplies to the more remote areas. This is a complex problem, requiring a comparison of transport and other costs and the spatial distribution of demands under alternative patterns of industrial location.

We are of the view that the benefits associated with freight equalization can be secured in other ways—for instance, through a system of telescopic freight rates, or through subsidies to selected industries newly established in less developed areas. But since we have not been able to examine the economic and administrative implications of such alternatives, we have refrained from suggesting a change from the present practice. Pending a more thorough examination of the whole question of regional development in the light of transport and other costs, the existing system of freight equalization might therefore continue\*. The Joint Plant Committee might, therefore, include in the first sale prices a freight element to be realized on all despatches of steel and operate a clearing arrangement whereby every plant receives the excess of freight paid over freight realized and pays out the excess of freight realized over freight paid.

### **The Transition**

The transition from the present to the proposed system will require, apart from legal and administrative changes, a solution of the problem presented by the mass of indents and orders outstanding when the new system comes into effect. We propose the following procedure for it.

All indentors should be required to send to the Joint Plant Committee fresh indents (with priority entitlements where necessary) covering their requirements for the six-month period January—June 1964, on the assumption that outstanding indents and orders may not be supplied. The Joint Plant Committee will process them in the usual way. Outstanding orders covering the quantities 'planned' by the Committee against the fresh indents will remain valid for the period under the new arrangements. All other outstanding indents and orders will remain suspended. Despatches against these may be made in the event that the quantity of particular sections planned by the Joint Plant Committee against new requests is not adequate for inclusion in the six-month rolling programme.

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\*If the Joint Plant Committee 'plans' indents on producers in such a way as to avoid long leads in transport and subsequent adjustments in the region-wise allocation of non-priority supplies, it will help to some extent in reducing the undesirable effects of freight equalization.

## CHAPTER IV : THE RE-ROLLING INDUSTRY

It is outside the scope of the terms of reference of this Committee to define the exact role which the re-rolling industry should play in the growing steel production complex of the country. We are concerned only with the problem of ensuring that the re-rolling units do not find themselves in a situation of disadvantage in the matter of supply of billets and sale of products, in comparison with the main producers, because of some specific characteristics of the distribution and price control system.

### Main Features of the Industry

There are 191 registered re-rolling units in the country, including 4 units which are called "secondary producers", 91 billet re-rollers and 96 scrap re-rollers. (There are also an unknown number of unregistered scrap re-rollers). The secondary producers and the billet re-rollers are expected to frame their production programmes on the basis of the indents placed on them by the Iron and Steel Controller. They are supposed to get their supply of billets from the main producers, and sell their products, at 'Column I prices'. The scrap re-rollers, however, are now allowed to buy scrap in the open market, frame their own production programme, and sell the products at prevailing market prices. We are concerned here mainly with billet re-rollers.\*

Production of finished steel in the registered *billet* re-rolling units, as reported, is shown in Table 4.1, for selected years.

Table 4.1 : *Output of Finished Steel by Secondary Producers and Registered Billet Re-Rollers.*

(in million tons)

1953	..	..	..	..	..	..	..	0.27
1954	..	..	..	..	..	..	..	0.32
1955	..	..	..	..	..	..	..	0.35
1956	..	..	..	..	..	..	..	0.42
1957**	..	..	..	..	..	..	..	..
1958	..	..	..	..	..	..	..	0.41
1959	..	..	..	..	..	..	..	0.55
1960	..	..	..	..	..	..	..	0.74
1961	..	..	..	..	..	..	..	0.75
1962	..	..	..	..	..	..	..	0.83

The total output of registered (*billet and scrap*) re-rollers, it is claimed, constituted about 40 per cent of the total finished steel production in the country in 1960-61, and their output of bars and rods about 60 per cent of the total national output of bars and rods.

The Steel Re-rolling Mills Association of India claims that, on the basis of the existing capacity, the output of registered billet and scrap re-rollers can be raised to 1.83 million tons by 1965-66 on a two-shifts basis and to

\*The problem of the supply of scrap to re-rollers was examined by the Scrap Committee in 1962.

\*\*Data for 1957 are not available.

2.20 million tons on a three-shift basis. On the assumption of two shifts the Association expects that a little more than two-thirds of the capacity output will be devoted to the production of bars and rods. (The other categories and sections which the re-rolling industry can roll are shown in Statement IV in the Appendix).

The advantages of the industry lie mainly in two of its characteristics : (i) production is dispersed so that the industry can help to balance regional demands and supplies; and (ii) the economic rolling tonnage of the re-rolling units is small in comparison with that of the large plants and they can therefore handle small orders economically. The industry can roll special sections e.g. thin flats, telegraph channels, deformed bars, spring steel sections, fish plates, thinner rods, and miscellaneous railway sections, the orders for which are often too small to be economically rolled in the required time by the main producers.

It is, however, the view of the billet re-rollers that they can economically roll special products (for which the individual orders as well as the overall demand are small) only if the production of the staple category of bars and rods occupies the major part of their installed capacity and they receive an adequate supply of billets at a cost approximating that at which they are available to the main producers.

#### **Costs of Conversion**

A basic question arises here : if the industry must produce bars and rods, is the cost of conversion of billets *plus* the cost of transport (*i.e.* the cost of supplying bars and rods in specified distributing centres) lower if they are produced in the re-rolling units rather than in the main plants, assuming that the ex-works cost of the billets is the same for the re-rolling units as for the main plants ?

According to the Steel-Re-rolling Mills Association of India, "conversion charges allowed to re-rollers at identical billet price are in effect the same as allowed to the main producers . . . therefore . . . from the point of view of national economy, no subsidy is given to re-rollers . . .".\* The implication seems to be that so far as conversion costs proper are concerned the industry does not need any protection or subsidy, and that, if billets are available to the re-rollers at the same price as they are to the main producers, and in sufficient quantity, they should be able to compete with the latter in the production of common products, especially bars and rods. In other words, according to the Association, the re-rolling industry is not a small-scale industry needing protection against large-scale competitors.

We have not been able to examine the validity of this claim and the assumptions on which it rests. There are considerable variations in size and efficiency within the industry, and it would be surprising if all re-rolling units are in a position to compete with the main producers in rolling the common products.

It seems to us that the claim of the re-rollers regarding their ability to compete with the main producers is based at least to some extent on the fact that the conversion charges allowed to the industry for rolling bars and rods, on the basis of the Tariff Commission recommendations of 1952 and 1958, are comfortably adequate. The few units, whose costs were examined by the Commission, were assumed to work on a single shift or a half-shift basis. According to several technical experts, the allowance provided for metal loss

\*Memorandum of the Steel Re-rolling Mills Association of India to the Committee, January 1963.

Against this background, and the serious shortage of billets in relation to the existing re-rolling capacity, it is extremely difficult to devise a scheme of allocation which will be found reasonably satisfactory by the different sections of the re-rolling industry (some of whom have very legitimate grievances against what has happened).

In view of the preference of the main producers to use the billets themselves and the limited supply of billets now available for allocation, it is clear that a satisfactory and dependable solution of the problem of re-rollers can be found only if one or more plants exclusively designed to supply billets to re-rollers are set up. We understand that proposals are currently under consideration for the setting up of billet mills by some of the secondary producers and by cooperatives of re-rollers. These deserve to be approved after technical examination.

We suggest that, simultaneously, the following measures be adopted for supply of billets from the main plants to the re-rollers :

- (i) The main plants should be required to sell not less than a certain quantity out of their total production of billets, but this minimum quantity should be revised from time to time in the light of the expansion programmes of the main plants and the flow of billets from the new plants designed to feed exclusively the re-rollers. We consider that in the next few years this quantity should not be less than 0.9 million tons per annum, which would be slightly higher than the actual quantity of billets sold on the average during the years 1960, 1961 and 1962.
- (ii) The first sale price of billets supplied by the main plants should be fixed by the Joint Plant Committee in the same manner as the first sale prices of other steel products sold by them, but subject to the condition that the prices fixed for bars and rods by the Committee should exceed the price fixed for saleable billets by a margin not less than the works cost of the production of bars and rods in the main plants. This condition, we feel, is necessary to prevent the main plants selling bars and rods (which are the main products of re-rollers) at unduly low prices.
- (iii) Re-rollers' indents for billets needed for executing orders given priority by the Steel Priority Committee should be accepted in full by the Joint Plant Committee. (We understand that approximately 40 per cent of re-rollers' products go now to meet priority requirements). The rest of the saleable billets may be freely sold by the main plants at prices fixed by the Joint Plant Committee, subject to certain restrictions on regional grounds indicated in Chapter VIII.

## CHAPTER V : SUPPLY AND DISTRIBUTION OF PIG IRON

Like all categories of steel, saleable pig iron (foundry grade) was subject to full distribution and price control until 1959. For a short period thereafter, when only a part of the rolling capacity of the new steel plants had been commissioned, there was increase in the amount of pig iron available for sale; control was then relaxed, and new foundries were freely allowed to be established for manufacture of quality castings. By 1961, however, pig iron had become a 'critical' category. The position worsened in 1962, and full control was imposed from April, 1963.

### The Present System of Distribution

In the revised scheme of distribution, quotas have been fixed for 1963-64, as indicated in Table 5.1.

*Table 5.1 : Pig Iron Quotas, 1963-64*

	(Million Tons)
<i>Government</i>	
Railway Sleepers .. .. .	0.30
Direct Defence Demands .. .. .	0.06
Railway Maintenance and other Government Departments .. .. .	0.05
Castings needed by D. G. S. & D. .. .. .	0.03
Foundries getting Defence Contracts .. .. .	0.02
	0.46
 <i>Others</i>	
Steel works maintenance .. .. .	0.10
Spun pipe industry .. .. .	0.19
Export promotion .. .. .	0.05
'Central List' Foundries .. .. .	0.18
'State List' Foundries .. .. .	0.12
Reserve .. .. .	0.01
	0.64
TOTAL .. .. .	1.10

The annual entitlement of each foundry has been fixed as a proportion of 'assessed capacity' on the basis of the priority rating assigned to its products.\* Indents can now be placed on the Iron and Steel Controller only by the quota-holders or by stockists pooling the quota entitlements of small-scale foundries (mainly in the State list). The present distribution control on pig iron is thus similar to that on the 'unrelaxed' categories of steel.

\*The assessment is made by the Department of Technical Development in the case of 'Central' foundries, and by State Directors of Industries in the case of 'State' foundries.

In retrospect, there is little doubt that the decision to place on the free list the licensing of new foundries for the manufacture of quality castings, following what was obviously a temporary increase in pig iron supplies between 1959 and 1961, was unwarranted. In the event, when the supply of saleable pig iron from the main plants declined with an increase in their output of steel, the back-log of orders for pig iron piled up rapidly, and amounted to almost a year's production by the end of 1962. The free market price of foundry pig had risen to about Rs. 150 to 200 per ton above the controlled price by the beginning of 1963.

We have not been able to assess the difference that re-imposition of control from April, 1963, has made to the actual allocation of pig iron in the economy. However, the basic situation in respect of pig iron is, in our view, comparable in many ways to that of billets. The principal source of supply in both cases are the large integrated steel plants, who have the choice between selling them and using them for their own processing mills. Their inclination (to a large extent justified) is to give first preference to their own requirements and to treat the outside market as a residual outlet. It has, therefore, become necessary to impose administratively an obligation on some of the main producers to devote a proportion of their blast furnace capacity to the production of foundry-grade pig iron.

#### **Demand and Supply Prospects**

It will not be possible to do away with this administrative device until pig iron capacity of a sizeable magnitude is developed outside the integrated steel plants. From the point of view of ensuring regular supplies to the foundries, and also enabling the integrated steel plants to operate more efficiently, it is therefore important that measures are taken immediately to set up pig iron plants of adequate capacity.

Though the existing steel plants are being further expanded, and new steel plants are also to be started, the present expectation is that no additional supplies of saleable pig iron will be available from them until 1965-66. The total supply of saleable pig iron from the main plants will, therefore, continue to remain at the present level of about 1.1 million tons\*.

Estimates of pig iron requirements for 1965-66 vary between 2.1 and 2.5 million tons. These estimates are apparently based on the existing foundry capacity in the country and on the assumption of restricted licensing of additional capacity. Even if we take the lower estimate of demand, and the main plants are obliged to continue supplying 1.1 million tons per annum, the gap is large enough to justify the creation of additional pig iron capacity outside the main plants on a substantial scale. Outside capacity licensed so far is of the order of 0.5 million tons but, of this, installed capacity of only 0.2 to 0.3 million tons is expected to materialise by 1965-66.

The policy of creating independent pig iron capacity should be pursued further. It is clear, however, that for the next few years the distribution arrangements for pig iron have to be based on the assumption of continuing inadequacy of supply.

One of the main objectives in fixing individual foundry-quotas is to prevent over-indenting. But as long as there is a big difference between controlled and free market prices of pig iron, actual users will pad their demand at the time of obtaining entitlements and divert part of their supplies to the black market. It is our view that, as in the case of sheets, plates, etc., this

\*See Statement V in Appendix for data on production of saleable pig iron from 1960 to 1963.

situation should be met by (a) a stricter definition of the priority uses of foundry-grade pig iron; and (b) an adjustment of pig iron prices to discourage avoidable consumption of this material in both priority and non-priority uses.

### **Recommendations**

The criteria for defining priority uses and the machinery for processing priority demands for steel have been indicated in Chapter III. We suggest that the priority demands for pig iron be processed in the same way by the Steel Priority Committee.

The scope for substituting other less scarce materials for pig iron should not be overlooked even in high-priority uses. Almost 30 per cent of the total pig iron available now is taken up for the manufacture of railway sleepers. Cuts in demand which can be achieved here through substitution will make a significant difference to the pressure on available supplies.

The essential features of the new system we visualize for pig iron are therefore, as follows :

- (a) As at present, a part of the pig iron production of the main producers should continue to be reserved by administrative directive, for sale to the foundries. This should not be less than 1 million tons per annum. Meanwhile, concerted efforts should be made to enlarge pig iron production outside integrated steel plants. As production by the new pig iron plants increases, the amount of foundry-grade pig iron to be supplied by the main producers under administrative directive may be adjusted taking into account the prevailing demand situation. This does not preclude the expansion of pig iron capacity in the main plants if it is found to be economical.
- (b) Priority indents for pig iron should go directly to the Joint Plant Committee with evidence of priority entitlement. Production of pig iron in the main plants in excess of the quantity required for priority uses should be freely saleable. Other plants should be free to sell their entire output of pig iron in the open market.
- (c) For the main producers the sale price should be fixed by the Joint Plant Committee (subject to Government approval), and adjusted from time to time according to market conditions; this sale price should be the same at rail-heads all over the country. In the case of producers of pig iron other than the main plants, sale prices may be left to be determined by the market.

## CHAPTER VI: IMPORTS OF STEEL

From the outbreak of the Second World War, the foreign exchange available for importing steel has been inadequate to satisfy the excess demand for steel in the economy. It must be assumed that this will continue to be the case for some time to come.

The problem under these conditions is to determine (a) which categories and sections of steel should be imported; (b) who should do the importing; (c) how the imported steel should be allocated between final consumers; and (d) at what prices imported steel should be made available to final consumers. The decisions concerning them are inter-linked.

The present arrangements in regard to the matters listed above are as follows :

- (a) The product-pattern of steel imports is determined administratively by the Iron and Steel Controller with reference to the pattern of demand as reflected in the indents, the priorities in force, and the prospects of supply from domestic producers.
  - (b) Some steel is imported directly by the Iron and Steel Controller, either by appointing handling agents and remunerating them at the rate of 4 per cent of the landed cost or by issuing tenders and accepting the lowest quotations. The rest of the imports are arranged privately by 'actual users', 'established importers' (defined as those who had imported steel in any two of the three years ending March, 1957), and exporters of certain commodities (such as manganese and iron ore) against which 'barter' imports are permitted.
  - (c) In the case of 'actual users', entitlements for imports are issued by various sponsoring authorities who are supposed to take into account the priorities in force, domestic availability, etc. Imports arranged by the Iron and Steel Controller are allocated similarly by the Controller himself. In the case of 'barter imports', however, importers are allowed to nominate, in respect of one-fifth of the amount imported, the 'actual users' who should receive the supply, and the remaining is supposed to be distributed according to the instructions of the Iron and Steel Controller (provided these instructions are received within 90 days of import).
- 'Established importers' are allowed to import only industrial scrap, box strapping, tool and alloy steel and certain categories of wire, but no attempt is made to allocate these imports administratively.
- (d) 'Actual users' and 'established importers' are free to import steel at landed cost *plus* import duty without any other adjustments 'Established importers' can, however, sell the imported steel only at the controlled prices.



In the case of imports arranged by the Iron and Steel Controller the difference between the landed cost of steel and the sale price fixed for domestic supplies is deposited in the Equalization Fund if the landed cost is lower, and paid out if the landed cost is higher.

In the case of 'barter imports', if the sale price fixed for domestic producers is higher than the landed cost of the imports *plus* the remuneration allowed to importers by more than Rs. 50 per ton, an amount equal to this excess is to be paid by the importers into the Equalization Fund. But if the difference is less than Rs. 50, or the cost of imported steel is higher than the sale price fixed for domestic supplies, no payment is made into or out of the Fund.

It will be seen from Table 6.1 that most of the imported steel is on account of 'actual users'. (For more detailed data relating to imports for this period, see Statement VI in Appendix).

*Table 6.1 : Share of Different Agencies in Imports of Finished Steel*  
(in Rs. crores)

	<i>Iron and Steel Controller</i>	<i>'Actual Users'</i>	<i>'Established Importers'</i>	<i>'Barter Importers'</i>	<i>Total</i>
1960-61 .. ..	8.7	68.8	0.3	18.7	96.5
1961-62 .. ..	2.5	68.1	2.3	10.4	83.3
1962-63 .. ..	1.9	63.2	1.7	3.2	69.8

The share of 'actual users' in 1962-63 was as high as 90 per cent of the total value of the imports of finished steel.

For 'actual users', imports carry with them a special price advantage (since they are free to secure them at landed cost *plus* import duty) provided they are in a position to get the steel at lower than the sale price for domestic supplies. However, given the present market conditions in different countries and the prices charged, importers can generally get steel at a lower price only if they are allowed foreign exchange that can be used for purchases in Europe or Japan. If the foreign exchange made available can be used only for purchases in the United States (as is the case with funds from the Development Loan Fund), there is not much of a price advantage for the importer, as the cost of steel imported from the United States is almost as high as (and sometimes exceeds) the domestic price of steel.

Even when imports do not carry with them an additional price advantage, they have generally an advantage in terms of delivery time. There is, therefore, a scramble for 'entitlement' certificates to exploit price and/or delivery advantages.

Under the existing system the decisions as to how much an 'actual user' gets out of imports in each year, and how much out of domestic supplies, are left to be taken by the sponsoring authority concerned. We are not sure to what extent these decisions are in practice co-ordinated. The decisions are also taken on the basis of different criteria. In our view, imports should be used primarily for improving the time schedules of supplies for high priority requirements and for obtaining categories and sections not produced in the country. The present procedure prevents this being done effectively and consistently.

As for 'barter' imports, the concession given to them to choose their own nominees among 'actual users' is, to say the least, surprising. In fact, there are many other features about these 'barter' arrangements which are extremely odd. We shall mention some of them.

The foreign prices of most of the commodities now allowed to be exported under these arrangements are lower than their domestic prices. It is as an incentive that exporters are being permitted by the Government to import certain commodities and nominate the parties which should get a certain proportion of these imports. But imported steel cannot be sold legally at a price higher than the landed cost plus 7½ per cent of this cost (which is the maximum remuneration permissible to importers). If this condition is strictly observed, the right to import steel and nominate 'actual users' cannot provide any great incentive to the exporters of the commodities whose world prices are much lower than domestic prices. What is, therefore, maintained is only a legal fiction, and it is implicitly understood by both the Government and the 'barter' dealers that the incentive lies in the opportunity to sell the imported steel at much higher black-market prices. We have also been told that, though legally the 'barter' importers can sell to their nominees only one fifth of the imported steel, they are in practice often able to sell a much higher proportion.

Another feature of these barter deals is that the Government has fixed a *minimum* export price which is higher than the prevailing price abroad for commodities like manganese ore. No one who does not have access to secret foreign exchange reserves, for covering the differences between the price actually received for the exports and the minimum price fixed by Government, can therefore be an exporter of these commodities.

As regards imports through 'established importers' the amount has been relatively small and the categories permitted are (as indicated earlier) only a few. But there is no justification for giving the privilege of importing to a few firms whose only claim for receiving this special treatment is that they had imported some steel years ago. A closed list of privileged traders, which tends to freeze the position obtaining in an earlier period, is essentially unhealthy.

In the light of the foregoing review of the present import arrangements, our recommendations are :

(1) As indicated in Chapter III, the Defence Ministry and the Ministries responsible for basic industries and vital overhead projects entitled to priority will present their total demands to be met out of *imports as well as domestic supplies* to the Steel Priority Committee for each half-year period. After this Committee determines the bulk allocations of different categories of steel to be made available on a priority basis to each group of users in the six-monthly period, the Joint Plant Committee should be asked to indicate how much of these allocations can be met out of the production of the main plants. The Steel Priority Committee should then determine the priority requirements to be met out of imports; fix the bulk allocations of foreign exchange for each group to cover these requirements (out of the total foreign exchange made available for steel imports by the Ministry of Finance); and authorise the sponsoring authorities concerned to issue the necessary entitlements to individual users within these bulk allocations.

(2) Non-priority demands for imported steel would be of two kinds : (i) for categories and sections of steel which are not produced in the country (such as alloy steel), and (ii) for categories and sections which are pro-

duced in the country but are extremely scarce. Claimants for the former should apply to the respective sponsoring authorities and the Steel Priority Committee should determine, in the light of their recommendations, the amounts that should be imported; the sponsoring authorities will then issue the necessary entitlements. In the case of categories which are produced in the country but extremely scarce, import licenses may be issued to stockyards and/or other stockists, out of whatever foreign exchange is available, for direct import and sale in the open market.

Thus the total amount of foreign exchange made available for steel will be divided into (a) the amount required for priority imports, (b) the amount required for non-priority imports of categories not produced in the country, and (c) the amount left for non-priority imports of other scarce categories. Since the scarcity of foreign exchange is, and will remain, acute it is inevitable that a major part of the exchange made available for steel imports will be used to cover (a) and (b). But it is necessary that a reasonable proportion of it is also made available for (c). For otherwise, a number of industries which have come to depend critically on some categories of imported steel may be threatened with closure. The case for a minimum allocation to them is analogous to the general case for allowing some maintenance imports.

(3) Simultaneously, import duties should be raised sufficiently to mop up the difference between the landed cost of each imported category (using, for this purpose, the lowest price prevailing abroad) and the prevailing internal market price after making an allowance for normal trade margins. The objective should be to take away the stimulus for importing steel on account of price advantage, particularly for non-priority uses.

(4) The system of 'barter imports' of steel should be stopped forthwith, and the privileges now given to 'established importers' should also be withdrawn. All private traders should be placed on the same footing in all administrative arrangements concerning imports.

## CHAPTER VII: SUPPLY OF STEEL FOR THE SMALL SCALE SECTOR

In Chapter III, it was stated that special measures may be necessary to secure the availability of a "fair share" of the supply to the "small" man. In the last two chapters we have proposed the arrangements to be made regarding the supply of billets to re-rollers and pig iron to foundries (a large number of which are small units). In this chapter we shall indicate the general policy to be followed in regard to the supply of finished steel to small steel-using units of all kinds.

### Share of the Small Scale

We have tried to make an approximate estimate of the total steel "demands" of the "small-scale sector", and of the allocations and despatches of steel to this sector in recent years. For this purpose we have assumed that the sector comprises the following heads identified under the present classification of steel quotas: "agriculture", "small scale industries", "steel processing industries" (in the States), and "non-agricultural" recipients of State quotas. At the State level, "small-scale industry" units are defined as units with an investment of less than Rs. 5 lakhs and not more than Rs. 10 lakhs. We have assumed that the bulk of the State "non-agricultural" quota is intended for private civil construction. The off-take of "agriculture" and private civil construction is then included in that of the "small-scale sector", since most of the agricultural and civil construction demands are small-scale demands and any processing of steel required for meeting these demands (e.g. the fabrication of agricultural implements, minor irrigation equipment and building hardware) is usually done in small workshops. The share of the "small-scale sector", as defined here, in indigenous steel supplies is shown in Table 7.1:

*Table 7.1 : Demands of and Allotments and Despatches to the Small-Scale Sector, 1957-58, 1960-61 and 1961-62*

	1957-58	1960-61	1961-62
1. Total despatches of finished steel (000 tons) .. .. .	1051.6	1754.5	2693.1
2. Despatches to the small-scale sector (000 tons) .. .. .	225.0	257.0	504.3
3. Proportion of despatches to the small-scale sector to the total despatches (%) .. .. .	21.4	14.7	18.7
4. Demands <sup>(a)</sup> of the small-scale sector ('000 tons) .. .. .	1012.1	1805.5	—
		<i>(b)</i>	<i>(c)</i>
5. Allotments to the small-scale sector (000 tons) .. .. .	317.9	1475.7	—
6. Proportion of allotments to demand (%) .. .. .	31.4	81.7	—
7. Proportion of despatches to allotments (%) .. .. .	70.7	17.4	—

(a) "Demand" refers to requirements according to assessed capacity.

(b) Estimated. In this year, the State quotas for "Government schemes", "steel processing" and "non-agricultural" uses were pooled. The Government demands and allotments for this year have been estimated on the assumption that they increased in proportion to the increase in aggregate demands and allotments.

(c) Demands and allotments for 1961-62 are not available because of the relaxation of control on most categories.

It will be seen that though despatches to the small-scale sector have increased in recent years, and the proportion of allotments to demand has also risen enormously, the proportion of actual despatches to allotments has recorded a serious decline. Between 1957-58 and 1960-61, while the total despatches of finished steel increased by 68 per cent, and allotments to small units by 374 per cent, actual despatches to them increased only by 11 per cent. As a result, the share of small units in total despatches declined from 21 to 15 per cent. In 1961-62, despatches to the small-scale sector increased by almost 100 per cent over the previous year, but they still formed only 19 per cent of the total despatches, which was less than in 1957-58.

The "demands" of the sector are obviously inflated to some extent (for reasons we indicate later in this chapter). It is clear, however, that despatches to small units have formed a very small proportion of the total despatches. In fact, the relative share of direct despatches for small units has fallen with the recent increases in the domestic output of steel. As will be evident from Statement VII in the Appendix, the bulk of the additional availability of steel has gone to the public sector, private large-scale industries and stockists.

This fall in the share of direct despatches for the small-scale sector has been partly due to a larger flow of some categories of steel through stockists. With relaxation of control over several categories, and fall in market prices of some of them, small-scale consumers get a larger proportion of their requirements of these categories from local dealers. No data are, however, available of the off take of the sector from private stockists.

### Operation of the Control System

We have next to consider how far the present control system has helped the small consumers to get categories of steel in scarce supply. Our findings are that (i) within the small-scale sector, the larger enterprises manage to get a higher proportion of their assessed capacity covered by allocations than the smaller ones; (ii) the smaller enterprises are therefore compelled to buy a larger proportion of their requirements in the black market; (iii) the assessments of capacity made by the State Governments are unscientific and arbitrary and there is considerable inflation of demands, particularly for categories and sections which are very scarce and can be re-sold at a high premium; (iv) a large number of bogus quota-reselling 'small-enterprises' have come into existence; (v) the black market premia for the categories in demand in the small-scale sector range from 20 to 100 per cent (see Statement IX in the Appendix); (vi) the prices of finished products of small enterprises which depend on the black market for a larger proportion of their steel requirements are no higher than of the larger enterprises which get a higher proportion of their requirements covered by administrative allocations; and (vii) some State Governments have been shifting supplies meant for one sector to other sectors and thus negating to some extent the whole purpose of administrative allocation.

Some of these observations are confirmed by field surveys carried out by the International Perspective Planning Team on Small Industries. A few extracts from the Team's Report\* are given below :

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\**Development of Small-Scale Industries in India : Prospects, Problems and Policies*, July 1963

"Some States do not assess capacities but depend completely on demand levels from some prior year (usually 1958). Officials of other States make assessments but the criteria applied and skills of the inspectors vary so widely that there is no uniformity amongst States. Generally, assessed capacities (one shift) run below the capacity demands from enterprises".

"A number of large firms... were allocated 85 per cent of their one-shift requirements. In contrast, smaller competitors received allotments to cover only 33 per cent to 40 per cent of one-shift requirements."

In one of the less developed States, "26 per cent of all allocations went to non-operating or 'bogus' firms obviously for resale in the black market".

"The firms who find it necessary to buy in the open market generally sell their final products at prices below those of larger firms that receive larger allocations. For some products quality difference explains part of the differential. However, the price difference also leads one to suggest that prices charged by firms using allocated materials are probably already being pushed upward in terms of the black market cost of inputs".

Similar evidence, in regard to the distribution of supplies of iron and steel intended for agriculture, has been brought out in a study undertaken in 1961 in the Ministry of Food and Agriculture\*.

"Except in Mysore, no scientific or systematic method is followed in assessing the demand. No survey is made in the villages nor all the fabricators of agricultural implements consulted.....the requirements of iron and steel for agricultural purposes include a larger proportion of sheets which are in short-supply and fetch a higher price. Thus demand for sheets has registered an increase of 250 per cent during the last three years while for other categories there is no appreciable increase".

".....sheets which can be sold at a premium in the open market are all lifted by the permit-holders though it was difficult for the State Governments to assess whether in all cases these were actually used for agricultural purposes also".

"Even though iron sheets are in great demand, and the producers have not been able to make supplies in respect of indents, some as old as 4 years, supplies in the open market at Calcutta, Lucknow, Kanpur, Bangalore and Delhi are plentiful. The price demanded is 60 to 80 per cent above the controlled price. The main reason for this state of affairs is that permit-holders for sheets find it more profitable to sell them at a premium than use them for the purposes for which permits are issued to them".

"The stockists.....charge high prices for (scarce) categories, either by not issuing cash memos or by slightly turning the ends of the rods and angles and calling them manufactured goods on the price of which there is no control".

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\*Supplies of Iron and Steel for Agricultural Purposes<sup>1</sup>, by Mahtab Singh and A. B. La Under-Secretaries in the Ministry of Food and Agriculture, Government of India, September, 1961.

“.....large quantities are moved from State to State by operators in the open market for the purposes of obtaining higher prices from pockets of scarcity in the country”.

“In (one State) the number of fabricators of agricultural implements in the State is 25 according to the figures available in the Directorate of Agriculture but the Provincial Iron and Steel Controller who is not under the Agriculture Department issues supplies to around 500 supposed fabricators of agricultural implements”.

“Some State Governments divert supplies meant for agricultural quota, for other purposes, sometimes even without consulting the Agriculture Department. The result is that agricultural quota holders are starved of essential supplies”.

These facts provide ample evidence for the conclusion that the present system of steel allocation, although designed to favour small units, is in practice discriminating against them, both in respect of the proportion of their requirements obtained by them and the real prices paid by them.

#### **Assessment of the Proposed System**

It is against this background that the fears that have been expressed by some sections of the small-scale sector, about the consequences for this sector of the distribution system proposed by us in our Interim Report, should be examined. Apart from the probable effect of the system on the regional distribution of steel (which is dealt with in Chapter VIII), there are two major apprehensions: (i) that the prices of different categories of steel will shoot up if non-priority supplies are channelled through the free market without any price control after the first sale; and (ii) that a few large steel-using units or big traders will corner a major part of the marketed supplies and the share of the small units in the total supplies will diminish.

Concerning the price incidence of the proposed system, free market prices under this system are not likely to be higher than the black-market prices prevailing at present, unless the overall supply-demand position takes a turn for the worse. If anything, the prices of non-flat categories may register some decline. The setting up of a free market in non-priority steel will greatly weaken the incentive to hold supplies back until black-market transactions can be arranged. All buyers will also be able to bid for non-priority supplies on an equal footing. “Quota rents” now collected by those who manage to get some supplies at controlled prices will be eliminated.

As regards the fear of supplies being cornered, we may draw attention to the numerous safeguards provided against it in the proposed system.

When priority demands are rigorously defined and delimited, we expect that the total flow of steel (absolutely and relatively to total availability) into the market for meeting non-priority demands will substantially increase. Priority indentors will, of course, get their reasonable requirements irrespective of any other consideration, and smallness of size will not be an impediment to a unit obtaining steel as long as its products are used for priority purposes. Further, in the case of both priority and non-priority indents, disadvantages due to the mere smallness of individual orders can be reduced by organizing bulk purchases of steel through associations or co-operatives of steel-users.

The most important fact about the steel trade today is that the actual number of traders stocking and selling steel (excluding quota resellers) is at least twice the number of officially-recognised stockists (2200). There is nothing surprising in this, considering that during the last 15 years there has been a five-fold increase in steel consumption without any corresponding increase in the number of recognized traders. Steel control has, if anything, worked towards the maintenance of concentration and oligopoly in the steel trade. Far from increasing concentration, the legalization of the open market in non-priority steel is likely to intensify competition among steel traders.

Whenever and wherever, in spite of freer trading, an oligopolistic situation arises in specific markets, it is our recommendation that the flow of supplies through the Government stockyards into those markets should be increased.

Under the new distribution system, units which are small but efficient enough to operate at market prices will continue to compete successfully with large firms in many fields. "Bogus" firms set up merely to get and resell quotas will be weeded out. Additional investment in inefficient small units will be effectively discouraged, and there will be a healthy pressure on small firms to combine, improve and/or specialise.



## CHAPTER VIII : THE REGIONAL DISTRIBUTION OF STEEL

We have observed in Chapter III that one of the social objectives which unregulated market allocation may not fulfil is a "fair" regional distribution of the scarce categories of steel. We shall discuss here the arrangements that may be made for this purpose.

Numerous criteria for determining the "fairness" of regional distribution are conceivable. But the main general economic criterion can only be that the regional distribution of supplies conforms as closely as possible to the regional distribution of the demand for steel. It would not be rational to allocate supplies on the basis of general regional characteristics such as population or income levels. These are important only in so far as they are reflected in the regional distribution of the effective demand for steel. The effective demand for steel is more directly influenced by the capacity of steel-using industries and the volume of construction activity, and their rates of growth in the different States; it is these that have to be considered in assessing regional requirements.

It is of course possible that the spatial distribution of steel-using industries requires correction, but this is a matter to be taken into account in the formulation of development plans rather than in the choice of the steel distribution system. The function of the distribution system is to adjust supplies in such a way that regional differences in capacity utilisation are not unduly large when the total requirements of all regions are in excess of total availabilities. If, relative to the demand, supplies to certain regions are much less than to others, this unevenness will inevitably be reflected in higher market prices for steel in those regions. The extent of disparity between the first sale price of the main producers and the free market price of steel constitutes, therefore, the most important single criterion for judging whether or not a region is receiving its 'fair' share of supplies. It is on the basis of this indicator that arrangements should be made for adjusting regional supplies.

Under the system proposed by us in the earlier chapters, the requirements of priority indentors will be the first charge on available supplies; location should not influence in any way the processing of their indents. The regional problem is, therefore, limited to the distribution of non-priority supplies among the States.

The arrangements for this purpose should be governed by two considerations: in the first place, regions far away from the steel plants should not find themselves at an undue disadvantage on account of higher transport costs; secondly, the system should provide a safeguard against all non-priority supplies of a scarce category being absorbed by consumers in areas which are close to the main producers or which have traditionally had a large share of the total supplies.

The need to avoid any regional discrimination in respect of the first sale price of steel is met at present through freight equalization. We have already recommended in Chapter III that freight equalization might continue for all categories of steel (including billets and pig iron). For those who

place indents directly on the Joint Plant Committee, the price of steel of all categories will be the same irrespective of the State in which they are located. We have therefore to consider here only the question of quantities supplied to the different States.

### Present Position

The present arrangements affecting the State-wise distribution of supplies are as follows. In the case of relaxed categories of steel, there is no quantitative allocation on a regional basis. It is only in the case of unrelaxed categories, like sheets, that an attempt is made to relate a part of the allocation to regional considerations. This allocation is based on the States' demands under five main heads: viz. (i) "Agricultural", (ii) "Non-Agricultural", (iii) "Government Development Schemes", (iv) "Steel Processing Industries", and (v) "Small-scale Industries". The bulk allocations made under these heads to the States generally meet only a part of their demands. The proportion of the demand allotted to each State is in the final analysis the result of bargaining between the Ministry of Steel and sponsoring authorities like the Ministry of Agriculture and State Governments. Besides these allocations against State quotas, controlled stockists in the States also receive substantial quantities. The aggregate despatches against State quotas and to stockists indicate the initial distribution of steel supplies on a regional basis.

We have tried to assess with available data how effective the present arrangements pertaining to the State quotas of steel have been in avoiding undue regional discrimination. On the basis of the available information it is impossible to judge how far the "regional demands" (recorded in the context of scarcity, delay in deliveries, and control) represent "real" demands. All that can be done is to check whether the regional distribution of allocations has corresponded to the regional distribution of recorded demands; and, further, whether the pattern of actual despatches has corresponded to the regional allocations.

Statement IX in the Appendix shows the percentage shares of the different States and regions in demands, allotments and despatches against State quotas in the years 1957-58 and 1960-61. It will be observed that, by and large, (a) the pattern of distribution of demands, allotments and despatches, as between the principal regions, has been stable over time, and (b) the regional distributions in respect of allotments and despatches do not diverge greatly from the distribution of demands.\* Within this broad pattern, five States, viz., West Bengal, Maharashtra, Gujarat, Uttar Pradesh and Punjab have together claimed from 50 to 60 per cent of the total in demands, allotments as well as despatches.

Between 1957-58 and 1960-61, State Governments' demands increased from 1.35 million tons to 2.50 million tons, and total allocation against them from 0.41 million tons to 1.86 million tons; but despatches against State quotas increased only marginally from 0.26 million tons in 1957-58 to 0.30 million tons in 1960-61. In other words, while the total availabilities of indigenous steel rose from about 1 million to 1½ million tons in the period we have considered, there was hardly any increase in the steel despatches against State quotas. What in fact happened was that a large part of the additional steel was despatched to controlled stockists and indentors other than those covered by the State quotas.

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\*See also Statement X in the Appendix.

We have considered above only despatches of steel against State Government quotas. Despatches to stockists should be added to these in order to get the regional distribution of total supplies, excluding direct despatches against Central quotas.\* Table 8.1 gives the percentage shares of different States and regions in total supplies—that is, despatches against State quotas *plus* despatches to stockists. It will be seen that as indigenous supplies of steel increased, the share of the Eastern Region—especially West Bengal—increased substantially, largely at the expense of the share of States in the Central and Southern Regions. The distribution of total supplies has thus been influenced markedly by the pulls exerted by the different regional markets through trade channels. The role of the State quotas has apparently been one of redressing to some extent the unevenness in the regional distribution of stockists' supplies.

### Recommendations

In the context of free indenting for non-priority steel that we have recommended in Chapter III, restrictions aiming at securing a "fair" inter-regional distribution of the *total* supply of non-priority steel would be unworkable. What has to be ensured is that under the new system, every region gets, in the first instance, at least as much steel as it used to get when the control on all categories of steel was in force. The Joint Plant Committee should therefore be given a directive that the quantities planned in respect of any State against non-priority indents should not, in any given period, be less than certain specified minimum quantities. These minimum quantities should be equal to the despatches against State quotas in 1960-61, when all categories were "unrelaxed". Despatches of pig iron and billets to different States should be subject to the same rule.

Table :8.1—Regional Distribution of Steel Despatches : 1957-58 and 1960-61  
(Percentage Shares)

Region/State	1957-58			1961-61		
	Despatches against State quotas	Despatches to stockists	Total despatches	Despatches against State quotas	Despatches to Stockists	Total despatches
1	2	3	4	5	6	7
<b>I. Eastern Region</b>						
1. West Bengal ..	14.4	34.9	18.5	13.8	36.8	29.8
2. Assam .. ..	3.1	0.2	2.6	2.3	0.1	0.8
3. Manipur ..	0.1	—	0.1	0.5	—	0.2
4. Tripura ..	0.1	—	0.1	0.1	0.1	0.1
5. NEFA and Naga Hills .. ..	0.1	0.1	0.1	—	—	—
	17.8	35.2	21.4	16.7	37.0	30.9

\*The assumption here is that despatches against Central quotas are mainly against priority requirements in respect of which regional considerations do not arise.

Table 8.1 : Regional Distribution of Steel Despatches : 1957-58 and 1960-61

<b>II. North and North Western Region</b>						
1. Uttar Pradesh ..	15.0	12.0	14.4	17.5	6.6	9.9
2. Punjab .. ..	9.2	2.3	7.8	7.9	9.4	9.0
3. Delhi .. ..	3.5	2.2	3.2	3.1	8.9	7.1
4. Jammu & Kashmir	0.5	—	0.4	1.3	0.1	0.4
5. Himachal Pradesh	0.1	0.1	0.1	0.1	0.1	0.1
	28.3	16.6	25.9	29.9	25.1	26.5
<b>III. Western Region</b>						
1. Maharashtra						
2. Gujarat	18.0	14.3	17.3	20.9	19.3	19.8
3. Rajasthan ..	3.2	0.5	2.7	2.7	2.5	2.6
	21.2	14.8	20.0	23.6	21.8	22.4
<b>IV. Central Region</b>						
1. Bihar .. ..	3.7	11.8	5.3	4.6	3.0	3.5
2. Madhya Pradesh	8.7	4.9	7.9	6.5	—	2.3
3. Orissa .. ..	1.9	2.9	2.1	2.4	1.1	1.5
	14.3	19.6	15.3	13.5	4.1	7.3
<b>V. South Region</b>						
1. Madras .. ..	6.9	5.6	6.7	4.0	7.3	6.3
2. Kerala .. ..	1.0	0.6	1.3	2.7	0.8	1.4
3. Mysore .. ..	4.5	3.2	4.2	5.2	0.9	2.2
4. Andhra Pradesh	5.6	3.9	5.2	4.3	2.6	3.1
5. Pondichery ..	0.1	—	0.1	0.1	0.1	0.1
6. Andaman ..	—	—	—	—	—	—
	18.1	13.3	17.5	16.3	11.7	13.1

— Nil or Negligible.

We expect that the despatches to different States over and above these minima will be influenced by the difference between the first sale prices and actual market prices for different categories of steel in the various States. If, in respect of a particular State, the gap tends to be much larger than elsewhere, the planning of non-priority indents may be adjusted by the Joint Plant Committee so as to increase the despatches to that State. To the extent that difficulties in particular regions are attributable to relative shortage of stockholding capacity amongst steel traders, this should be remedied through the location of new Government stockyards in such regions.

These safeguards will prevent any sudden dislocation in supplies to the different regions consequent upon the introduction of the freer system of distribution suggested by us. At the same time, with free indenting and market pricing of non-priority steel, its overall distribution will tend to correspond more closely with the distribution of real demands.

## APPENDIX

*Statement I : Orders for Finished Steel Outstanding with the Main Producers*

	End of March			
	1960	1961	1962	1963
	(in million tons)			
Railway materials .. .. .	0.12	0.23	0.22	0.24
Structurals .. .. .	0.34	0.54	0.94	1.18
Bars and rods .. .. .	0.23	0.44	0.75	0.79
Plates .. .. .	0.12	0.27	0.51	0.78
Sheets (excluding galvanized sheets) .. .. .	0.19	0.25	0.41	0.42
Galvanized sheets .. .. .	0.17	0.30	0.54	0.63
Others .. .. .	0.01	0.02	0.01	0.14
<b>TOTAL .. .. .</b>	<b>1.18</b>	<b>2.06</b>	<b>3.37</b>	<b>4.18</b>

*Statement II : Works Costs and Overheads for Selected Categories of Steel allowed for TISCO by the Tariff Commission*

	1949		1953-55		(Rs. per ton) 1960-62	
	Works Costs	Over-heads	Works Costs	Over-heads	Works Costs	Over-heads
	Light bars .. .. .	138	88	192	127	336
Heavy bars .. .. .	138	83	210	127	326	188
Structurals .. .. .	143	83	204	127	367	188
Plates .. .. .	177	83	222	127	220	172
Sheets (black) .. .. .	151	98	220	172	456	252

*Statement III : Total Number of Stockists and their State-wise Distribution*

	'Controlled' Stockists (as at end of March, 1962)		'Resigstered' Stockists (as at end of August, 1961)	
	Number of Total	% of Total	Number of Total	% of Total
	Andhra Pradesh .. .. .	10	4.35	108
Assam .. .. .	5	2.17	48	2.48
Bengal .. .. .	73	31.74	393	20.32
Bihar .. .. .	7	3.04	61	3.15
Delhi .. .. .	13	5.65	41	2.12
Gujarat .. .. .	13	5.65	63	4.29
Himachal Pradesh .. .. .	1	0.44	11	0.57
Kerala .. .. .	4	1.74	24	1.24
Madhya Pradesh .. .. .	4	1.74	77	3.98
Maharashtra .. .. .	34	14.78	178	9.20
Madras .. .. .	17	7.39	112	5.79
Mysore .. .. .	3	1.30	190	9.83
Manipur .. .. .	1	0.44	8	0.16
Orissa .. .. .	6	2.61	62	3.21
Panjab .. .. .	11	4.78	191	9.88
Pondichery .. .. .	1	0.44	8	0.41
Rajasthan .. .. .	13	5.65	48	2.48
Tripura .. .. .	1	0.44	5	0.26
Uttar Pradesh .. .. .	13	5.65	291	15.05
<b>TOTAL .. .. .</b>	<b>230</b>	<b>100.00</b>	<b>1,935</b>	<b>100.00</b>

*Statement IV : Categories and Sections which can be rolled by Re-rollers*

Wire and wire products  $\frac{1}{4}$ " to  $\frac{3}{8}$ "  
 Thick flats ( $\frac{1}{2}$ " to 4" wide and  $\frac{1}{8}$ " to  $\frac{5}{8}$ "  
 Baling hoops and strips  
 Cold-rolled skelp for pipes and tubes  
 Light channels  
 Gate channels  
 Telegraphic channels  
 Window sections  
 Fish plates  
 Spring steel  
 Tool steel  
 Other special steels.

*Statement V : Production of Saleable Pig Iron (in thousand in metric tonnes)*

<i>Producer</i>					1960	1961	1962	1963 (January- June)
<i>Main plants</i>								
TISCO	..	..	..	..	0.55	20.87	31.11	6.69
IISCO	..	..	..	..	201.36	267.87	204.30	149.15
Mysore	..	..	..	..	11.21	9.93	—	—
Rourkela	..	..	..	..	391.60	393.44	334.39	176.07
Durgapur	..	..	..	..	184.49	99.37	60.25	55.95
<i>Others</i>								
Kalinga	..	..	..	..	18.64	30.26	28.47	11.75
ACME	..	..	..	..	—	—	—	3.52
<b>TOTAL</b>					<b>1,055.08</b>	<b>1,136.53</b>	<b>973.53</b>	<b>620.05</b>

Statement VI : Value of Imports of Finished Steel (Category-wise). 1960-61 to 1962-63 (Rs. Crores)

	1960-61					1961-62					1962-63				
	'Actual Users'	'Established Importers'	'Barter Importers'	Iron and Steel Controller	Total	'Actual Users'	'Established Importers'	'Barter Importers'	Iron and Steel Controller	Total	'Actual Users'	'Established Importers'	'Barter Importers'	Iron and Steel Controller	Total
Railway materials ..	8.5	—	—	3.2	11.7	10.8	—	—	—	10.8	14.8	—	—	—	14.8
Structurals ..	2.5	—	—	0.7	3.2	1.0	—	—	—	1.0	0.5	—	—	0.2	0.7
Bars and rods ..	8.5	—	0.1	0.1	8.7	9.5	—	—	0.3	9.8	6.9	—	—	—	6.9
Plates ..	5.3	—	1.0	1.0	7.3	6.3	—	0.1	0.5	6.9	4.5	—	0.4	0.7	5.6
Sheets (including galvanized sheets) ..	15.0	—	12.7	2.3	30.0	15.1	1.6	7.8	1.1	25.6	13.2	0.6	1.3	0.7	15.8
Tinplate ..	8.6	—	0.6	0.1	9.3	3.9	—	0.4	—	4.3	3.5	—	—	—	3.5
Others ..	20.4	0.3	4.3	1.3	26.3	21.5	0.7	2.1	0.5	24.8	19.8	1.1	1.5	0.3	22.7
<b>Total ..</b>	<b>68.8</b>	<b>0.3</b>	<b>18.7</b>	<b>8.7</b>	<b>96.5</b>	<b>68.1</b>	<b>2.3</b>	<b>10.4</b>	<b>2.5</b>	<b>83.2</b>	<b>63.2</b>	<b>1.7</b>	<b>3.2</b>	<b>1.9</b>	<b>70.0</b>

Statement VII : Despatches of finished Steel 1957-58 to 1962-63

(Re-classified from Administrative Classification\*)

(000 tons)

Year	Direct Despatches to Public sector					Direct Despatches to Private Sector							Des- patches through Trade	Grand Total
	Defence	Railways	Other Govt. Demands Central State	Total	Large- Scale Industry	Small-Scale Sector				Exports	Total			
						Agri- culture	Small Industry	Const- ruction	Total					
1957-58	5.9	296.4	162.3	37.2	501.8	258.1	67.6	55.2	102.2	225.0	1.7	48.48	64.9	1,051.6
1958-59	5.9	294.1	212.1	35.3	547.7	264.5	56.3	94.9	60.1	211.3	2.4	478.1	151.1	1,176.6
1959-60	7.1	232.2	241.6	56.9	537.8	302.4	46.8	83.5	123.0	253.3	1.6	557.2	376.8	1,471.8
1960-61	12.4	246.3	261.8	40.0	560.0	257.3	52.7	22.9	181.1	257.0	0.4	514.7	679.4	1,754.5
1961-62	15.2	429.5	357.5	36.9	839.2	317.1	58.0	58.8	387.5	504.3	1.4	822.8	1,031.2	2,693.1
1962-63	..	792.3	..	..	1,622.5	..	..	..	..	..	3.6	431.3	1,425.3	3,482.7

\*  
Other Government Demands (Central)  
Large Scale Industry  
Small Industry  
Construction  
Despatches through Stockists

Administrative classification  
=GDS (Central) + RR & HS + Reserve  
=SPI (Central) + IMP + PIDS  
=SPI (States) + SSI (States)  
=Non-Agricultural  
=Controlled Stockists + Unspecified Quotas + Surplus Stocks  
+ Special Sections + Relaxed Categories.

.. not available  
=nil or negligible,



Statement VIII : Open Market Prices of Selected Categories of Steel. April-August, 1963

(in Rs. per metric tonne)

Category of Steel	Controlled Price (Coloum 1') of Untested Variety F.O.R. Railhead	Open Market Prices.*			
		Bombay	Madras	Delhi	Calcutta
Rounds (3/4") .. .. .	626	660—670(6·23)	680—810(19·01)	620—620(—0·96)	600—640(—0·96)
Angles .. .. .	645	680—680(5·43)	750—750(16·28)	650—650(0·78)	650—650(0·78)
Joists .. .. .	645	680—680(5·43)		700—700(8·53)	670—680(4·65)
B.P. Sheets (10 G to 14 G) .. .. .	813	1100—1100(35·30)	1000—1400(47·60)	1050—1065(30·0)	980—1000(21·77)
G.C. Sheets (22 G to 26 G) .. .. .	925	2000—2200(127·02)	1900—2000(110·81)	1700—1900(94·59)	1700—1850(91·89)
G.P. Sheets (22 G to 26 G) .. .. .	932	1700—2000(98·50)	1700—1900(93·13)	1750—2000(101·18)	1550—1750(77·04)
Plates (3/8") .. .. .	742	..	980—1000(33·42)	850—850(14·56)	
Galvanized wire .. .. .	947	1300—1300(37·28)	1285—1310(36·96)	1300—1300(37·28)	1150—1150 (21·44)
H.B. Wire .. .. .	831		970—980(17·33)	1050—1050(26·35)	950—1000(17·33)
Stainless Steel Sheets .. .. .	—	17800—22600	18000—18100		

\*Premia percentages shown in brackets relate to the mean of the range of open market prices in each case.

Statement IX : Regional Pattern of State Demands, Allotments and Despatches, 1957-58 and 1960-61

(in percentage)

Region	1957-58			1960-61		
	Demands	Allotments	Despatches	Demands	Allotments	Despatches
<b>I. EASTERN REGION</b>						
1. West Bengal .. .. .	17.2	12.5	14.4	13.7	13.8	13.8
2. Assam .. .. .	3.2	3.0	3.1	4.1	3.4	2.3
3. Manipur .. .. .	0.2	0.3	0.1	0.2	0.2	0.5
4. Tripura .. .. .	0.2	0.1	0.1	0.4	0.3	0.1
5. NEFA and Naga Hills .. .. .	0.3	0.3	0.1	0.2	0.2	—
	21.1	16.3	17.8	18.6	17.9	16.7
<b>II. NORTH AND NORTH WEST REGION</b>						
1. Uttar Pradesh .. .. .	10.6	16.3	15.0	9.4	9.1	17.5
2. Punjab .. .. .	13.0	11.0	9.2	10.0	7.9	7.9
3. Delhi .. .. .	2.6	3.6	3.5	3.4	3.2	3.1
4. Jammu and Kashmir .. .. .	0.4	1.0	0.5	1.0	1.3	1.3
5. Himachal Pradesh .. .. .	0.2	0.4	0.1	0.3	0.2	0.1
	26.8	32.3	28.3	24.1	21.7	29.9
<b>III. WESTERN REGION</b>						
1. Gujarat and Maharashtra .. .. .	16.1	18.4	18.0	17.3	19.0	20.9
2. Rajasthan .. .. .	3.4	2.8	3.2	4.0	3.3	2.7
	19.5	21.2	21.2	21.3	22.3	23.6

**IV. CENTRAL REGION**

1. Bihar	..	..	..	..	4.5	4.4	3.7	5.2	5.7	4.6
2. Madhya Pradesh	..	..	..	..	7.3	8.6	8.7	7.9	7.6	6.5
3. Orissa	..	..	..	..	2.1	2.1	1.9	3.2	3.0	2.4
					13.9	15.1	14.3	16.3	16.3	13.5

**V. SOUTHERN REGION**

1. Madras	..	..	..	..	3.2	4.3	6.9	3.6	4.1	4.0
2. Kerala	..	..	..	..	3.2	2.3	1.0	4.4	5.3	2.7
3. Mysore	..	..	..	..	5.8	3.2	4.5	4.0	4.4	5.2
4. Andhra Pradesh	..	..	..	..	6.2	5.4	5.6	7.4	7.2	4.3
5. Pondicherry	..	..	..	..	0.1	0.2	0.1	0.2	0.2	0.1
6. Andaman	..	..	..	..	0.1	0.1	—	0.1	0.1	—
					18.6	15.5	18.1	19.7	21.3	16.3
<b>TOTAL</b>					100.0	100.0	100.0	100.0	100.0	100.0

*Statement X : Demands for Finished Steel and Allotments and Despatches to various States against States Quotas, 1957-58 and 1960-61*

(in thousand metric tonnes)

	1957-58			1960-61		
	Demands	Allotments*	Despatches*	Demands	Allotments)*	Desptche
Andamans .. .. .	0·6	0·4(66·3)	—(—)	1·6	1·6(99·3)	—(3·1)
Andhra Pradesh .. .. .	83·0	22·0( 26·5)	14·6( 66·4)	185·7	133·8 (72·0)	12·8 (9·5)
Assam .. .. .	42·9	9·8 (22·8)	8·1 (83·3)	101·8	64·1( 63·0)	6·8( 10·6)
Bihar .. .. .	60·4	17·8 (29·2)	9·8 (54·9)	130·5	105·1( 80·5)	13·7( 13·1)
Delhi .. .. .	35·4	14·7( 41·6)	9·1( 61·7)	85·0	61·2( 72·0)	9·1(14·9)
Gujarat And Maharashtra .. .. .	218·1	74·9( 34·3)	47·2( 63·0)	430·9	352·4( 81·8)	61·8(17·5)
Himachal Pradesh .. .. .	3·1	1·8( 56·2)	0·2( 9·4)	7·6	4·2 (56·0)	0·3( 6·6)
Jammu and Kashmir .. .. .	5·1	4·2( 81·6)	1·4( 33·8)	25·6	23·7 (92·8)	3·8(16·0)
Kerala .. .. .	42·8	9·6( 22·3)	3·8( 40·2)	110·0	98·7 (89·8)	7·9( 8·0)
Madhya Pradesh .. .. .	99·0	35·2(35·6)	22·7( 64·4)	198·1	141·5( 71·4)	19·4(13·8)
Madras .. .. .	42·6	17·6 (41·2)	18·2(103·2)	90·9	77·1( 84·8)	11·8(15·2)
Manipur .. .. .	3·2	1·0( 32·2)	0·2( 22·8)	4·2	3·9( 93·4)	1·5(38·2)
Mysore .. .. .	77·5	13·2( 17·0)	11·8( 89·2)	99·1	82·2( 83·0)	15·4(18·7)
Naga Hills .. .. .	0·7	0·7(100·0)	—(—)	2·7	2·7(100·0)	—(—)
NEFA .. .. .	2·0	0·6( 29·6)	0·1( 9·8)	1·0	1·0( 99·1)	—(—)
Orissa .. .. .	28·8	8·7( 30·1)	4·9( 57·0)	79·5	56·4( 70·9)	7·0(12·5)
Pondicherry .. .. .	1·2	0·7( 60·5)	0·2( 31·8)	4·7	2·9( 62·3)	0·4(13·5)
Punjab .. .. .	175·7	44·7(25·4)	24·0( 53·7)	249·4	147·2( 59·0)	23·7(16·1)
Rajasthan .. .. .	45·6	11·6( 25·4)	8·5 (73·7)	98·6	63·9( 66·9)	8·2(12·4)
Tripura .. .. .	2·2	0·5( 22·8)	0·2( 42·7)	9·1	5·6( 61·6)	0·3( 4·6)
Uttar Pradesh .. .. .	143·6	66·5( 46·2)	39·2( 59·0)	235·8	170·2( 72·2)	51·9(30·5)
West Bengal .. .. .	232·5	51·1( 22·0)	37·9( 74·1)	342·8	255·8( 74·6)	41·0(16·0)
<b>TOTAL .. .. .</b>	<b>1346·0</b>	<b>407·3( 30·3)</b>	<b>262·1( 64·4)</b>	<b>2494·0</b>	<b>1855·2( 74·5)</b>	<b>296·8(15·9)</b>

—Nil or negligible.

\*Figures in brackets under 'Allotments' are ratios of allotments to demands (in percentages), those under 'Despatches' are ratios of despatches to allotments (also in percentages).

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