REPORT

OF THE

Indian Tariff Board

REGARDING THE

GRANT OF ADDITIONAL PROTECTION

TO THE

COTTON TEXTILE INDUSTRY

CALCUTTA: GOVERNMENT OF INDIA
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COTTON TEXTILE

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Report regarding the grant of additional protection to the Cotton Textile Industry.

The enquiry into the grant of additional protection to the Cotton Textile industry was referred to the Tariff Board under the Resolution of the Government of India, Department of Commerce, No. 341-T(161), dated the 25th July, 1932, which runs as follows:—

Terms of reference.

"The Government of India have received an application from the Indian Cotton Textile Industry requesting that the Governor General in Council, in exercise of his powers under Section 3 (*5*) of the Indian Tariff Act, 1894, should increase the duty leviable on cotton piece-goods not of British manufacture under item 158 in Part VII of the Import Tariff on the ground that such articles are being imported into British India at a price likely to render ineffective the protection intended to be afforded by such duty to similar articles manufactured in India.

2. The Government of India have decided that an immediate enquiry should be made by the Tariff Board with the following terms of reference:—

To report whether cotton piece-goods not of British manufacture are being imported into British India at such a price as is likely to render ineffective the protection intended to be afforded by the duty imposed on such articles under Part VII of the Second Schedule of the Indian Tariff Act, 1894, by the Cotton Textile Industry (Protection) Act, 1930, to similar articles manufactured in India; and, if so, to consider—

(*a*) to what extent, if any, the duty on cotton piece-goods not of British manufacture should be increased and whether in respect of all cotton piece-goods not of British manufacture or in respect of cotton piece-goods, plain grey only or of cotton piece-goods, others, only;

(*b*) whether the duty should be increased generally, or in respect of such articles when imported from or manufactured in any country or countries specified; and

(*c*) for what period any additional protection found to be required should be given,

and to make recommendations.

3. Firms or persons interested who desire that their views should be considered by the Tariff Board, should address their representations to the Secretary to the Board, Old Custom House, Bombay.

4. The Government of India hope that it will be possible for the Tariff Board to submit its report at a very early date."

Scope of enquiry.

2. The representation of the Bombay Millowners' Association who are the principal applicants in the case is confined to the need for assistance arising from the depreciation of the Japanese exchange. The other associations and bodies representative of all parts of the country who have supported the application of the Bombay Millowners' Association also base their case on the same ground. But there are several other causes besides those relating to exchange movements which since the Cotton Textile Industry (Protection) Act was passed in 1930, have helped to depress the prices of imported cotton piece-goods. One of the most important is the world wide economic depression which commenced in the latter part of 1929 and has had the effect of curtailing to a large extent the purchasing power of the average consumer. The effect of a fall in prices which occurs in consequence of a general decline in the demand for commodities is not merely difficult to assess but requires other remedies than additional duties. In any case it is a matter which raises issues too important to consider in a summary enquiry. Another cause which has apparently contributed to the fall in prices is improvement in methods of manufacture which has taken place, especially in Japan, and the consequent reduction in costs. This again is a question which cannot be dealt with except in a fuller and more detailed enquiry. Moreover, it involves the consideration that a fall in the prices of imported goods due to reduction in costs must in a tariff enquiry be necessarily set off against similar economies which have been effected or may be regarded as reasonably possible in the costs of the Indian industry. The reduction in the costs of manufacture of the Indian industry is one of the subjects which is being examined in the regular enquiry now in progress and our conclusions must, therefore, await the results of that investigation. Severe competition between rival exporting countries in a period of acute trade depression and the consequent tendency in many cases to reduce prices to an uneconomic level have naturally contributed to the fall in prices. This aspect of the case too cannot be considered adequately except in connection with the general question of granting protection which is now under examination. For these reasons we propose to consider in this enquiry mainly that part of the fall in the prices of imported piece-goods which may be shown to have resulted from exchange depreciation. The only other factor which we shall take into account is the fall in the price of raw cotton since 1930. The reaction of cotton prices on those of piece-goods is direct and immediate and since it affects both the importer and the Indian manufacturer, the adjustment required on this account can be made easily and without prejudging any of the issues involved in the regular enquiry. An almost exact analogy is the case of spelter the price of which has a similar reaction on that of galvanised sheets and was taken into account in the summary enquiry concerning galvanised sheets in October, 1930.

No estimate of fair selling price in 1930.

3. An important limitation to which this enquiry is subject arises from the fact that the protective duties introduced by the Cotton Textile Industry (Protection) Act, 1930, were not based on a detailed Tariff Board enquiry. In previous enquiries held under Section 3 of the Tariff Act, the question whether the protec-

tion intended for an industry had been rendered ineffective by a fall in prices was in every case determined with reference to the fair selling price estimated for the industry by the Tariff Board. If the price including the protective duty fell short of the fair selling price estimated by the Board, a case for additional protection was held to arise. The essential factors in the enquiry were thus capable of being definitely ascertained. In the present case, since the protective duties were not based on a detailed Tariff Board enquiry, there is no standard such as is afforded by a fixed fair selling price, by reference to which the measure of additional protection may be determined. In the Cotton Textile Industry (Protection) Bill the measure of protection against goods imported from countries other than the United Kingdom was fixed at 20 per cent. *ad valorem* with a minimum specific duty of $3\frac{1}{2}$ annas a lb. on plain grey goods. We must assume that this measure of protection was suggested with reference to the prices of imported piece-goods then current; to the extent that fluctuations in these prices follow movements in the level of foreign exchanges and in the prices of raw cotton a comparison of the present level of foreign exchanges and the present price of raw cotton with those prevailing at the time of the introduction of the Protection Bill will enable us to form an estimate of the extent to which the protection which the industry now enjoys exceeds or falls short of the measure of protection intended by the Government of India and accepted by the Legislature. But we recognise that since our calculations are to some extent founded on assumptions, our conclusions must necessarily be somewhat conjectural and lack the exactitude attained in similar enquiries in the past.

Prices of March, 1930, taken as basis of enquiry.

4. The proposals embodied in the Cotton Textile Industry (Protection) Bill were announced in the Legislative Assembly by the Finance Member on the 28th of February, 1930, and the Bill was under consideration in the Assembly during the March session of that year. The prices of imported piece-goods on which the protective duties were based should, therefore, be taken as those which prevailed during March, 1930. The rates of exchange between India and the principal countries from which cotton piece-goods are imported into India in March, 1930, and at present are shown below:—

		Gold parity.	Average rate in March 1930.	Average rate in July 1932.
United Kingdom	per Rs. 100	£7—10—0 @ 1/6	£7—8—$5\frac{1}{4}$ @ 1/5 $\frac{13}{16}$	£7—10—3·5 @ 1/6$\frac{1}{32}$
Japan	per Rs. 100	Yen 73·2	Yen 73·2	Yen 94·3
	,, Yen 100	Rs. 136·6	Rs. 136·6	Rs. 106·0
United States of America.	,, Rs. 100	$ 36·5	$ 36·[illegible]	$ 26·6
	,, $ 100	Rs. 273·98	Rs. 277·5	Rs. 376·0
Netherlands	,, Rs. 100	Fls. 90·8	Fls. 90·0	Fls. 66·0
	,, Fls. 100	Rs. 110·1	Rs. 111·1	Rs. 151·5
Italy	,, Rs. 100	Lira 693·5	Lira 688	Lira 523
	,, Lira 100	Rs. 14·4	Rs. 14·5	Rs. 19·1

It will be seen that the only country whose currency has depreciated in relation to Indian currency as compared with the rates prevailing when protection was granted is Japan. The quantity of goods imported from countries other than the United Kingdom and Japan is so small that the rise in their exchanges will have no material effect such as will compensate the Indian industry for the fall in the prices of goods imported from Japan. It is therefore with the depreciation of Japanese currency and its effect on Indian prices of cotton piece-goods that we are primarily concerned in this enquiry. When we speak of the depreciation of Japanese currency, we assume as our standard of comparison an exchange ratio of 136·6 = 100. This ratio closely corresponds to the gold parity. We recognise that in fixing the relative values of two currencies, both of which are off the gold standard, it is not the gold parity but rather the purchasing power parity which, theoretically, should form the basis of comparison. We desire to make it clear that we have taken a rate of 136·6 as our standard of comparison not necessarily for the reason that it approximates to the gold parity but because it happens to be the ratio of exchange on which the prices intended for the Indian industry by the Government and the Legislature at the time of the grant of protection were based. We are solely concerned in this enquiry with the equalising of the measure of protection received by the Indian industry from present import prices with that based on the prices of March, 1930. For the same reason we are unable to accept the plea put forward by the Japanese Cotton Piece-goods and Yarn Importers' Association that the average rate of exchange from April, 1925 to June, 1929 should be taken as the standard of comparison in this enquiry.

Currency developments in Japan.

5. The history of currency developments in Japan during the period may be briefly summarised as follows. Japan reverted to the gold standard on the 11th of January, 1930. When protection was granted to the Indian textile industry, Japan therefore was on the gold standard. The decision to revert to the gold standard occurred almost simultaneously with the beginning of the present world wide economic depression and the immediate effect on Japanese industries both at home and abroad was to accentuate the difficulties caused by the general economic depression. The position became worse in the latter half of 1931, particularly after the 21st of September when it was announced that the Bank of England's obligation to sell gold at a fixed price was suspended. The abandonment of the gold standard by Great Britain was followed by similar action almost immediately in Denmark, Norway, Sweden, Egypt, the Irish Free State, India and other countries. Japan adhered to the gold standard at the expense of large withdrawals of gold amounting to about 131 million yen, between September 19th and October 31st. On the 11th of December, 1931, an embargo was placed on the export of gold from Japan and on the 17th of December it was announced that the Bank of Japan in future would not convert its notes into gold. On the 1st of July, 1932, a law for the control of exchange operations and another revising the law relating to the limit of issue of fiduciary currency were promulgated. The object of these measures is apparently two-fold, first, to prevent the flight of capital consequent on a depreciating exchange by prohibiting exchange operations except in respect of legitimate trade transactions and individual remittances in reasonable amounts, and secondly, to provide for an increase in the amount of fiduciary note issue by the Bank of Japan (from 120 million yen to a maximum of 1,000 million free of tax, subject, above this limit, to a fee of not less than 3 per cent.) with a view to alleviating the prevailing economic depression by raising the level of internal prices. It has been pointed out by the Japanese Cotton Piece-goods and Yarn Importers' Association that the increase of note issue "was projected with the sole intention to raise the commodity price to give relief to the acute depressed condition of the agricultural section of the country". Accepting this as a correct statement, we cannot still ignore the fact that an incidental result of increasing the note currency will be to offer a temporary stimulus to the competitive power of Japan's export industries in foreign markets.

Rupee-Yen exchange rates.

6. The rates of the rupee-yen exchange at successive stages during the period are shown below:—

Gold parity—136·6 rupees to 100 yen.

Average rate, March, 1930—Rs. 136·6 to 100 yen.

Average rate, September, 1930 to August, 1931—Rs. 137·41 to 100 yen.

Average rate, September 21st, 1931 to December 11th, 1931—Rs. 179·05 to 100 yen.

Highest rate—Rs. 206·25 to 100 yen on 8th and 9th December, 1931.

Average rate—

January, 1932—Rs. 144·46 to 100 yen.
February, 1932—Rs. 135·9 to 100 yen.
March, 1932—Rs. 121·78 to 100 yen.
April, 1932—Rs. 120·7 to 100 yen.
May, 1932—Rs. 119·6 to 100 yen.
June, 1932—Rs. 114·8 to 100 yen.
July, 1932—Rs. 106·5 to 100 yen.

Variations in prices of Japanese piece-goods.

7. The following statement shows the variation in the prices of typical classes of piece-goods imported from Japan from March, 1930 till May last. The prices shown are nett market prices, *i.e.*, excluding discount and duty.

Statement showing the variation of the nett market values of Japanese piece-goods.

Serial No.	Description.	Brand.	Dimension.	Port of importation.	Rate of duty up to 3rd April, 1930.	March, 1930.	Rate of duty from 4th April, 1930 to 28th February 1931.	July, 1930.	October, 1930.	Rate of duty from 1st March, 1931 to 29th September, 1931.	April, 1931.	September, 1931.	Present rate of duty *i.e.*, from 30th September, 1931.	November, 1931.	January 1932.	March, 1932.	May, 1932.
						As.		As.	As.		As.	As.		As.	As.	As.	As.
1	Grey shirtings	Lady	44″×38 yds.	Calcutta	15 per cent. *ad valorem.*	*Nil*	20 per cent. *ad valorem* (or 3½ annas per lb. on plain greys).	138·84	130·70	25 per cent. *ad valorem* (or 3½ annas per lb. on plain greys).	123·87	115·27	31¼ per cent. *ad valorem* (or 4⅜ annas per lb. on plain greys.)	122·38	117·16	122·38	116·41
2	Ditto	Bow and arrow.	44″×46 ,,	Bombay	Do.	160·21	Do.	166·80	*Nil*	Do.	136·42	122·31	Do.	124·26	134·32	132·89	125·44
3	Ditto	Peach	44″×46 ,,	Do.	Do.	128·55	Do.	148·63	*Nil*	1Do.	125·4	117·60	Do.	120·96	131·34	125·44	119·47
4	Ditto	44,000	44″×38 ,,	Do.	Do.	110·75	Do.	111·09	*Nil*	Do.	92·51	91·54	Do.	82·84	85·07	85·07	80·59
5	Ditto	9,898	38″×38 ,,	Do.	Do.	127·05	Do.	128·24	*Nil*	Do.	117·6	108·19	Do.	110·44	115·71	111·94	107·46
6	White shirtings	M. M.	34″×40 ,,	Calcutta	Do.	*Nil*	Do.	*Nil*	*Nil*	Do.	116·04	103·49	Do.	107·46	103·02	119·40	97·01
7	Ditto	800	33″×42 ,,	Bombay	Do.	191·28	Do.	171·50	*Nil*	Do.	150·53	135·99	Do.	134·32	135·82	146·26	138·84
8	Printed jeans.	All tickets	28″×30 ,,	Rangoon	Do.	93·05	Do.	71·87	82·67	Do.	73·62	62·72	Do.	63·43	62·68	64·18	59·70
9	Dyed shirtings	Do.	32″×40 ,,	Do.	Do.	153·60	Do	*Nil*	117·60	Do.	*Nil*	103·49	Do.	97·01	92·53	94·78	..

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Japanese competition in the Indian market.

8. It will be seen from this statement that except for relatively small increases in some cases in the months immediately following December, 1931, the higher duties on piece-goods which were introduced for revenue purposes in March and September, 1931 and the higher exchange value of the yen in the closing months of that year were met on the whole by a steady reduction in the nett rupee prices of Japanese piece-goods imported into India. An examination of this statement suggests the conclusion that the competitive power of Japan in the Indian market has been exerted in a sufficiently flexible manner to meet effectively the adverse influence of both higher duties and a higher exchange rate. But at the present time exchange has not merely ceased to be an adverse factor but is operating substantially to the advantage of Japan. The benefit of a low exchange is essentially of a temporary character and is confined to a period of depreciating rather than depreciated exchange. In other words, it is the lag between the fall in the external value of the currency and its internal value which constitutes the advantage of a low exchange to an exporting country. But that while it lasts, the advantage can be very great and may be used to the serious detriment of the home industry in the importing country cannot be denied. Of all forms of what is generally and somewhat loosely called "dumping" the most insidious in its effect on the home industry is sporadic "dumping". The "dumping" which arises from a rapidly depreciating exchange is precisely of this kind and threatens the home industry with the most serious menace. How erratic the course of trade may be when it is based on a depreciated exchange is shown by the figures in the next paragraph. In using the word "dumping" in this connection it is necessary to state that the term has no recognised scientific connotation and is used popularly in a variety of senses. It is employed here simply as denoting sales at exceptionally low prices as judged by the currency of the importing country. It is not intended to convey the idea commonly implied by "dumping" that the f.o.b. price in the exporting country is necessarily lower than the current internal price. In view of the fact that much stress has been laid by the Japanese Cotton Piece-goods and Yarn Importers' Association on the allegations regarding dumping, we may explain that in order to establish a case for additional protection under section 3 (5) of the Indian Tariff Act, it is not necessary to show that goods are being imported at prices lower than the cost of production or the current internal prices in the exporting country but only that the current prices of imported goods are lower than those on which the scheme of protection was based.

Imports in June, 1932.

9. The extent to which the precipitate fall in the value of the yen since February last has helped Japan's trade in cotton textile goods may be gauged by the increase which has occurred in her imports in June last which is the latest month for which figures are available. Although the All-India Trade Returns for June have not yet been published, the figures of imports from Japan into Bombay port during the month of June are now available. They show an enormous increase in volume and are, we believe, symptomatic of the movement of trade in all ports.

Imports into Bombay from Japan.

Description.	June, 1931.	May, 1932.	June, 1932.	Increase in June, 1932 over May, 1932.	Increase in June, 1932 over June, 1931.
	Lbs.	Lbs.	Lbs.	Per cent.	Per cent.
Grey cotton yarn . . .	6,937	280,000	536,800	91·71	7,637·80
Piece-goods—					
Plain Grey—	Yds.	Yds.	Yds.		
Drills and Jeans . . .	4,000	20,000	20,000	..	400·00
Longcloth and shirtings .	4,227,462	3,761,975	7,441,275	97·80	76·02
Sheetings	301,500	202,500	495,000	144·44	64·17
White (Bleached)—					
Drills and Jeans . . .	..	12,080	16,250	34·52	..
Jaconets, etc. . . .	..	24,000	96,000	300·00	..
Longcloth and shirtings .	548,834	1,424,330	2,413,745	69·46	339·80
Mulls	83,600	213,000	337,600	58·50	306·02
Nainsooks	88,100	398,800	293,600	..	233·28
Printed—					
Checks, spots and stripes .	..	53,190	150,810	183·53	..
Drills and Jeans . . .	431,750	1,507,130	3,249,290	115·59	652·50
Prints and chintz . .	257,298	507,063	540,044	6·50	109·89
Shirtings	1,508,859	997,595	2,551,727	155·78	69·11
Unspecified descriptions .	..	..	45,500	..	..
Dyed—					
Drills and Jeans . .	18,000	69,810	137,033	96·29	661·30
Shirtings	14,000	222,100	530,400	138·81	3,788·70
Twills	8,097	32,972	115,578	250·53	1,327·40
Woven lungis and sarangs .	..	..	20,588	..	..
Unspecified descriptions .	..	285,052	435,798	52·90	..
Woven Coloured—					
Checks, spots and stripes .	..	21,600	85,000	293·52	..
Coatings and trouserings .	2,670	16,080	31,426	95·44	1,077·00
Drills and Jeans . .	68,400	212,610	977,400	359·71	1,329·00
Shirtings	..	..	76,500	..	..
Twills	32,700	78,000	345,600	343·76	956·90
Velvet and velveteens . .	24,089	36,425	71,066	95·10	195·01
Total imports of cotton piece-goods from Japan.	11,983,341	15,173,896	28,197,453	85·83	135·30
Other countries . . .	11,394,283	13,418,791	12,432,493	..	9·11

N.B.—Since the report was drafted, we have received the All-India trade figures for the month of June, 1932. The total imports of cotton piece-goods from Japan in June, 1932, show an increase of 39 per cent over those in May, 1932, and 85 per cent over those in June, 1931. The corresponding percentages for other countries are 14 and 28 respectively.

Causes of increased imports.

10. These figures speak for themselves. In their representation to the Government of India, the Japan Cotton Spinners Association have referred to the following causes as accounting for the increase in Japanese imports:—

(*i*) the increase in general purchasing power in India brought about by sales of gold;

(*ii*) the general expectation in the months of February, March and April of a higher price of American cotton;

(*iii*) the suspension of shipments to China from Japan and to India from China.

They also consider that the relative cheapness of Japanese goods is due to the lower parity price of American cotton which registered a marked decline in June and to the fear of over supply in consequence of the resumption of working by Shanghai Mills. Coming from a responsible body such as the Japan Cotton Spinners Association, this representation deserves careful consideration. We have no doubt that the causes mentioned by the Association have contributed both to the increase in imports and to the fall in prices. But they cannot in our opinion account for such a phenomenal change in so short a time in the volume of imports and the level of prices. The sharp and continuous decline in the rupee value of the yen since February last must, we think, be regarded as the dominating factor in the present situation, although its operation as been helped by other causes of an entirely different kind. We re in agreement however with the Japan Cotton Spinners Associaion in considering that the effect of a depreciated exchange is a emporary factor in the fixation of prices and in determining the olume of imports. This is a matter to which we have already eferred and as will be found later on, we advert to it again in xplaining our proposals. It has been argued that in considering he increase in imports, it is necessary to examine the figures for longer period than a month. We realise that in the case of a ormal recovery of trade due to an increase in the general level of urchasing power and similar causes, an examination of the volume f imports based on a month's figures would be misleading. But here the recovery of trade is substantially assisted by an abnormal actor like currency depreciation, the probable course of trade in he immediate future must be judged by the variation, however ecent, which has occurred since that factor came definitely into peration. To adopt any other course would be to expose the ndian industry to a serious risk. Considering the fact that the June figures represent contracts made since February last, we are ustified in regarding them as an index of the effect of exchange lepreciation on the course of trade. According to the figures upplied by the Japanese Cotton Piece-goods and Yarn Importers' Association, we find that of the total business booked by three of he largest Japanese import houses in Bombay during February—June nearly 60 per cent. was booked at rates of exchange below 122. All the business contracted for above this rate was apparently ooked before the end of February. Taking about three months s the normal interval between contract and delivery, we may ssume that the June figures of imports represent almost entirely ontracts made at rates of exchange below 122.

11. We have received from the Calcutta Custom House and from leading importers detailed information regarding current prices of piece-goods imported from Japan as well as forward quotations for August-September shipments*.

Drop in forward quotations.

The difference between the two may be regarded as indicating fairly the extent to which the depreciation of the yen since June last has affected prices. The following is a summary of the average drop in nett market quotations (*i.e.*, deducting discount and duty) for August-September as compared with June as shown in the Calcutta Custom House returns:—

	Per cent.
Grey Dhooties	8·65
Grey Shirtings	7·48
White Shirtings	7·29
White mulls	8·02
White nainsook	4·80
White twill	4·90
Khaki twill	4·27
Printed jean	6·53
Black jean and satin drill	9·46
Printed shirting	13·50
Red shirting	10·40

Taking representative classes of goods, the average drop between spot and forward quotations for Japanese goods in the Calcutta market is 9·48 per cent. On the figures supplied to us by a leading firm of importers in Calcutta (Messrs. Shimwell Brothers) the average drop appears to be considerably higher.

	Per cent.
Grey Dhooties (Horse shoe)	11·40
White nainsooks	19·50 to 36·80
White mulls (4 brands)	15·80 to 25·40
White jaconets (K.K.K.K.)	18·80
Printed saris	24·57

Messrs. The Bombay Company, Calcutta, have forwarded prices for certain classes of white goods which show the following drop in nett forward quotations—

	Per cent.
White mull, 44″ × 20 yds.	18·80
White nainsooks, 28″ × 10 yds.	13·20
White nainsooks, 40″ × 18 yds.	13·05

Messrs. Steiners, Limited, Calcutta, who deal largely in printed goods have supplied us with figures for printed saris, shirtings, jeans and other kinds of printed goods which show a fall in nett forward quotations for Japanese imports ranging from 8·40 per cent. to 22·20 per cent. On the other hand all the forward quotations we have seen for piece-goods imported from the United Kingdom show an increase which ranges according to the class of goods from 1·39 per cent. to 37 per cent. The quantities of non-British imports other than Japanese are so inconsiderable that forward quotations have been difficult to obtain. But such quotations as we have seen show hardly any change.

* We refer only to Calcutta prices in this paragraph partly because Calcutta is the largest piece-goods market and partly because in the present conditions of the Bombay piece-goods market it is difficult to obtain sufficient information regarding recent prices of imported goods.

12. In the preceding paragraph the forward quotations for August-September have been compared with the quotations prevailing in June. It was in the early days of June that American cotton prices registered a sensational decline. Since then the trend of cotton prices has been generally upward. It may therefore be presumed that the fall in the prices of piece-goods which has occurred subsequently is due to other causes than the reaction of cotton prices. We think that there can be little doubt that the primary cause of the drop in prices as shown in the forward quotations given above is the fall in exchange. The average rate of the rupee-yen exchange during June last was approximately 115. Comparing this with the current rate, there is roughly a fall of 7 to 8 per cent. the whole of which is apparently reflected in the fall which has occurred in the nett prices of Japanese goods. In several cases the fall in prices is considerably greater. It has been suggested by the Bombay Millowners' Association that sufficient supplies of cotton had been purchased and remittances arranged by Japanese spinners for several months' requirements before Japan abandoned the gold standard and that this provides Japan with an additional advantage in her competition with the Indian industry. This suggestion has been contested by representatives of Japanese trading interests in India in their memorandum submitted to the Finance and Commerce Members on the 26th July 1932. They point out that out of 1,800,000 bales of American cotton actually purchased by spinners for the season up to the end of June, only 650,000 bales were purchased prior to the embargo on gold and that the usual practice as regards purchases of cotton is to purchase on a yen basis, cotton merchants covering themselves against exchange variations in the ordinary way. The Bombay Millowners' Association attribute to Japan a double advantage from the exchange factor—(*i*) on her purchases of cotton when the exchange was above gold parity and (*ii*) on her sales of goods while the exchange is below parity. Under normal conditions, when protection is granted against an exporting country with a depreciated exchange, it would be reasonable to set off against the benefit of a decline in exchange the increased cost of imported raw materials resulting from the same cause. The suggestion of the Bombay Millowners is that in the circumstances of this case, Japan not merely incurs no additional cost but gains on her purchases of raw cotton. The point is largely one of fact and while the figures themselves are in question, we feel we cannot hope in a summary enquiry to arrive at a definite conclusion. The figures given by the representatives of Japanese trade in India appear to show that only about a third of the total purchases of American cotton were made before December 11th. But the yen continued to be at or above parity till the latter part of February and it is reasonable to conclude that no additional expenditure on raw cotton as compared with the cost to the Indian industry was incurred by

Prices reflect exchange depreciation.

Japan on supplies purchased till February. On a very considerable portion of these purchases her cost has been lower in comparison with that of the Indian industry. During the period covered by our proposals, therefore, the low rupee value of the yen currency is likely to operate to the advantage of Japan in the Indian market without the usual adverse incidents of a low exchange and no deduction should therefore be made from the measure of additional protection necessitated by the fall in exchange. We do not think it necessary to make any allowance for the increase in the cost of power, labour and indigenous materials which may be expected to result from a higher level of prices in Japan. The adjustment of costs to a higher level of prices will be a gradual process and such increase as may occur during the period of our proposals will be covered by the relative advantage already secured on the purchases of cotton in the earlier part of the season.

Protection likely to be rendered ineffective.

13. We now proceed to consider the extent to which the fall in prices due to exchange depreciation is likely to render ineffective the protection intended for the industry and the additional assistance which it requires. The effect of a continued depreciation of exchange will be felt by the Cotton Textile industry in every part of India, although its results are probably more manifest in Bombay. When the Cotton Textile Industry (Protection) Bill was under consideration in the Legislative Assembly, it was stated by the Commerce Member that the Bill had a limited objective which referred especially " to the condition of things which exists in the Cotton mill industry in the Bombay Island ". We would therefore refer in reply to the question whether the recent fall in prices will render protection ineffective to the unsatisfactory financial position of the Bombay industry as a whole during 1930 and 1931 when prices were considerably higher than they are now. In 1929 the total loss on the year's working in 76 mills included in the Consolidated Balance Sheet prepared by the Millowners' Association was Rs. 229 lakhs making allowance for depreciation at incom tax rates. In 1930 the nett loss on the same basis for 71 mills wa Rs. 237 lakhs. Provisional figures supplied to us for 41 mills f 1931 show a nett loss of Rs. 53 lakhs. The position in 193 appears to show a marked improvement over the previous ye although the earnings were still insufficient to cover depreciatio It is evident that if the fall in import prices occasioned by exchang depreciation is allowed to continue, there will be a serious setba from such improvement as is shown by the figures of 1931. A indication of this is supplied by the fact that the number spindles idle in Bombay at the end of June showed an increase o 15 per cent. as compared with February last and that while the number of spindles working double shift was 17 per cent. and looms 20 per cent. of the total in February, the corresponding figures for June were 7·8 per cent. and 8·6 per cent. respectively. In recording our finding on this question, we desire to draw attention to the following observation by the Commerce Member during the debate on the Protection Bill of 1930:—

> " The immediate object (of the Bill) was the preservation of the industry or an important section of it and not its ultimate development. The latter point is reserved for consideration during the Tariff Board's enquiry which, if the provisions of this Bill are accepted by the House, would be held in the year 1932-33."

Our present finding is strictly confined to the object of protection as envisaged in the Act of 1930 and must not be regarded as involving any conclusions on our part regarding the general question of protection for the Indian Textile industry which is now under enquiry.

Measure of additional protection.

14. We have already pointed out that the rates of duty laid down in the Cotton Textile Industry (Protection) Act, 1930, were not based on any definite estimate of a fair selling price for the Indian industry and that the only method by which we can calculate how far the present measure of protection enjoyed by the industry falls short of that intended by the Government of India and the Legislature is by attempting to compute the combined effect of the fall in Japanese exchange and the fall in the price of raw cotton. In our calculation we assume the nett import price (*ex* duty) of piece-goods in March 1930, to have been 100. We take into account the protective duty on non-British goods at 20 per cent. and we leave out of our reckoning the surcharges introduced for purely revenue purposes. We put the fall in the price of raw cotton since March 1930 at 32 per cent. taking Broach in March 1930 at Rs. 250 and the current average rate for July-August delivery at Rs. 170. The proportion which the cost of raw cotton bears to the selling price of finished piece-goods has been taken approximately at 40* per cent. in the classes of goods similar to those made in Indian mills. We find the fall in the rupee-yen exchange since March 1930 to have been 22 per cent. taking the March 1930 rate at 136·6 and the current rate at 106.

	Nett price *ex* duty.	Duty.		Fair selling price.
Price of piecegoods in March 1930 . .	100	20	=	120
Corresponding price at current price of cotton: 100 *minus* $40 \times \frac{32}{100}$ . . =	87	17	=	104
Nett price at current yen exchange: 87 *minus* 22 per cent. . . . . . =	68	...		...
Duty required for fair selling price: 104 *minus* 68 . . . . . . =	...	36		...
Equivalent *ad valorem* rate of duty: $\frac{36}{68} \times 100$ . . . . . . =	...	53 per cent.		

On this calculation, as compared with the present rate of duty ($31\frac{1}{4}$ per cent.) the increase in duty necessary to meet the depreciation in the Japanese exchange after allowing for the fall in the price of cotton and to restore the protection intended in March 1930, is 21·75 per cent.†

* This figure is based on an examination of the average nett price of imported piece-goods from Japan and the average price of American cotton per lb. in October 1931.

† It may be of interest to point out that the recent tariff measure passed by the Japanese Diet on the advice of the Tariff Commission in Japan which came into force on the 16th June last provides for an increase of 35 per cent. in specific duties over the previous rates to compensate for the fall in exchange. In addition, there have been substantial increases in the duties on various imported articles including an increase of 260 per cent. on pig iron.

Disadvantage of additional duties as a method of assistance.

15. Before stating our proposals regarding additional duties, we desire to point out that an alteration of the rates of Customs duties does not appear to us to be the most suitable form in which assistance may be given to an industry against the temporary and variable handicap involved in a depreciated exchange. The general dislocation of the market entailed by a change in the rate of duty should, we think, be avoided unless it is clear that no other remedy is possible. Its consequences will be disproportionate to the duration of the evil and it is too inelastic to be adapted to the frequent variation to which exchange rates are liable. In the present case, since the question of granting substantive protection to the Indian industry is already under investigation and a reconsideration of the existing duties must in any case be undertaken before the end of the financial year, it appears to be particularly desirable that the additional assistance required should be provided, if possible, by other means than an alteration of the tariff rates.

Method of assistance other than by additional duties.

16. We would suggest, therefore, that Government should immediately examine the possibility of using their powers under section 3 (2) of the Tariff Act in the case of piece-goods imported from a country with a depreciated exchange, to raise the value of the goods for Customs purposes in such proportion as to secure the continuance of the protection intended for the Indian industry. We believe that as a means of meeting the present emergency such a method will be found to be more adaptable and less liable to cause general dislocation. It will also help to safeguard the interests of the consumers. Its actual working with reference to the Japanese exchange may be illustrated as follows:—

	Nett price.	Duty.	Fair selling price.
Price assumed in March 1930 . . .	100	20	120
Equivalent price at current price of cotton	87	17	104
(1) If rupee-yen exchange stands at about 105—nett price $(87 \times \frac{105}{136})$ . . =	67	...	...
Duty required to restore fair selling price—104 *minus* 67 . . . =	...	37	...
Estimated value required for a duty of 37 at $31\frac{1}{4}$ per cent.	118 = approximately $1\frac{3}{4}$ times landed cost (67).		
(2) If rupee-yen exchange stands at about 110—nett price $(87 \times \frac{110}{136})$ . . =	70	...	...
Duty required to restore fair selling price—104 *minus* 70 . . . =	...	34	...
Estimated value required for a duty of 34 at $31\frac{1}{4}$ per cent.	110 = approximately $1\frac{1}{2}$ times landed cost (70.)		
(3) If rupee-yen exchange stands at about 115—nett price $(87 \times \frac{115}{136})$ . . =	74	...	...
Duty required to restore fair selling price—104 *minus* 74 .. . . =	...	30	...
Estimated value required for a duty of 30 at $31\frac{1}{4}$ per cent.	96 = approximately $1\frac{1}{3}$ times landed cost (74).		

	Nett. price.	Duty.	Fair selling price.
(4) If rupee-yen exchange stands at about 120—nett price $(87 \times \frac{120}{136})$ . . =	77	...	...
Duty required to restore fair selling price—104 *minus* 77 . . . =	...	27	...
Estimated value required for a duty of 27 at $31\frac{1}{4}$ per cent.	86 = approximately $1\frac{1}{8}$ times landed cost (77).		
(5) If rupee-yen exchange stands at about 125—nett price $(87 \times \frac{125}{136})$ . . =	80	...	...
Duty required to restore fair selling price—104 *minus* 80 . . . =	...	24	...
Estimated value required for a duty of 24 at $31\frac{1}{4}$ per cent. . . .	77 = approximately equivalent to landed cost (80).		

On the results shown above, we suggest that the tariff values of piece-goods imported from Japan should for Customs purposes be estimated from time to time at the current landed cost multiplied by the figures shown in the following Table. We have provided in this Table only for two rates of valuation since frequent variations would be clearly undesirable. These rates are approximately the averages of the figures corresponding to different ratios of exchange:—

When exchange is not above 115	$1\frac{5}{8}$
When exchange is above 115 but not above 125 . .	$1\frac{3}{8}$
When exchange is above 125	1

It is necessary to provide that once a particular figure is adopted for estimating the value, it should not be altered for a period of at least three months and no new figure should be adopted unless the corresponding ratio of exchange has been in force for at least four weeks. The rates of exchange should be taken at Banks' Selling rates.

Additional duties proposed as an alternative method.

17. If this scheme is not accepted we propose that the necessary additional assistance should be provided by raising the *ad valorem* duty on cotton piece-goods from $31\frac{1}{4}$ per cent. to 50 per cent. The increased rate of duty should be in force till the 31st March 1933. In this connection it is necessary to draw attention to the Indo-Japanese Trade Convention by which India is required to grant most favoured nation treatment to imports from Japan. We believe that there is authority for the view that duties of this kind imposed for the purpose of safeguarding a national industry against the competition of goods imported at unreasonably low prices from another country do not infringe the most favoured nation clause. We recognise at the same time that the issue is controversial and that the Indo-Japanese Trade Convention may be regarded as a bar to the imposition of the additional duty on goods imported from Japan only. In this case we propose that the duty should be made applicable to all goods not of British manufacture. We have shown in paragraph 4 that Japan is the only country whose export trade to India has gained an advantage by the depreciation of its exchange in relation to Indian currency.

There is no logical reason for increasing the duties on imports from countries whose currency has actually risen in value as compared with the rupee. But we regard the phenomenal increase in the imports from Japan as such a serious menace to the Indian industry that an increase in the duties on Japanese goods is imperative, and consequently if the most favoured nation clause in the Trade Convention with Japan is held to bar any proposal to increase the duties on Japanese goods alone, we have no hesitation in recommending that the increase of duty be applied to all goods not of British manufacture. We consider that this proposal will not involve any very serious addition to the consumers' burden for the quantity of goods imported from countries other than the United Kingdom or Japan has in the last three years never reached 5 per cent. of the total imports, while the value of the goods imported from these countries in the last three years has varied between 7·3 and 6·8 per cent. of the total value of imported piece-goods.

Scope of additional duties.

18. Since the fall in prices is not confined either to plain grey goods or to other goods but affects all classes we consider that the additional duty should be levied on all cotton piece-goods. We have made no proposals regarding the specific duty on plain grey goods. Section 3 (5) of the Tariff Act restricts the power of the Governor General in Council to increase or reduce duties to the "higher duty" chargeable on articles not of British manufacture. The specific duty being the same in the case of British and non-British goods is therefore outside the scope of the section. We have also made no proposals regarding yarn, hosiery and other cotton manufactures nor regarding artificial silk goods. The duties on these articles are not included in Part VII of Tariff Schedule II to which section 3 (5) of the Tariff Act is confined.

J. MATTHAI,
President.

FAZAL IBRAHIM RAHIMTOOLA,
Member.

G. T. BOAG,
Member.

BOMBAY;

The 2nd August, 1932.

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