E. C. No. 309

ESTIMATES COMMITTEE 1964-65

SIXTY-FOURTH REPORT

(THIRD LOK SABHA)

MINISTRY OF COMMERCE

Action taken by Government on the recommendations contained in the 165th Report of the Estimates Committee (Second Lok Sabha) on the erstwhile Ministry of Commerce and Industry—Office of the Textile Commissioner—Part IV—Art Silk Industry.

LOK SABHA SECRETARIAT
NEW DELHI

June, 1964
Jyaistha, 1886 (Saka)

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INTRODUCTION

I, the Chairman of the Estimates Committee, having been authorised by the Committee, present this Sixty-fourth Report of the Estimates Committee on action taken by Government on the recommendations contained in the Hundred and Sixty-fifth Report of the Estimates Committee (Second Lok Sabha) on the erstwhile Ministry of Commerce and Industry—Office of the Textile Commissioner—Part IV—Art Silk Industry.

2. The Hundred and Sixty-fifth Report of the Estimates Committee was presented to the Lok Sabha on the 28th March, 1962. Government furnished replies indicating action taken on all the recommendations on the 17th December, 1962. Clarification was sought in respect of Government's replies to two recommendations on the 9th January, 1963 and was received on the 3rd April, 1963. Government's replies to all the recommendations were considered by the Study Group 'D' of the Estimates Committee on the 30th August, 1963 who desired that further information in respect of four recommendations might be called for. Further replies in respect of the four recommendations were received between the 14th October and 13th December, 1963 and were considered by the Study Group 'D' on the 21st December, 1963. The draft Report on action taken by Government on the recommendations contained in the Hundred and Sixty-fifth Report was considered by the Study Group 'D' on the 28th April, 1964 and adopted by the Committee on the 4th June, 1964.

3. The Report has been divided into the following Chapters:—

I. Report.

II. Recommendations that have been accepted by Government.

III. Recommendations which the Committee do not want to pursue in view of the Government's reply.

IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.

4. An analysis of the action taken by Government on the recommendations contained in the Hundred and Sixty-fifth Report (Second Lok Sabha) of the Estimates Committee is given in Appendix II. It would be observed therefrom that out of 20 recommendations made in the Report, 14 recommendations i.e. 70 per cent have been accepted by Government and the Committee do not desire to pursue 1½ recommendations *i.e.* 7·5 per cent in view of the Government's reply. Of the rest, replies of Government in respect of 4½ recommendations *i.e.* 22·5 per cent have not been accepted by the Committee.

NEW DELHI-1,
June 9, 1964
Jyaistha 19, 1886 (*Saka*)

ARUN CHANDRA GUHA,
Chairman,
Estimates Committee.

CHAPTER I

REPORT

The Committee in paragraph 14 of their 165th Report (Second Lok Sabha) on the Office of the Textile Commissioner—Part IV (Art Silk Industry) observed that there was no regular machinery available with the Textile Commissioner to verify that art silk yarn was in fact sold at the prices fixed. The Committee felt that the control over the distribution and price of the indigenous art silk yarn being lax had not achieved the objectives with which it was set up and that was borne out by the high prices for art silk yarn prevailing in the market. They suggested that the Textile Commissioner might make surprise token purchases in open market in order to check if excessive prices were being charged and follow up cases so detected and established with all possible corrective measures.

In reply, Government have stated that the present system of distribution of indigenous art silk yarn at fixed prices is being done on the basis of voluntary agreement with the industry. There is no statutory backing for this distribution scheme. On account of general shortage of art silk yarn, the open market prices are no doubt high. Many consumers are perhaps taking advantage of such high prices by selling away their quotas instead of consuming themselves. Some also sell yarn of particular quality and buy yarn of another quality required by them. An effective check on such transactions is difficult as a very large number of small consumers are involved. Quotations in the open market prices of art silk yarn are available in leading newspapers and also from the Bombay Yarn Merchants' Association and Exchange Ltd. As such, token purchases by the Textile Commissioner do not appear to be necessary.

The Committee note that the prices of acetate yarn were fixed by the Textile Commissioner as per the recommendations of the Tariff Commission which had enquired into the matter in 1959. As regards the prices of viscose yarn, these had been fixed by the indigenous manufacturers on the basis of those prevailing in the first quarter of 1957 and later enhanced to the extent of increase in excise duty from time to time. In the case of acetate yarn there is clearly a duty imposed on the Textile Commissioner that prices fixed are enforced. As for the viscose yarn, the Committee have no doubt that the representative organisations of the manufacturers, who have fixed the prices, would not hesitate to extend full cooperation to Government to enforce the prices. The Committee, therefore, recommend that suitable action should be taken by Government to see that prices fixed for art silk yarn are enforced in practice.

2. In para 15 of the Report, the Committee observed that measures should be taken to bring to book those allottees who preferred to sell away their yarn for profit and deterrent action, including cancellation of yarn quota, taken against them.

In reply, Government stated that "whenever the cases of allottees selling away yarn come to the notice of the Textile Commissioner, necessary action, including the cancellation of their yarn quota, is being undertaken."

On being asked to state the number of cases detected during the last two years in which the allottees of art silk yarn were found selling it in the market at high premium and the action taken against such defaulters, the Committee have been informed that "no cases were detected during the last two years in which the allottees of art silk yarn were found selling it in the market at high premium" and that "no action was, therefore, to be taken."

The Committee are surprised that despite the admission by Government that many consumers are taking advantage of high prices of art silk yarn by selling away their quota instead of consuming it themselves, they have not been able to detect or take action in even a single case. This should not be too difficult as the Committee note that Government have taken some action against actual users for the misuse of imported art silk yarn. The Committee, therefore, reiterate their recommendation that steps should be taken to bring to book cases where art silk is sold away by allottees for profit.

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*Please see reply of Government to recommendation at Serial No. 8 included in Chapter II.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (S. No. 1, paragraph 5)

The Committee are glad to note that attempts are being made to attain self-sufficiency in rayon grade pulp which would result in saving of foreign exchange of substantial amount. Efforts may be made to increase the collection of cotton linters from indigenous sources so as to keep the imports to the minimum.

Reply of Government

In regard to the efforts to be made for increased collection of cotton linters from indigenous sources, the present installed capacity for production of linters is only about 5000 tons per annum and actual production is about 3000 tons per annum, as against the country's requirements, on the basis of licences already issued, of over 20,000 tons per unnum.

[*Ministry of Commerce and Industry O.M. No.* 17(2)-*Tex*(*B*) *dated* 17*th Dec.* 1962].

(Further information called for by the Committee)

Please state what specific measures are being taken to increase collection of cotton linters within the country.

[*Lok Sabha Secretariat O.M. No.* 5/3(1)/62-*EC, dated* 9*th January,* 1963].

Reply of Government

Production of cotton linters is related to the crushing of cotton seed for oil production. The current low production of linters as compared to the installed capacity is due to the unremunerative nature of cotton seed crushing industry and the low price of linters in the country. The following incentives have been offered for the rapid development of this industry:—

(a) Import of machinery not manufactured in the country;

(b) grant of export incentives for export of decorticated cotton seed cake;

(c) rebate of excise duty on cotton seed oil used in the manufacture of vanaspati;

(d) facilities to develop the compounded animal feed using cotton seed cake in order to diversify the cotton seed oil milling operations.

Additional capacity has been licensed for cotton seed crushing. If this capacity goes into production, it is estimated that the linter production will be of the order of 35,000 tonnes per annum.

[*Ministry of C. & I. O.M. No.* 24(19)-*Tex.*(*D*)/62, *dated* 3*rd April*, 1963].

Recommendation (S. No. 3, paragraph 10)

The Committee hope that Government would plug all loopholes in the existing arrangements in order to eliminate malpractices in the marking of quality of art silk yarn. If need be, the sale and distribution of reject quality yarn which could more appropriately be termed as Fifth Quality Yarn, may also be brought under the Distribution Scheme.

REPLY OF GOVERNMENT

With the adoption of the draft I.S.I. standards there appears to be no loop-hole now in the grading and marking of quality of indigenous art silk yarns. The reject quality of yarn has already been brought under the distribution scheme with effect from July, 1961.

[*Ministry of Commerce and Industry O.M. No.* 17(2)-*Tex*(*B*)/62, *dated* 17*th Dec.* 1962].

Recommendation (S. No. 4, paragraph 12)

The Committee feel that in the allocation of indigenous art silk yarn the interests of small consumers should receive the special attention of the Textile Commissioner.

REPLY OF GOVERNMENT

The main difficulty which the small consumers were facing was that they were getting yarn from the manufacturers in different qualities and deniers against their entitlements and therefore, they could not process such small lots. In order to help such small consumers, the Textile Commissioner has decided that with effect from July, 1961, all allottees of indigenous yarn, whose allocation is less than six cases each (93 kgs per case), be allocated only one quality and one denier of yarn by the manufacturer.

[*Miny. of C. & I. O.M. No.* 17(2)-*Tex.B*/62 *dated* 17*th December*, 1962].

Recommendation (S. No. 7, paragraph 16)

The Committee suggest that the question of cost of production, price, profit margin of art silk yarn and staple fibre yarn may be referred to the Tariff Commission for detailed examination and report.

REPLY OF GOVERNMENT

The Textile Commissioner has already undertaken costing of the rayon spinning units through his Cost Accounts Officers. After studying these cost reports the need for referring the question to the Tariff Commission will be considered.

[*Miny. of C. & I. O.M. No.* 17(2)-*Tex.B*/62 *dated* 17*th December*, 1962].

(FURTHER INFORMATION CALLED FOR BY THE COMMITTEE)

Please state whether a decision regarding the question of referring the cost of production, prices and the profit margin of the art silk industry, to the Tariff Commission has been taken.

[L.S.S. O.M. No. 5/3(1)/62-*EC, dated 9th September,* 1963].

REPLY OF GOVERNMENT

The question of cost of production, fair selling prices and the profit margin of art silk yarn manufacturing industry has been referred to the Tariff Commission.

[Ministry of International Trade O.M. No. 24(19)*Tex(D)*/62 *dated 10th/14th October,* 1963].

Recommendation (S. No. 8, paragraph 17)

The Committee cannot but regret the undue laxity shown in not having imposed on the allottees of art silk yarn the penalty of disentitlement for sale of yarn. They feel that the imposition of penalty in a few cases of proved irregularity would have gone a long way in discouraging and even in putting an end to sale of imported yarn at high price. They recommend that Textile Commissioner should take steps to see that yarn imported by the manufacturers or actual users is not irregularly passed on for profit. Government may devise steps to ensure that the imported yarn is used by the manufacturers, handloom owners, and actual users, and does not find its way into the "free market" which results in the spiralling up of the price.

REPLY OF GOVERNMENT

During the current April 1962-March 1963 Licensing period, it has been decided by the Government not to issue any import licences in view of the increase in production of indigenous rayon yarn as well as the present difficult foreign exchange position. Licences for import of artsilk yarn are at present issued only to established importers who are required to supply the yarn thus imported by them to the handloom industry only. The distribution of yarn imported by established importers is entitled through the State handloom authorities. So far as artsilk powerloom weaving units and ancillary industries like manufacturers of hosiery, etc., are concerned they are only allowed import of artsilk yarn against exports effected by them, as per the export incentive Schemes for artsilk fabrics, hosiery and other non-fabric textile items.

Prior to April 1962, import licences to all the categories of actual users were being issued. As already indicated earlier in reply to Sr. No. 6 para 15*, there is a very large number of units spread over the country who used to get import quotas of artsilk yarn. It is not always possible to detect sales of yarn thus imported by these units in free market. Whenever any cases are detected and sufficient proof or evidence is available, action under the Import Control Act is taken by the J.C.C.I. & E. Bombay and suitable penalties permissible under the Act are levied.

[Miny. of C. & I. O.M. No. 17(2)-*Tex.B*/62 *dated 17th December,* 1962].

*Please see page 14 of the Report.

(FURTHER INFORMATION CALLED FOR BY THE COMMITTEE)

Please indicate the action taken during the last two years under the import control Act against manufacturers or actual users who irregularly passed on imported yarn for profit.

[L.S.S. O.M. No. 5/3(1)/62-EC, dated 9th September, 1963].

REPLY OF GOVERNMENT

The information is being collected and will be supplied as soon as possible.

[Ministry of International Trade O.M. No. 24(19)Tex(D)/62 dated 10th/14th October, 1963].

Statement showing the action taken during October 1961 to September 1963 under Import Control Order, 1955 for misuse of imported artsilk yarn by the actual users is enclosed.*

[Ministry of International Trade O.M. No. 24(19)Tex(D)/62 dated 13th December, 1963].

Recommendation (S. No. 9, paragraph 18)

The Committee consider that the progress in the regularisation of the powerlooms has been slow and should be speeded up.

REPLY OF GOVERNMENT

Necessary action has already been taken and wherever the necessary documents and certificates were furnished, powerlooms have been regularised.

[Miny. of C. & I. O.M. No. 17(2)-Tex.B/62 dated 17th December, 1962].

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*"The statement has not been reproduced in the Report. The statement furnished by Government indicates that during the period October, 1961 to September, 1963 the number of firms which were blacklisted under the Import Control Order, 1955 for misuse of imported Art silk yarn is as follows:—

(i) 4 firms were blacklisted for 1 licensing period.

(ii) 1 firm was blacklisted for 50 per cent of entitlement for 2 licensing periods.

(iii) 2 firms were blacklisted for 2 licensing periods.

(iv) 2 firms were blacklisted for 3 licensing periods.

(v) 6 firms were blacklisted for 4 licensing periods.

(vi) 2 firms have been placed under suspension and sanction for launching prosecution against one of them has been accorded by Government.'

Recommendation (S. No. 12, paragraph 21)

The Committee suggest that vigorous efforts should be made to develop manufacture within the country of up-to-date machinery for art silk and man-made fibre industry so that as large a proportion of the industry's requirements as possible, is met by indigenous manufacture.

REPLY OF GOVERNMENT

The development of textile industry including art silk machinery manufactured in the country is receiving necessary attention by Government. The requirements of the art silk industry are weaving preparatory looms and processing machinery.

As far as the processing machinery is concerned, the cotton textile processing machinery manufacturers are in a position to manufacture the same for the art silk industry also. In fact, they are manufacturing art silk processing machinery.

Regarding weaving preparatory looms, separate capacity has been created exclusively for the art silk industry.

[*Miny. of C. & I. O.M. No.* 17(2)-*TexB*/62, *dated* 17*th December*, 1962].

Recommendation (S. No. 14, paragraph 23)

The Committee see no reason as to why the Silk and Art Silk Mills Research Association which receives substantial grants from Government has not yet undertaken any research in the field of art silk. They hope that the Research Institute and the Industry, realising the importance of research in a period of rapid advances in technique would come forward enthusiastically to devote time and money for research in art silk yarn and fabrics.

REPLY OF GOVERNMENT

The Silk & Art Silk Mills Research Association has been undertaking research in the field of art silk industry. Apart from testing various textile materials for their properties and uses, the Association has undertaken study in the field of commercial feasibility of lac dye, preparation and application of synthetic resins on viscose rayon yarn, selection of suitable tinting colours for all types of man-made fibres specially for blended yarns or with mixture of different yarns that are used in fabrics, effect of twist on continuous filament rayon yarn, etc. Apart from the above, the Association has on hand programme of research work in regard to the following:

(1) Grading of viscose filament rayon yarn;

(2) Preparation and application of printing pastes through indigenous gums;

(3) Study of comparative efficiency of indigenously available caticnic softners and their application on man-made fibres;

(4) Effect of twist on continuous filament rayon yarn;

(5) Slippage of yarn in cloth.

The following items are proposed to be undertaken in due course:

(1) Investigation of tensile strength and abrasion resistance of rayon fabrics of indigenous origin;

(2) Effect of fibric stiffness of flex and edge abrasion of fabrics;

(3) Study of factors affecting the shrinkage of rayon fabrics during mechanical and chemical process;

(4) Water proofing of nylon or terylene cloth to be used as light material for umbrella cloth;

(5) Effect of yarn and fabric properties on lustre;

(6) Critical study of thermal comforts and other related properties of man-made fibre fabrics produced in India with particular reference to Indian climatic conditions.

[*Miny. of C. & I. O.M. No.* 17 (2) -*Tex.B*/62 *dated* 17*th December* 1962].

Recommendation (S. No. 15, paragraph 24)

"The Committee note that the criteria for working out entitlement has undergone frequent changes and had given rise to malpractices like over-invoicing and under-invoicing as the case may be which led to the depletion of very large amount of foreign exchange which the country could ill afford. It appears to the Committee that either there is no effective machinery to watch the working of the incentive scheme or if there is one, it has failed in its duty completely. They are of the opinion that a detailed investigation into the circumstances under which the scheme was so manipulated by the exporters and manufacturer-exporters as to result in heavy depletion of foreign exchange may be conducted. Constant watch on the working of the present scheme should also be kept to ensure that there is no abuse of the scheme as was the case with the previous ones.

REPLY OF GOVERNMENT

This problem has already received the Government's due attention. A constant watch is being kept on the working of the export promotion scheme which has been revised from 1st October, 1961. Necessary modifications in this scheme from time to time in the light of the experience gained are being made in the scheme particularly with regard to the fixation of international prices of art silk yarn.

[*Miny. of C. & I. O.M. No.* 17 (2) -*Tex.B*/62 *dated* 17*th December*, 1962].

(FURTHER INFORMATION CALLED FOR BY THE COMMITTEE)

Please state what action has been specifically taken on the following recommendations of the Estimates Committee:

The Committee note that the criteria for working out entitlement has undergone frequent changes and had given rise to malpractices like over-invoicing and under-in-

voicing as the case may be which led to the depletion of very large amount of foreign exchange which the country could ill afford.

They are of the opinion that a detailed investigation into the circumstances under which the scheme was so manipulated by the exporters and manufacturer-exporters as to result in heavy depletion of foreign exchange may be conducted."

[*L.S.S. O.M. No.* 5/3(1)62-*EC, dated* 9*th January,* 1963].

REPLY OF GOVERNMENT

The Reserve Bank of India has already conducted, at the instance of this Ministry, a review of the working of the Export Promotion Scheme since its inception. The malpractices of over-invoicing were due to the absence in the initial stages of the scheme, of any pre-shipment inspection of the goods to be exported or valuation of export shipments for determining the import entitlements. The original scheme was therefore discontinued in March 1959 and a substantially revised scheme introduced in July, 1959, which sought to control the abuses of the earlier scheme by setting up a preshipment inspection organisation to ensure minimum quality standards, by a new system of valuation of export shipments for determining import entitlements by limiting the maximum entitlements.

Ministry of C. & I. O.M. No. 24(19)*Tex.* (*D*)/62, *dated* 3*rd April,* 1963].

(FURTHER INFORMATION CALLED FOR BY THE COMMITTEE)

Please supply a copy of the review conducted by the Reserve Bank of India of the Export Promotion Scheme for art silk since its inception together with the action taken thereon.

[*L.S.S. O.M. No.* 5/3(1)/62-*EC, dated* 9*th September,* 1963].

REPLY OF GOVERNMENT

The information is being collected and will be supplied as soon as possible.

[*Ministry of International Trade O.M. No.* 24(19)*Tex*(*D*)/62, *dated* 10*th*/14*th October,* 1963].

A copy of the review is enclosed. (Please see Appendix I).

The recommendations made in the above review were:

(1) The industry should be modernised speedily by introducing automatic equipment both for replacement and expansion.

(2) Indigenous fabricating capacity in respect of spinning machinery may be increased.

(3) Encouragement should be given to modernised units to concentrate on production for exports by giving them appropriate financial inducements which would enable them to balance the losses in export sales.

The above recommendations have been accepted by the Government and the Textile Commissioner has been advised to devote more attention to the development of Art Silk weaving machinery. He has also been advised that within the overall import entitlement of 70% which is at present available for the import of Art Silk yarn and machinery, the latter being 10% at present, individual parties may approach the Textile Commissioner for importing as much of this in the form of machinery as they may require for modernisation of their units.

[*Ministry of International Trade O.M. No.* 24(19)-*Tex*(*D*)/62, *dated* 13-12-1963].

Recommendation (S. No. 16, paragraph 25)

The Committee suggest that Government may lay down a time limit within which the art silk fabrics offered for inspection would be inspected and the certificates issued.

Recommendation (S. No. 17, paragraph 26)

The Committee would like the Government to reduce the time lag between inspection and issue of entitlement certificates.

[S. No. 16 & 17] REPLY OF GOVERNMENT

The question of delay in the inspection and issue of entitlement certificates has received the Government's due attention. It is now proposed to entrust this work to the Cotton Textiles Fund Committee who would be in a position to have flexibility in the employment of necessary staff for inspection and issue of certificates with a view to expeditious disposal within reasonable time limits.

[*Ministry of Commerce and Industry O.M. No.* 17(2)-*Tex*(*B*)/62, *dated* 17*th Dec.* 1962].

Recommendation [S. No. 18(i), paragraph 27]

The Committee consider that it should be possible for the Textile Commissioner to evolve a satisfactory procedure for the export of post parcels and allowing incentives thereon in consultation with the postal and customs authorities.

REPLY OF GOVERNMENT

Exports of art silk fabrics by post parcel are now being permitted.

[*Ministry of Commerce and Industry O.M. No.* 17(2)-*Tex*(*B*)/62, *dated* 17*th Dec.* 1962].

Recommendation [S. No. 18(ii), paragraph 27]

The Committee would like the Government to examine if the minimum yardage for pre-shipment inspection for export may be reduced from 500 yards to 250 yards.

REPLY OF GOVERNMENT

Inspection of small lots of 250 yds. could not be carried out as this involved the question of engaging additional staff for such inspection and the consequent high cost to the Government. Morever, so far exports by post parcel, were not allowed under the scheme and exports of 250 yds. by sea was considered to be uneconomic. This question would now be reconsidered as soon as the inspection work is taken over by the Cotton Textiles Fund Committee.

[*Miny. of C. & I. O.M. No.* 17(2)*-Tex.B/*62, *dated* 17*th December*, 1962].

Recommendation (S. No. 19, paragraph 28)

The Committee suggest that a survey of the demand for ready-made rayon garments in foreign markets may be undertaken early. The rayon garment industry may also be given necessary facilities for export of rayon garments by the introduction of a suitable scheme of incentives etc.

REPLY OF GOVERNMENT

An incentive scheme for the export of art silk ready-made garments has been introduced.

[*Miny. of C. & I. O.M. No.* 17(2)*-Tex.B/*62, *dated* 17*th December*, 1962].

Recommendation (S. No. 20, paragraph 31)

The Committee are unable to appreciate the need for setting up a Corporation with functions which are now being performed by the State Trading Corporation and the Export Promotion Council. If, as stated, it is intended to deal in the long run with exports to countries where there is State trading, they fail to see why the State Trading Corporation which is already in the field and has gained experience in such trade should not be entrusted with it. As for using it as an agency for importing yarn, there is no reason why the State Trading Corporation who have been handling these imports for several years should be dispensed with in favour of a new undertaking. Besides the distribution of yarn is stated to have greatly improved since this work was taken over by the Distribution Committee of the Development Council for Art Silk Industry. In the circumstances, they are not convinced of the need to form such a corporation at this stage. They need hardly stress that duplication of machinery for discharging functions already being performed by existing organisations entails unnecessary waste of effort and resources and should be avoided.

REPLY OF GOVERNMENT

The question of setting up of a rayon synthetic textiles development corporation private limited, has been given up.

[*Miny. of C. & I. O.M. No.* 17(2)*-Tex.B/*62, *dated* 17*th December*, 1962].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT WANT TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

Recommendation [S. No. 2(ii), paragraph 6]

The Committee hope that Indian Standards Institution will finalise the standards for art silk yarn early and that all the Mills will readily come forward and adopt the standards.

REPLY OF GOVERNMENT

It is understood that Indian Standards Institution has already finalised the standards for art silk yarn. These are going to be published shortly. Meanwhile, all indigenous rayon yarn manufacturers have adopted the draft ISI standards.

[*Miny. of C. & I. O.M. No.* 17(2)-*Tex.B/62, dated* 17*th December*, 1962].

Recommendation (S. No. 10, paragraph 19)

The Committee consider that the planned entry of powerlooms from art silk in stages into cotton textile industry may not create, in the context of increase in the cotton spinning capacity already licensed as part of the Third Plan Programme any disproportionate or insurmountable difficulty of finding adequate cotton yarn for those and other powerlooms and handlooms which are presently working on cotton. The Committee recommend that this matter may be gone into early by Government in consultation with the various sectors of the industry.

REPLY OF GOVERNMENT

There is at present a shortage of cotton yarn also in the country particularly on account of the difficult position of raw cotton supply. Entry of powerlooms from art silk in stages into cotton textiles industry at present may therefore, accentuate the short supply of cotton yarn and might adversely affect the handloom industry. The question of allowing art silk looms to produce cotton fabrics can, therefore, be taken up only when adequate cotton yarn supply is assured to the existing cotton textile industry.

[*Miny. of C. & I. O.M. No.* 17(2)-*Tex.B/62, dated* 17*th December*, 1962].

COMMENTS OF THE COMMITTEE

The Committee however hope that effort should be made to provide adequate supply of cotton yarn.

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation [S. No. 2(i), paragraph 6]

The Committee are surprised that the rayon spinning industry which was established in the country only ten years ago and which could have easily profited from developments in technique and experience of other countries had failed, by and large, to produce yarn comparable in quality to imported yarn. It was pointed out to the Committee that in some cases the fall in quality was due to certain defects in the processes of production. They would suggest that energetic steps may be taken in consultation with the concerned interests to rectify these defects speedily and to improve the quality of art silk yarn.

REPLY OF GOVERNMENT

The position is that in the manufacture of rayon yarn, one can expect only about 90% of the production in first grade and the rest in second, third or reject grades. The Indian rayon units, instead of spinning at the recommended speed of approximately 90 metres per minute for certain deniers spin at 110 to 120 metres per minute, with the result that their production of first grade yarn is only 75 to 80%. It is not considered worthwhile to insist upon higher proportion of first grade yarn for the reason that it will reduce over-all production by 20 to 25%, and as there is already a considerable shortage of this material in the country, the shortage will be further aggravated; besides, an increase in proportion of 1st quality yarn would not mean an increase in total quantity of I Grade yarn because of reduced production.

[*Miny. of C. & I. O.M. No.* 17(2)-*Tex.B*/62, *dated* 17*th December*, 1962].

COMMENTS OF THE COMMITTEE

The Committee have considered the reply of Government carefully. They feel that it is as important to improve quality of production as to maintain quantitative output. The Committee would therefore stress that no effort should be spared to sustain and improve the quality of art silk yarn.

Recommendation (S. No. 5, paragraph 14)

The Committee feel that the control over the distribution and price of the indigenous silk yarn being lax has not achieved the objectives with which it was set up and this is borne out by the high *prices for art silk yarn prevailing in the market. They suggest that the Textile Commissioner may make surprise token purchases in open market in order to check if excessive prices are being charged and follow up cases so detected and established with all possible corrective measures.*

REPLY OF GOVERNMENT

The present system of distribution of indigenous art silk yarn at fixed prices is being done on the basis of voluntary agreement with the industry. There is no statutory backing for this distribution scheme. On account of general shortage of art silk yarn, the open market prices are no doubt high. Many consumers are perhaps taking advantage of such high prices by selling away their quotas instead of consuming themselves. Some also sell yarn of particular quality and buy yarn of another quality required by them. An effective check on such transactions is difficult as a very large number of small consumers are involved. Quotations in the open market prices of art silk yarn are available in leading newspapers and also from the Bombay Yarn Merchants' Association and Exchange Ltd. As such, token purchases by the Textile Commissioner do not appear to be necessary.

[*Miny. of C. & I. O.M. No.* 17 (2) *-Tex.B/*62, *dated* 17*th December*, 1962].

COMMENTS OF THE COMMITTEE

Please see comments in para 1 of Chapter I of the Report.

Recommendation (S. No. 6, paragraph 15)

The Committee feel that measures should be taken to bring to book cases of allottees who sell away yarn and deterrent action, including cancellation of their yarn quota taken against the card holders.

REPLY OF GOVERNMENT

Whenever the cases of allottees selling away yarn come to the notice of the Textile Commissioner, necessary action including the cancellation of their yarn quota is being undertaken. However, in view of the fact that there are nearly 8,000 units including powerlooms, handlooms, hosiery units and ancillary consumers consuming art silk yarn and getting quota allocation and that most of these units are in the small scale and cottage sector spread all over the country, it is difficult if not impossible to detect all such cases. Allocation to the excisable powerlooms units are made on the basis of number of loom shifts worked out in a particular period as certified by the Central excise authorities. In other cases the allocation is made on the basis of certificate of the State authorities. The quantum of allocation represents only a small proportion of actual requirements, and, therefore, if all the units actually work to the extent certified by the various authorities, there would be little scope for the consumers to sell away yarn. However, it may be that a few units, attracted by the high premiums in the market, sell the yarn quotas.

[*Miny. of C. & I. O.M. No.* 17 (2) *-Tex.B/*62, *dated* 17*th December*, 1962].

FURTHER INFORMATION CALLED FOR BY THE COMMITTEE

Please furnish a note showing the number of cases detected during the last 2 years in which the allottees of art silk were found selling yarn in the market at high premium and the action taken by the Textile Commissioner against them.

[*L.S.S. O.M. No.* 5/3(1)/62-*EC, dated the 9th September*, 1963.]

REPLY OF GOVERNMENT

No cases were detected during the last two years in which the allottee of art silk yarn were found selling it in the market at high premium. No action was, therefore, to be taken.

[*Ministry of International Trade O.M. No.* 24(19)-*Tex.(D)* '62, *dated the* 10*th*/14*th October*, 1963.]

COMMENTS OF THE COMMITTEE

Please see comments in para 2 of Chapter I of the Report.

Recommendation (S. No. 11. paragraph 20)

The Committee feel that it would be useful if representatives of all the diverse interests constituting the textile industry were jointly consulted periodically by the Government so as to evolve an agreed pattern of distribution of yarn and manufacture of fabrics.

REPLY OF GOVERNMENT

The Art Silk Development Council has set up a high powered Artsilk Distribution Committee which is charged with the responsibility of distributing indigenous artsilk yarn, and the Distribution Committee is functioning well. In view of the difficult raw material supply position in cotton, artsilk and woollen industry, joint consultation with representatives of all diverse interests constituting the textile industry is not likely to result in any agreed pattern of distribution of yarn and manufacture of fabrics. Such consultation could only bear fruit when there is abundant supply of raw material and production in different sectors of the industry overlaps the consumers' demand.

[*Miny. of C. & I. O.M. No.* 17(2)-*Tex.B*/62, *dated* 17*th December*, 1962].

COMMENTS OF THE COMMITTEE

The Committee find that there exists at present no arrangement for holding joint consultation with the representatives of cotton, silk, artsilk industry etc. for the purposes of evolving an agreed policy for distribution of yarn and manufacture of textiles. The Committee feel that the need for consultation is all the more pressing when there is admittedly shortage of raw materials. They, therefore, reiterate their suggestion that representatives of all the diverse interests constituting the textile industry should be periodically consulted by the Government.

Recommendation (Serial No. 13, Paragraph 22)

The Committee suggest that a mill-wise plan for rehabilitation and modernisation may be got prepared by the Textile Commissioner and the industry assisted by indicating the sources from which suitable machinery could be prepared.

REPLY OF GOVERNMENT

There are at present about 4,500 powerloom units engaged in the production of artsilk fabrics most of which are small scale units. Some of these units frequently change hands. It is, therefore, not possible to draw a mill-wise plan for rehabilitation and modernisation. The Working Group appointed by NIDC has already worked out their requirements of the artsilk industry for rehabilitation and modernisation.

The industry is being intimated of the credits available from different countries for import of textile machinery, and applications are considered by the Textile Commissioner for replacement, modernisation etc. on merits.

[*Miny. of C & I. O.M. No.* 17(2)-*Tex.B*/62, *dated the* 17*th December*, 1962.]

COMMENTS OF THE COMMITTEE

The Committee find that similar recommendation made by them in respect of preparation of mill-wise plan for rehabilitation and modernisation of cotton* and woollen mills** has been accepted by Government. They, therefore, feel that there is no reason why similar action should not be taken to prepare a mill-wise plan, at least, for larger units consisting of 50 looms and more. for rehabilitation and modernisation of artsilk industry.

ARUN CHANDRA GUHA,
Chairman,
Estimates Committee.

NEW DELHI;
June 9, 1964.
Jyaistha 19, 1886 (*Saka*).

*Please see reply of Government to recommendation No. 37 para 61 of the 162nd Report of the Estimates Committee on the Textile Commissioner's Organisation included in Chapter II, page 19 of the 59th Report of Estimates Committee (Third Lok Sabha).

**Please see reply of Government to recommendation No. 4, para 17 of the 164th Report of the Estimates Committee on the Woollen Industry included in Chapter II, page 5 of the 62nd Report of Estimates Committee (Third Lok Sabha).

APPENDIX I

(*Vide* Recommendation No. 15 in Chapter II)

EXPORT PROMOTION SCHEMES FOR ART SILK FABRICS

This note* reviews the working of the various export promotion schemes for art silk fabrics since their inception in 1957, and in the light of the review offers certain suggestions for improvement of the current scheme largely as an extension of Government's own policies in this respect as they have unfolded themselves in the past few years. The note begins with a description of the original scheme and its evolution. This is followed by a review of the progress of exports, and an analysis of the principal influences bearing on their expansion so far. The underlying cost factors have also been examined. Since the maintenance of the present tempo of exports in the future calls for short-term and longer-term adjustments and policies, these have been dealt in the final section of the note.

Pattern and Evolution of the Schemes

2. The first incentive scheme for art silk fabrics introduced at the beginning of the Jannary—June 1957 import licensing half-year provided for the grant of import entitlements upto 66-2/3% of the f.o.b. value of exports. The incentive was available *only* to manufacturers, whether they exported fabrics directly or through merchant exporters. There was also the usual stipulation forbidding sale or transfer of import entitlements from one party to another. By the end of June 1957, the eititlement percentage was raised to 100% of the f.o.b. value of exports and this arrangement continued upto March, 1959.

3. The introduction of the scheme was accompanied by a sharp cut in the actual user/established importer quotas for art silk yarn

*In preparing the review we obtained valuable help from the Office of the Textile Commissioner and the Secretariat of the Silk & Art Silk Export Promotion Council. The Textile Commissioner (Shri R. Doraiswamy) and the Chairman of the SASMA and Art Silk Export promotion Council (Shri D. N. Shroff) showed interest in the progress of the study. Shri Doraiswamy intervened helpfully at one stage to enable us to have access to preliminary cost data available in his office. Other officers in the Textile Commissioner's Office whose help was sought at various stages and whose co-operation has made this study possible are Shri Vohra, Shri Aravamutham, Shri Seshadri, Shri Gonsalves and Shri Sathiamoorthi.

Shri D. N. Shroff, and the secretaries of SASMA and the Export Promotion Council afforded all the necessary facilities in respect of material available with them, although absence of ready documentation in these two offices, particularly in the Export Promotion Council, was somewhat of a handicap in the early stages of the study.

from a half yearly rate of Rs. 8 crores in 1956 and to Rs. 5 crores during January—June 1957 and further to an average level of about Rs. 2½ crores per half year in the subsequent four licensing periods. The resulting scramble for yarn, and the premia commanded by imported varieties—market prices of 75 denier Japanese viscose rose from Rs. 4·53 per pound in June 1957 to Rs. 7·37 in September 1958—created a strong interest in the incentive scheme on the part of the manufacturers and the commercial community. But the basic defects of the scheme, namely, the absence of any pre-inspection or valuation checks, produced certain unsatisfactory results. There was uncontrolled "over-invoicing" of shipments; and full advantage was taken of the laxity of the rules to make false claims for entitlements even where goods other than art silk textiles were exported. The extent of the 'over-invoicing' appears to have been as much as three to four times the actual f.o.b. realisations. Most of the exports were directed to free ports like Singapore, Aden and Hongkong, where 'over-invoicing' and false declarations attracted to penalties (as the import duties are small in these centres). These centres also provided a convenient free market in foreign exchange for obtaining the necessary foreign exchange in support of 'over-invoicing'. These abuses led to the suspension of the scheme in March 1959.

4. A substantially revised scheme was introduced in July 1959. It sought to control the abuses of the earlier scheme (a) by setting up a pre-inspection organisation in the Textile Commissioner's office to ensure certain minimum quality standards, (b) by a new system of valuation of export shipments by the Textile Commissioner's office for determining import entitlements and (c) by limiting the maximum entitlements earned by a manufacturer to Rs. 6,000 per loom per year. The last mentioned restriction on entitlements was intended to check certain practices by which one unit came to acquire the import entitlements belonging to another unit. The system of assessment of values by the Textile Commissioner involved fixing up a basic price for grey and dyed fabrics and adding to it a variable margin based on the degree of processing effected. It would seem that the basic price broadly corresponded to the international price for finished goods and the processing margins, which averaged about 75% of the basic price, represented a kind of bonus. Import entitlements under the new scheme were fixed at 104% of the assessed value. Of this, 4 per cent was ceded to merchant-exporters (2%) and processors (2%) for imports of textile dyes and chemicals. The remaining 100% was available for import of yarn by manufacturers, though a part of it, upto 10%, could be used, at the option of the importer, for import of machinery and spares. It appears that, owing to the attractive premia realised on imported yarn, machinery entitlements were hardly availed of by the manufacturers.

5. The pattern of incentives set up in July 1959 continued more or less undisturbed until June 1961, when the manufacturers were required to cede 30% of their yarn entitlements for imports of wood pulp by domestic spinning units. Since 1958 domestic production of rayon filament yarn had been subjected to a distribution and price control system at the instance of Government. With rising domestic

production of yarn, Government decided to create a link between exports and the distribution of yarn. Against the surrender of 30% of the import entitlements manufacturers (*i.e.* the weaving units) were granted a special allocation of 1 pound of indigenous yarn for every Rs. 1·33 of entitlements. This allocation was made at a concessional price of 61 np below the prices fixed by the Textile Commissioner. For 120 denier yarn, it meant a reduction from the regulated price (inclusive of excise duty) of Rs. 4·14 per pound to Rs. 3·53 np per pound.

6. A further modification of the scheme was effected in October 1961 when a system of international price schedules was adopted in conjunction with f.o.b. values for the determination of import entitlements, thus replacing the previous system of assessed values. Under this system, international prices were fixed from time to time for different categories of fabrics based generally on Japanese quotations for similar fabrics. But in fixing the entitlements the *lower* of the two values, namely, international prices as fixed by the Textile Commissioner and f.o.b. values as declared by the exporter, is taken into account.

7. An immediate reason for this change in the basis of valuation was the tendency noticed in the declared values of exports for exporters to 'undersell' in the international markets. This question will be considered in some detail later in this note. But an equally strong reason for the revision of the scheme was the need to move away from a basis of valuation which was somewhat faulty, and to reduce the direct import costs of export promotion in respect of this commodity so as to economise on foreign exchange. The *raison d' etre* of the earlier basis of valuation and the liberal import entitlements (exceeding 175 per cent of the f.o.b. realisations) was that they helped to divert foreign exchange, saved through cuts in actual user quotas, to quotas linked with exports. There was no conscious attempt to save on the total import bill. The expanding domestic production of rayon filament yarn called for a further reduction in the imports of yarn, besides the one adopted in June 1961 which partially linked exports to allocations of domestically produced yarn. The new basis of valuation, by bringing the entitlement down to a level corresponding to actual or likely f.o.b. realisations, promised an immediate saving in the import bill. Since actual user import quotas for yarn were abolished during April—September 1962, the new policy meant that the weaving units could expand their production only by expanding their exports, as the allocation of domestic yarn was henceforth also tied to exports. Though only about a fourth of domestic yarn production is at present allocated

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*The prices fixed by the Textile Commissioner have changed from time to time; the figures refer to the one in force during July-September, 1961.

**This proportion is based on the current rate of entitlements and the volume of domestic production. The effective percentage in the recent past, however, seems to have been closer to 35% presumably because of the impact of the backlog of the 1960-61 entitlements when the scheme was administered on a Liberal basis. The decision on December 10, 1962 to increase the surrenderable percentage from 30 per cent to 40 per cent effective from April 1963 may well raise the proportion of domestic production allocated for export back to 35 per cent.

against exporters, because of the regularisation and admission of new units for yarn allotments, the existing units for some time past have been faced with a gradual reduction in the normal quotas of indigenous yarn.

Progress of Exports, 1957—1962

8. Against the background of the changes in the incentive schemes described above, we may now examine the trends in the exports. Although the first scheme came into force at the beginning of 1957, it hardly had any effects on the exports during that year. At 2·8 million yards in 1957, they in fact showed a slight fall from the 1956 level of 3·2 million yards. The full implications of the scheme were seen in 1958, when exports shot up to 32·9 million yards. Because of serious malpractices, namely, 'over-invoicing' and false declarations, to which the scheme was exposed, the recorded figures of both values and quantities during 1958 (and in the first two months of 1959) provided no index of the progress of exports. Nearly 75% of the exports during 1958, went to the free ports* of Aden, Singapore and Hongkong. If we take the Japanese price as the basis of true f.o.b. realisations (*see* col. 4 of Table 1) the actual receipts were probably less than Rs. 3 crores during 1958, as against a declared value of Rs. 9·1 crores. The difference was apparently covered in the free markets at a premium of less than 20%. But the profit margins realisable on imported yarn in the market more than justified this extra cost. Market prices per pound of 75 denier Japanese yarn rose from Rs. 4·53 in June 1957 to Rs. 7·37 in September, 1958. Adjusted for the prevailing import duty of Rs. 1·45 per pound, the profit margin worked out to slightly over 100% of the c.i.f. price (*see* Table 2) of Rs. 2·95 per pound.

TABLE 1.—*India's export of Art Silk Fabrics*

	Quantity in million yards	Values in Rs. crores	Unit values np. per yard	Unit values in respect of Japanese exports of rayon and spun rayon np. per yard
	(1)	(2)	(3)	(4)
1956	3·2	0·60	1,88(†)	94
1957	2·8	0·50	1,78(†)	86
1958	32·9	9·13	2,77	77
1959	17·3	3·70	2,14	83
1960	34·6	3·54	1,02	93
1961	69·8	5·30	76	85
1962 (provisional) . . .	84·4	7·86	93	N.A.

Source : For columns (1), (2) and (3)—The Silk & Rayon Textiles Export Promotion Council, Bombay.
For column (4)—Based on Economic Statistics published by the Bank of Japan.

*Exports to these three ports amounted to Rs. 6·9 crores during 1958.

(†) The unit values for 1956 and 1957 are not strictly comparable with those for subsequent years because of a marked shift in the composition of the fabrics. Exports during 1956 and 1957 contained a high proportion of specialists like sarees which normally command a higher unit price.

TABLE 2

Market prices and profit margins on 75 denier imported yarn

(Br. Asahi Japan A Hanks)

Rupees per pound

	Market price	Import duty	(1—2)	C.I.F. Price	Profit Margin	5 as % of 4
	1	2	3	4	5	6
June 1957 . .	4·53	1·45	3·08	2·95	0·13	4
November 1957 .	4·61	1·45	3.16	2·95	0·21	7
December 1957 .	4·84	1·45	3·39	2·95	0·44	15
Jan. 1958 . .	5·58	1·45	4·13	2·95	1·18	40
Feb. 1958 . .	5·42	1·45	3·97	2·95	1·02	35
March 1958 . .	5·91	1·45	4·46	2·95	1·51	51
April 1958 . .	6·20	1·45	4·75	2·95	1·80	61
May 1958 . .	6·02	1·45	4·57	2·95	1·62	55
June 1958 . .	6·85	1·45	5·40	2·95	2·45	83
July 1958 . .	6·98	1·45	5·53	2·95	2·58	87
August 1958 .	7·16	1·45	5·71	2·95	2·76	94
Sept. 1958 . .	7·37	1·45	5·92	2·95	2·97	101
October 1958 .	7·14	1·45	5·69	2·95	2·74	93
Nov. 1958 . .	6·76	1·45	5·31	2·95	2·36	80
Dec. 1958 . .	6·59	1·45	5·14	2·95	2·19	74
January 1959 .	..	..	..	..	..	..
Feb. 1959 . .	..	..	..	..	..	..
March 1959 .	..	..	..	..	..	..
April 1959 . .	5·43	1·70	3·73	2·95	0·78	26
May 1959 . .	5·90	1·70	4·20	2·95	1·25	42
June 1959 . .	..	..	..	..	..	..
July 1959 . .	..	..	..	..	..	..
Aug. 1959 . .	..	..	..	..	..	..
Sept. 1959 . .	..	..	..	..	..	..
Oct. 1959 . .	6·19	1·70	4·49	2·95	1·54	52
Nov. 1959 . .	6·13	1·70	4·43	2·95	1·48	50
Dec. 1959 . .	6·25	1·70	4·55	2·95	1·60	54
Jan. 1960 . .	6·57	1·70	4·87	2·95	1·92	65
Feb. 1960 . .	6·47	1·70	4·77	2·95	1·82	62
March 1960 .	6·60	1·70	4·90	2·95	1·95	66
April 1960 . .	5·65	1·70	4·95	2·95	2·00	68
May 1960 . .	7·18	1·70	5·48	2·95	2·53	86
June 1960 . .	·34	1·70	5·64	2·95	2·69	89

	1	2	3	4	5	6
July 1960 . .	..	..	..	..	..	..
August 1960 . .	..	..	..	..	..	..
Sept. 1960 . .	7·50	1·70	5·80	2·95	2·85	97
Oct. 1960 . .	..	..	..	..	..	..
Nov. 1960 . .	..	..	..	..	..	..
Dec. 1960 . .	..	..	..	..	..	..
January 1961 .	..	..	..	..	..	..
Feb. 1961 . .	..	..	..	..	..	..
March 1961 .	..	..	..	..	..	..
June 1961 . .	9·12	2·45	6·67	2·95	3·72	126
Sept. 1961 . .	11·31	2·45	8·86	2·95	5·91	200
December 1961 .	10·31	2·45	7·86	2·95	4·91	166
January 1962 .	9·81	2·45	7·36	2·95	4.41	149
March 1962 . .	11·19	2·45	8·74	2·95	5·79	196
June 1962 . .	13·00	2·93	10·07	2·95	7·12	241
Sept. 1962 . .	11·87	2·93	8·94	2·95	5·99	203
Oct. 1962 . .	12·19	2·93	9·26	2·95	6·31	214
November 1962 .	11·25	2·93	8·32	2·95	5·37	182
December 1962 .	10·25	2·93	7·32	2·95	4·37	148

9. The suspension of the scheme for a period of about 4 months from March to June 1959 brought about a noticeable slowing down of exports*, and it was not until September 1959 that exports began to pick up. The pace was well maintained during 1960 when exports amounted to 35 million yards. The institution of pre-inspection arrangements largely helped to remove the over-invoicing element in export earnings. The main inducement for exports was provided (a) by the generous valuation system conferring handsome import entitlements and (b) large premia which continued to be realisable on imported yarn. Against an average export value of Rs. 1 per yard realised in 1960, yarn entitlements of about Rs. 1·75 were obtained. Since imported yarn then commanded a premium of about 75% in the market, the entitlements seem to have yielded a gross margin of about Rs. 1·30 per yard of cloth exported. Allowing for the various

*Exports during the relevant months of 1959 were as under:—

Jan-Feb. 4·9 million yds (annual rate : 29 million)

Mar-Aug. 4·5 million yds (annual rate : 9 million)

Sep. Dec. 8·9 million yds (annual rate : 27 million) other incidental expenses, this margin was more than adequate to bridge the gap between internal and export prices and still leave an attractive profit. The main export categories from India are crepe, taffeta and satin, whose internal prices (net of drawback of excise/import duties) have been less than Rs. 2 per yard (*See* Table 3).

10. The year 1961 saw an accelerated improvement in the quantum of exports, assisted mainly by a further growth in the profit margins on imported yarn. From an average of about 75% during 1960, the profit margin on 75 denier imported yarn rose to 200% in September, 1961. Two factors which contributed to this development were (a) the suspension of the actual user import quotas during October 1960—March 1961 and (b) the decision in June 1961 to secure a compulsory surrender of 30% of the import entitlement for purposes of wood pulp imports. Local prices of fabrics showed increases of 10—20% during 1961 as compared to 1960, partly owing to an enhancement of the excise levies. Accompanying a doubling of the quantum of exports from 34·6 million yards in 1960 to 69·8 million yards in 1961 there was, however, a sharp reduction in the unit prices realised from 102 nP. per yard in 1960 to 76 nP. during 1961.

11. It has been alleged that this decline in the unit values was due to underselling (as distinct from under-invoicing) on the par of Indian exporters. The Japanese export prices for rayon and spun rayon fabrics during 1961 averaged 85 nP. per yd. Indian export prices were thus 9 nP. below the Japanese prices. Some of the relevant factors for a proper appreciation of the position may, however, be noted. Japanese export prices themselves have shown considerable variations from year to year; for instance, they fell somewhat sharply during the 1958 recession (See Table 1 above). It is also quite likely that the average weave and finish of Japanese fabrics are better than those of Indian fabrics. Past unit values for Indian fabrics do not provide a satisfactory clue to the trends because a sharp increase in exports usually involves also important changes in their composition. In any case, the remarkable expansion in exports did call for some competitive price cutting against Japanese and other foreign textiles as Indian exporters have generally to contend against strong consumer preferences abroad. The whole business may also have been partly due to a degree of unhealthy competition among Indian exporters in view of the large number of units participating in the export trade. This point should not, however, be over-emphasised as the trade though for official purposes decentralised, is not really so; on this, more will be said later.

Table 3

Whole sale Prices of Art Silk Fabrics

1952-53 ?-100

	Georgette Plain 42"—44" Bipin 2121		Taffeta Koro 26" High Speed High quality		Satin Plain 31"—33" National		Split Satin flower 26"	
	Price Rs. per Yd.	Index	Price Rs. per Yd.	Index	Price Rs. per Yd.	Index	Price Rs. per yd.	Index
1957								
Mid June .	1·81	78·0	0·67	82·0	1·62	88·0	N.A.	N.A.
Mid Sept. .	1·81	78·0	0·64	78·0	1·59	85·0	1·30	87·0
Mid December.	1·81	78·0	0·64	78·0	1·50	81·0	1·30	84·0
1958								
Mid March .	1·94	84·0	0·76	93·0	1·69	91·0	1·44	97·0
Mid June .	1·94	84·0	0·70	85·3	1·75	94·2	1·41	94·6
Mid Sept. .	2·00	86·6	0·80	97·5	1·84	98·9	1·47	98·7
Mid Dec. .	2·00	86·6	0·64	78·0	1·78	95·7	1·37	91·1
1959								
Mid March .	2·19	94·8	0·67	81·7	1·81	97·3	0·50	100·7
Mid June .	2·19	94·8	0·67	71·7	1·81	97·3	1·53	102·7
Mid Sept. .	2·12	91·8	0·64	78·0	1·77	95·2	1·44	96·0
Mid December	2·19	94·8	0·70	85·3	1·77	95·2	1·53	102·7
1960								
Mid March .	2·28	98·7	0·84	102·4	1·87	100·2	1·62	108·
Mid June .	2·28	98·7	0·86	104·8	1·84	98·9	1·55	104·5
Mid Sept. .	2·28	98·7	0·81	98·8	1·84	98·9	1·50	10?·7
Mid Dec. .	2·25	97·5	0·83	101·2	1·87	100·5	1·56	104·7
1961								
Mid March .	2·50	108·2	1·09	132·9	2·12	114·0	1·75	117·4
Mid June .	2·75*	108·2*	1·09	132·9	2·16	116·1	1·62	108·7
Mid Sept. .	2·75*	108·2*	..	..	2·19	117·7	1·59	106·7
Mid December	2·28*	114·2*	..	..	2·25	121·0	1·59	106·7
1962								
Mid March .	2·37*	118·7*	..	..	2·31	124·2	1·62	108·7
Mid June .	2·56*	128·2*	..	..	2·34	125·8	1·69	113·4
Mid Sept. .	2·87	143·8	..	..	2·40	129·0	1·72	115·4
Mid December	2·88	144·0	..	..	2·34	125·5	1·65	111·0

Relates to Georgette coloured.

Source : Economic Adviser, Ministry of Commerce & Industry.

12. The new valuation procedure for exports commencing from October 1961 (described in para 6 above) appears to have exerted an influence on the export statistics of 1962. The unit price showed a recovery from 76 nP. per yard to 93 nP. per yard during 1962. For this period, no comparable Japanese prices are available. But the valuation problem once again came to the fore, this time in the form of 'over-invoicing'. This seems to have come about partly because of an unintended bias in the international price schedules, resulting in fixing a price somewhat above the likely foreign exchange realisations. But since the limit upto which this bias can exist is now well set, the amount of 'over-invoicing' cannot in the present circumstances exceed 25%.

13. Apart from the opportunity provided for over-invoicing which may well prove to be temporary, the really important change in October 1961 as discussed earlier was that of reducing imported supplies in the market and linking the expansion of output with exports. The abolition of actual user import quotas during the April—September 1962, licensing period, and the policy of reserving domestic yarn production against 30% of the yarn entitlements lent firmness to the yarn market. Premia on imported yarn, though they showed considerable ups and downs, stood well above 150% during most of 1962 (See Table 2). Exporters also stand to realise a premium upto 50—60% in the market over the concessional price at which they obtain allocations of indigenous yarn. These factors have helped to improve the export outturn during 1962, the provisional totals for which indicate a further rise in exports to 84 million yards—some 20% above the 1961 level.

Prospects for further growth in exports

14. While the pace of expansion of exports has slackened somewhat in 1962 as compared to the two preceding years, when exports showed a four-fold increase, Table 4 shows that the sharp growth in domestic production and Supplies in 1959 provided a favourable start for the growth in exports during 1960 and 1961 and that this advantage tended to wear off in 1962. Viewing the trends over a longer period, it will be observed that the average annual increase in the domestic consumption of art silk fabrics was about 35 million yards between 1949-50 and 1959. The relatively small increases in the prices of fabrics upto 1959 and the sharper movements noticed in 1961 and 1962 give some indication of the recent demand pressures (See Table 3). This suggests that domestic consumption may have to be met somewhat more fully in the next year or two.

TABLE 4

Estimate of Domestic Production, Net Exports and Domestic Consumption

	1949-50	1952-53	1955-56	1957	1958	1959	1960	1961	1962
					(Million yards)				
1. Domestic production .	204	180	420	474	451	561	612	652	680
2. Net exports (exports less imports) . . .	—2	·3	—7	—	27	9	+33	68	83
3. Domestic consumption (1—2) . . .	206	177	427	474	424	552	579	584	597

15. The pace of expansion in exports in the future is, therefore, likely to be influenced by the expected progress in the domestic production of fabrics. As imports of yarn may have to cease within the next two or three years*, domestic production will be determined by the prospects for expansion of indigenous spinning capacity. Capacity already licensed in this respect (exclusive of that for tyre cord) is likely to yield a production of 80 million pounds of rayon filament yarn, 10 million lbs. of acetate yarn, 5 million lbs. of cupro-ammonium yarn, and 10 million lbs. of various synthetic yarns, and about 65 million lbs. of staple fibre, by about the middle of 1965†. Total art silk production derived from the foregoing may be placed at 820 million yards during 1965 or some 140 million yards above the 1962 level. Leaving about 90 million yards for growth in domestic consumption, it might still be possible to aim at an increase in exports of about 15 million yards per year, leading to an export target of 125 million yards in 1965.

16. It may not, however, be realistic to tie export targets entirely to the growth of domestic spinning capacity. Substantial additional production and a higher target for exports may be feasible provided yarn imports continue. There are two good reasons why it would not be advisable to ban imports of yarn completely. First, world trade in man-made fibres, unlike in cotton textiles, has been growing at a fairly good rate and India should take full advantage of the possibilities here. Over the ten years, 1951-52 to 1960-61, world trade in cotton textiles (See Table 5) was virtually stagnant at around 5000 million yards. In the same period world exports of man-made fibres (See Table 6) recorded a more than 50% increase from about 1400 million yards to 2200 million yards or approximately 90 million yards per year. In securing a fair share of this expansion in International trade, Indian exports should not be handicapped by any

*Subject to the reservations expressed in paragraph 16.

(†) Estimated as follows:—

	Licensed capacity at July 62	Likely realisation in 1965	Non-cloth uses and other adjustments	Cloth yield per lb.	Total cloth production
	(million lbs.)	(million lbs.)	(million lbs.)	yds.	(million yds).
Rayon filament yarn . .	88	80	—8	6	432
Acetate	20	10	—1	6	54
Cupromaonium . . .	13	5	—0·5	6	27
Synthetics	16	10	—1	12	108
Viscose staple fibre . .	66	66	—33	6	198
	203	171	—43·5	36	819

bottle-necks affecting domestic raw matrial supplies. Secondly, man-made fabrics are partly viscoso fabrics and partly synthetic fabrics (*e.g.* nylon and terylene). The world consumption of the latter has been increasing very rapidly in recent years*. During the last de-decade the rate of growth in the consumption of synthetic fibres has been nearly 14 times as much as viscose fibre. Although separate figures of world exports of synthetic fibres are not available, the growth factors affecting consumption are presumably already reffected in the exports. It was only during the Third Plan that India began production of synthetic fibres and it might take several years before production of these fibres reaches a significant level. In the meanwhile, the Indian weaving industry may have to be afforded reasonable opportunities to broadbase its production, and build up an export trade in synthetic fabrics even if the production continues to be based on imported fibres and the net foreign exchange recovery (exports of synthetic fabrics less imports of synthetic fibre) is not very attractive in the initial years.

TABLE 5

World Exports of Cotton Piecegoods

	Unit	1951	1952	1960	1961
Pakistan	m. yds.	..	..	76	52
U.K.	m. sq. yds.	864	712	328	288
India	,,	776	596	724	684
U.S.A.	,,	812	772	440	468
Japan	,,	1,996	760	1424	1422

World consumption of Cotton and man-made fibres

(in million lbs.)

	1950	1960	% increase of 60 over 1950
Cotton	15583	22961	+47·3
Visoose Yarn—fibre	3497	5754	+6·45
Other man-made fibre	152	1562	+927·6

	Unit	1951	1952	1960	1961
Hongkong	m. sq. yds.	160	164	312	376
Yugoslavia	Th. quintals	..	4	84	84
West Germany . . .	,,	232	2722	284	280
Portugal	,,	112	88	180	144
Spain	,,	124	60	168	132
Italy	,,	372	172	116	112
France	,,	560	540	524	484
Belgium	,,	244	176	276	268
Switzerland	,,	36	36	64	56
Netherlands	,,	180	244	340	304
TOTAL . . .		5,568	4,596	5,340	5,154

TABLE 6

World Exports of man-made fibre piecegoods

	Unit	Average of 1950 & 1951	Average of 1960 & 1961
U.K.	Mill. Sq. yds.	185·2	51·6
Hongkong	,,	189·2	29·2
Japan	,,	354·2	1065·6
U.S.A.	,,	208·0	149·2
India	m. yds.	6·4	59·2
Belgium	th. quintals	22·8	94·8
France	,,	120·0	136·4
West Germany	,,	91·2	210·8
Italy	,,	167·6	209·6
Netherlands	,,	39·2	80·8
Austria	,,	14·4	45·6
Denmark	,,	0·8	3·2
Norway	,,	0·8	3·2
Sweden	,,	3·6	15·6
Switzerland	,,	29·2	31·2
Portugal	,,	0·8	2·8
Spain	,,	13·6	18·4
Egypt	,,	16·8	6·8
	TOTAL@ . .	1,454·8	2,214·0
Percentage increase of 1960-61 over 1950-51		..	52·2

*This total has been obtained by simply adding up the quantity figures expressed on two bases, viz., million yads. and 000 quintals. Thousand quintals normally approximately to about 0·85 million yards. There is thus only a small over estimation in the total.

@This total has been obtained by simply adding up the quantity figures expressed on two bases, namely, million yards and 000 quintals. Ib. terms of yards, 000 quintals normally approximate to about 0·85 million. There is thus only a small over-statement in the total.

Organisational factors in the industry and their bearing on exports

17. Since its inception, the art silk fabrics industry has comprised of small scale units, a large number of them being family or partnership concerns. The equipment has mostly consisted of secondhand machinery, either imported from abroad or sold by existing cotton Mills in India. The production structure of the industry is that the great majority of units do not own their processing equipment, and produce only grey cloth. There are now about 4500 units which undertake weaving and/or processing of art silk fabrics in India. They have a total loomage of 73,000 (of which 57,000 are registered with the Textile Commissioner) producing about 600 million yards of cloth. This is in obvious contrast to the cotton textile mill industry, which consists of some 500* units with a total loomage of 200,000 producing 5000 million yards of cloth. While the average cotton mill has a loomage of 400 the average unit in the art silk industry has about 15 looms†. The cotton textile industry has also a important small scale sector in the form of power-loom units, but most of them, unlike the art silk units, do not qualify for direct incentives against export of fabrics.

18. It is a matter of some surprise that a small scale industry relying on outdated equipment has been successfully brought into the export trade, nearly 11-12% of its current production being currently sold abroad. The nature of the incentives in the form of premia realisable on imported yarn provided of course a strong financial inducement to export. But the official stipulation that the incentives would be made available only to manufacturers supplying the cloth for export led to difficulties. It is, however, common knowledge that official stipulations were evaded in practice, and that the organisational channel actually developed by the industry for participating in the incentives was completely at variance with the official procedures for channelisation of incentives.

19. With small and economically weak units predominating in the industry, the initiative for exports passed into the hands of (a) certain 'composite'‡ units undertaking weaving as well as processing of cloth and (b) a group of financiers-*cum*-exporters. While there are nearly 4500 units in the industry the processing units are

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*Figure excludes the small-scale-sector represented by powerloom units.

An analysis of size-wise distribution of the units available in respect of 3193 units accounting for a loomage of 36041 shows the following result:

	Loom Ranges						Total
	1—25	26—50	51—75	76—100	101-150	151 above	
No. of units	2,952	122	44	19	21	35	3,193
No. of looms	15,988	4,379	2,737	1,718	2,579	8,640	36,041
Average loom per unit	5	36	62	90	123	247	11

‡In the art silk industry the term 'composite' unit means weaving-cum-processing unit and not a spinning-cum-weaving units as in the cotton textile industry.

not more than 300. The grey cloth produced by the smaller units invariably finds its way to the composite units for purposes of processing as there is no direct consumption of grey cloth This not only makes for a degree of centralisation of final output but also places the composite units at an advantage both in manufacturing cloth according to consumer specifications and in being able to compete effectively against units which do not have their processing equipment; processing usually accounts for about 15% of the total manufacturing cost (excluding yarn).

20. The role of the financier-*cum*-exporter is not exactly definable. The importance of the financier-*cum*-exporter in the art-silk industry arises mainly because export sales involve heavy subsidisation, and require financing facilities for an extended period of time. There are considerable delays at the stage of pre-shipment inspection. On the basis of present experience, the delay at this stage itself requires financing for three months. The next stage, *i.e.* negotiation of export bills with banks, gives only a partial relief in the matter of finance; in view of the heavy subsidisation of export sales, what is recovered from banks is usually not more than 50% of the actual financial outlays. The loss is not normally recouped until after the import entitlements are issued, and the licences granted. Both these stages would mean a further delay of 3—6 months.

21. By the standards of the cotton textile industry even the large sized art silk unit is to be regarded as a medium sized unit**. Direct export sales by manufacturers appear to be confined to a few mills, the bulk of the trade being conducted by financier-*cum*-exporters as even many of the medium sized processing units appear to lack the necessary financial strength or the organisation to undertake export sales. The financier-*cum*-exporters, rely to a considerable extent on the open market for the purchase of export fabrics. Practices have developed whereby the financier-*cum*-exporter supplies yarn to the smaller units, pays royalties to particular weaving units for using their name for purpose of import entitlements and trades freely on the import licences.

22. Government, however, have not been entirely indifferent to this situation, while direct checks have been rather difficult in view of the problems in keeping track of the activities of a thousand odd units which at least on paper participate in the incentive scheme, Government have been seeking to bring about an indirect curb on those activities by restricting the maximum import entitlements a unit can claim per loom of output. We had earlier referred to the limit of Rs. 6000 per loom per year fixed in July 1959, in this connection. This limit was modified in November, 1961 to Rs. 10 per loom per shift, which on the basis of a three-shift working would imply an increase in the maximum yarn entitlements to Rs. 10,000 per loom per annum. The ceiling was further raised to Rs. 15,000 per loom per annum from April 1, 1962. The latest increase in the ceiling amounted to a vertual abandonment of the attempt to check evasion

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*Recognizing this, Government recently decided to centralise the excise duty at the processing stage.

**These were only two units in the membership of silk and Artsilk Mills Association, a body (which includes most of the bigger units of the industry) which had a loomage exceeding 500 in 1960-61. In the cotton textile industry, even the everage sized unit has 400-500 looms.

of the Government regulations. This will be apparent from the calculations below. On the basis of a per shift output of 22 yards, the annual output per loom (on three shift working at 330 days per year) would work out to about 21,750 yards. Taking an f.o.b., realisation of 88 nP. per yard*, and an import entitlement of 63 nP. (*i.e.*, excluding the surrender of 30 per cent for wood pulp) the total entitlement earned for imported yarn, assuming that entire production is exported, would be about Rs. 13,500, although under circumstances of higher f.o.b., realisations the figure may well be Rs. 15,000. But there are two other questions which remain. First, whether having regard to the level of subsidisation involved in export sales any unit can remain in business by exporting its entire output. Secondly, there are serious physical limits for a single loom to absorb imported yarn of a c.i.f., value of Rs. 15,000. At an average c.i.f., price of Rs. 2.50 per pound of imported yarn, with an import entitlement of Rs. 15,000 a unit can secure 6000 pounds of yarn; at 6 yards per pound, the unit will have a large quantity of surplus yarn to sell in the market.

23. Thus, Government policy seems to be basically one of not hindering unduly the existing channels of export and the actual (as distinct from the official) pattern of distribution of the incentives. In order to bring about a gradual improvement in the underlying organisational factors, Government announced a scheme on November 24, 1962, for modernisation of the industry limited to replacement needs. Under this scheme, it is proposed to invite applications from units already having 25 looms or above for installation of automatic looms. Permission to install automatic looms will, however, be granted only in respect of units willing to assume an export commitment of approximately 3900 yards per loom per year or about 20 per cent† of the output on the basis of three shift working. The penalty for non-fulfilment of the export obligation will be Rs. 1.35 for each yard of shortfall.

24. On the face of it, the export obligations imposed do not appear to be onerous, it is quite likely that even as it is a number of units are exporting a proportion considerably higher than 20 per cent of their output. In any case, there already exists a strong compulsion to export, through import control and preferential allocation of domestic yarn to exporting units. However, it remains to be seen whether the industry will respond to the scheme in full measure. So far, the industry has not been keen on modernisation. The large premia secured on imported yarn, and the general speculative atmosphere engendered thereby seem to have led to an absence of cost consciousness and an indifference to cost reducing methods of production.

Factors bearing on the premium on yarn

25. Earlier, references have been made to the market premia on yarn as a key factor in exports, the quantum of premia available

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*This represents actual f.o.b. realisations in September 1962 and forms the basis of the calculations attempted later in the notes.

†The official communique mentions export obiligation of 50% of the total output per loom, the annual output for this purpose being reckoned at 7000 meters. This figure apparently assumes single shift working. Assuming, however, three shift working, which is more likely, the annual production would be 20,000 meters. on this caculation the export commitment would work out to only 17½%.

from time to time providing along with other factors, an index of the financial inducement to export and the amount of subsidisation involved in export sales. It will be noted (see Table 7) that the premia on imported yarn (measured in terms of 75 denier Japanese viscose yarn) increased from an average of 80 per cent in April—September 1958, to about 125 per cent in October 1960—March 1961 and further to about 225 per cent in April—September 1962. The level of premium on imported yarn has been partly a measure of the overall impact of the import restrictions on the total supplies of yarn as well as of the dent made on domestic consumption of fabrics by exports. Thus, in 1959 when exports remained largely suspended and when supplies of imported yarn were relatively easy (as a result of heavy export promotion licensing in 1958-59) the premium came down considerably. During 1960, despite an increase in exports, a rise in the premium was held in check by the liberal principles governing grant of import entitlement. The suspension of actual user quotas in the October 1960—March 1961 licensing period and the rapid increase in exports made for a marked increase in premium in 1961. These trends were accentuated in 1962* by the new policy which pointed to a substantial reduction in imports carried out through (a) further cuts in actual user licensing and (b) reduction in import entitlements for yarn by changing the basis of export calculation, and reserving a portion for wood pulp imports.

TABLE 7

(Rs. in crores)

	Premiums on imported yarn (profit margins as a % of c.i.f. values)	Importing licensing		
		Actual User	E.I.	Export Promotion Licensing
Jul-Dec., 1956	Negligible	6·0	2·0	nil
Jan.-June, 1957	,,	4·6	1·0	nil
July-Sept., 1957	,,	1·4	nil	nil
Oct. 57-March 58	30	1·8	neg.	1·3
April-Sept., 58	80	2·6	neg.	6·9
Oct. 58-March, 1959	82	1·5	0·3	7·2
April-Sept., 1959	34	2·2	0·3	0·1
Oct., 59-March, 1960	58	1·4	0·3	2·3
April-Sept., 1960	85	1·5	0·5	2·0
Oct., 1960-March, 1961	126	nil	0·3	1·8
Apr.-Sept., 1961	200	1·0	0·3	3·4
Oct. 61-March, 1962	170	1·0	N.A.	3·3
April-Sept., 1962	222	nil	N.A.	2·5

*Towards the end of the year, following the Chinese aggression, the fabrics market turned weak because of a fall in demand from the consuming centres in the northern parts of the country. There was some easiness in the yarn market too also. Though the premia on yarn fell somewhat in November and December, 1962, they still remain very high (*See* Table 2).

Extent of export subsidisation: the industry's cost structure

26. Export incentives granted to the art silk fabrics industry have provided a net inducement to export in the face of two kinds of difficulties : (i) disadvantages imposed by higher domestic costs in relation to prices realisable abroad and (ii) attractions for sale in the domestic market. In what follows an attempt is made to estimate the amount of premium accruing to exporters per unit of cloth exported to obtain a first approximation of the *gross* magnitude of the export subsidy involved. We will then consider the cost structure of the industry, although data available in this respect leave much to be desired, to enable us to view in conjunction with probable export realisations, the nature of the inducement to export. The calculations are mostly based on data available in respect of 1962.

27. On the basis of an average unit value of about 88 nP. per yard declared on exports of art silk fabrics during September 1962, the various entitlements would be as follows : 63 nP. for imports of yarn, 26 nP. for preferential allocation of indigenous yarn, and 4 nP. for imports of chemicals and dyes. The gross premia realised on these entitlements, assuming that the entire quantity is sold by the exporter in the market would be as under :—

Premium on imported yarn at 200% of the c.i.f. value	(*a*) 126 nP
Premium on chemicals and dyes at 100% of the c.i.f. value . . .	(*b*) 4 nP
Premium on sale of the indigenous yarn	(*c*) 46 nP
Gross amount of premium realised per yard of cloth exported . .	176 nP

28. The amount of gross premium will, however, need a downward adjustment for cost of pre-financing, clearing charges, and various other incidentals connected with pre-shipment, inspection, import licences, etc. These charges may absorb about 20 per cent of the premium, yielding perhaps a balance of 140 nP.

29. In regard to the cost of production in India, it has been possible to secure from the Office of the Textile Commissioner, data relating to average yarn consumption, the type of deniers used and

(*a*) This roughly corresponds to the rates prevailing for 75 denier Japanese yarn during 1962. Certain synthetic fibres (*e.g.* terylene) apparently command even a higher premium but the actual market prices are not available.

(*b*) This is a very rough estimate based on premium normally realisable on imported dyes and chemicals.

(*c*) Against a surrender of 26 nP of the entitlement, the exporter would receive an allocation of 0·19 lb of 150 denier of indigenous yarn at a concessional price of 66 nP. But in the market this can be sold for 112 nP. The market prices of 150 denier of indigenous yarn in September 1962 was 587 nP. per lb. as against the concessional price of 345 nP.

TABLE 8

Imported and domestic supplies of art silk yarn to the domestic market

(In million lbs.)

	Imported supplies	Domestic supplies	Total
1955	51	20	71
1957	49	30	79
1958	31	44	75
1959	40	53	93
1960	39	63	102
1961	36	73	109
1962 Estimated	31	83	114

NOTE:—Figures have been adjusted to exclude estimated utilisations of art silk yarn for non-fabric uses etc. A uniform downward adjustment of 15% has been made on recorded quantum of import and domestic production of yarn to arrive at the clothing uses. To the extent the supplies have consisted of staple fibre a downward adjustment of 50% has been adopted. This adjustment is intended partly to allow for non-clothing uses and partly to allow for the fact that staple fibre usually yields a coarser type of yarn where the yield in terms of cloth is considerably lower than rayon filament yarn.

weaving and processing charges per yard of output for certain categories of fabrics exported abroad. Although in the view of the Textile Commissioner's Office, these details, particularly those relating to weaving and processing charges may not be representative of the industry the information has nevertheless been used here for the light it throws on the broad structure of costs. The following table summarises the data relating to costs export realisations and local market prices of these varieties of fabrics namely half crepe, taffeta, and satin.

TABLE 9

	Half crepe	Taffeta	Satin
1. Manufacturers	Jasmine Mills	Bipin Mills	Bipin Mills
2. Width	44	36	36
3. Reed/Pick	96/54	140/52	200/52
4. Warp/Weft (deniers of yarn used) . .	120/120 viscose	100/150 viscose	100/150 viscose
5. Yarn consumption per yd.:			
Warp	0·082 lb	0·129 lb	0·184 lb.
Weft	0·042 lb	0·062 lb	0·066 lb
6. Market prices of indigenous:			
120 denier yarn in Sept., 1962 .	Rs. 7·62 per lb.		
150 denier yarn in Sept., 1962 .	Rs. 5·87 per lb.		
100 denier yarn in June, 1962* .	Rs. 8·50 per lb.		
7. Cost of yarn calculated on the basis of 6 above	94 nP.	145 nP.	192 nP.
8. Other manufacturing costs plus excise duty on fabrics	60 nP.	67 nP.	70 nP.
9. Total cost of production (7+8) .	154 nP.	212 nP.	262 nP.
10. Drawback of duty on exports	20 nP.	40 nP.	51 nP.
11. Cost of production in respect of export sales (9—10)	134 nP.	172 nP.	211 nP.
12. Realisations on export sales . . .	70 nP.	90 nP.	100 nP.
13. Market prices in India . . .	206 nP.	212 nP.	237 nP.

*September, 1962 quotations are not available.

30. The above results may be represented as follows to obtain an indication of the kind of profit margins on exports in relation to domestic sales:

		nP. per yard.	
	Half crepe	Taffeta	Satin
(*i*) Cost of production plus excise duty .	154	212	262
(*ii*) Cost of production less drawback of duty .	134	172	211
(*iii*) Export prices	70	90	100
(*iv*) Local prices	206	212	237
(*v*) Difference between export prices and cost of production (*ii*-*iii*)	64	82	111
(*vi*) Premium realised on import entitlements (bases same as shown in paras 28-29) .	111	143	159
(*vii*) Net profit on export sales (*vi*-*v*) .	47	61	48
(*viii*) Profit in internal sales (*iv*-*i*) . . .	52	Nil	—25

There is one notional element in the calculations in that the cost of yarn has been worked out on the basis of market prices. In actual practice, a unit does not have to obtain its entire supplies of yarn in the open market. This applies not only to exporting units, but also others who receive actual user allocations of indigenous yarn. This partly accounts for the sort of results obtained for satin fabrics where the average yarn consumption is quite high, and in respect of which the market prices of fabrics do not even balance the cost of production (as calculated on the basis of market prices of yarn). Nevertheless, the results of the above calculations clearly indicate the very great attractions that have existed for export sales in absolute terms as well as in relation to prices realisable in domestic sales.

Final considerations.

31. Judging from the performance so far, the export incentive scheme has been notably successful in promoting exports despite the industry's well-known organisational handicap—the preponderance of small units—and a weak cost structure which entails a loss of as much as 50 per cent on export sales. Two main factors underlie the growth in exports. First, there has been throughout a tightness in the yarn market brought about by the severe cuts in imports. Although indigenous yarn production has increased rapidly, and has more than offset the fall in imports, a substantial expansion of looms engaged in the production of art silk fabrics has produced an atmosphere of yarn scarcity. Secondly, there has been a considerable increase in the overall production and domestic consumption of art silk fabrics which provided the background for an expansion of exports without inpinging unduly on domestic consumption, and at the same time, an expanded base over which the losses in exports could be spread out.

32. Continuation of the present export promotion scheme for securing basically the same results in the future would require a continuance of the underlying factors referred to above for an indefinite period. But the question is whether the underlying coditions

can be counted upon in the future without purposive planning. The increasing importance of indigenous supplies and their projected expansion in the Third Plan requires that results similar to those secured through import controls on yarn will have to be increasingly sought by developing an appropriate scheme for allocation of domestic yarn. There is already a distribution scheme for allocation of the rayon filament yarn under which some 25 per cent of the yarn allocations are directly related to export performance. In the future, these proportions may have to be increased, even as domestic production increases, and imports are further reduced.

33. To ensure the present atmosphere of scarcity in respect of yarn measures would be needed to keep the loom capacity devoted to art silk fabrics somewhat ahead of available supplies of yarn. This could be secured without any large demands for foreign exchange for import of machinery as there are already some 16,000 unauthorised looms engaged in art silk production. Further expansion of capacity may be permitted to the extent necessary by diverting looms in the decentralised sector of the cotton textile industry for this purpose. The suggestion to admit units from the decentralised sector is to be regarded only as a short-term expedient as from the longer-term point of view it will be clearly necessary to plan expansion of art silk weaving industry in terms of economic and modern units. We will revert to this aspect a little later.

34. A further consideration, though this is implicit in the foregoing, is that total production of fabrics should be expanded at a fairly rapid pace. In the past, this has proved to be a valuable aid to exports. Lately, however, the speed with which exports were expanding in relation to production, has led to a sharp reduction in the rate of growth of domestic consumption. This situation will have to be reversed to some extent in the near future to permit a higher share of additional production for domestic consumption. Undue restrictions on domestic consumption through their effects on the domestic price level may increase the attractions of domestic sales *vis-a-vis* export sales. Since the policy would be to maintain a high level of exports, the objective should be to aim at a steady rate of expansion in production without linking it directly to indigenous supplies of yarn. In other words, import policy in respect of yarn should remain flexible, and should enable gaps in supplies to be met to a reasonable extent.

35. The kind of general approach indicated above has this weakness in that the underlying cost factors have been disregarded and that it only provides a stop-gap mechanism through which export subsidisation could continue on the recent scale. Available cost data presented earlier, suggest a discouraging position. The Indian industry is hadicapped by higher costs not only in respect of its yarn supplies but also in respect of other manufacturing charges. In the case of yarn, even if the calculations are made on the basis of *c.i.f.*, prices for imported yarn and controlled prices for domestic yarn, the domestic weaving industry will be still at a disadvantage *vis-a-vis* foreign competitors. The latter obtain their yarn at a price cheaper than c.i.f., prices to the extent they secure their supplies of yarn from their own country and do not have to pay ocean transportation

charges. The Indian industry has also to reckon with export promotion devices applied in other competing countries through multiple pricing system for yard such as those reported to be in vogue in Japan.

36. The main difficulty of the Indian industry, however stems from the fact that it now secures the bulk of its supplies of yarn from the indigenous sources. Although there is a price regulation scheme for indigenous yarn, it does not secure yarn to the domestic weaving industry at the international price. Exclusive of excise duty, the price fixed for 150 denier indigenous yarn is at present Rs. 3·40 per pound, against an international price of Rs. 2·27. Exporters, however, obtain the yarn at a concessional price of Rs. 2·54 even so the price is some 10% above the import price. The problem is not, however, capable of easy solution (*vide* Appendix). A provisional analysis of the cost of the domestic spinning industry undertaken by the Office of the Textile Commissioner shows that in the case of new units, the cost of production of 150 denier yarn is about Rs. 2·90 per pound indicating that export allocations of domestic yarn already involve a subsidy at the expense of the spinners.

37. In respect of *other* manufacturing charges, although no internationally comparable data can be secured, the present position is that these charges (comprising wages and salaries, power, stores repairs, depreciation and return on capital employed in India) amount to 50—60 nP. per yard for the standard export categories, and absorb somewhere between 60 to 70 per cent. of the realisations from export sales. The result is that even if yarn costs are reckoned on the basis of international prices, *cost of production would exceed export realisations by some 20%. The main component of weaving and processing charges is compensation for labour which seems to account for nearly 50% of the total. Other components like repairs, depreciation, returns on capital employed may not easily lend themselves to reduction.

38. The importance of labour costs in the manufacturing bill, underlines the possible contributions to cost reduction through creation of large sized units, using automatic and labour saving equipment. No precise estimates are available as to the extent of cost reduction resulting from the introduction of automatic looms. According to an estimate informally supplied by the Silk and Art Silk Mills Association, Bombay, the saving per yard may work out to 5 nP. per yard. This is perhaps a conservative estimate as apparently it does not allow for the full potentialities in this respect. An essential requirement for realising optimum cost reduction would be

*Cost of production (reckoning yarn costs at international prices).

	Half crepe	Taffeta (nP. per yard)	Satin
Cost of yarn	31	49	62
Other manufacturing charges	51	58	61
TOTAL COST	82	107	123
Export prices	70	90	100

NOTE.—Costs exclude import/excise duties.

to encourage individual units to expand into big sized units so that labour retrenchment problems are reduced to the minimum and the necessary balancing equipment is employed to the best advantage.

39. As mentioned earlier, Government have already made the initial move to facilitate introduction of automatic looms. But it appears, that unless this is conceived as part of an integrated export policy, and inducements offered to the industry for modernisation, the response from the industry may fall short of expectations. There are two or three approaches which are necessary and possible in this direction. One is to limit all further additions to capacity to units using automatic equipment. Secondly, it may be necessary to extend to these units a preferential treatment in regard to allocation of actual user quotas of indigenous (and to the extent feasible, some import quotas) yarn to enable them to undertake three shift working and realise the full economies in respect of their modern equipment. Thirdly, Government may have to be ready to subsidise a part of the costs of automatic looms as these looms will have to be secured to a considerable extent from high cost domestic sources. The policy should be to make these units a kind of a special export sector with their production programme geared primarily to export markets.

40. It may not, however, be advisable to place hopes entirely on the modernisation of the weaving sector for making Indian industry in cost terms fully competitive in foreign markets. Economies will need to be secured in the domestic yarn costs but the prospects in this regard do not seem to be bright. As pointed out earlier, even the present concessional pricing of domestic yarn for export production involves a burden on the spinning industry. Indications are, therefore, that the modernised units themselves will be unable to sell abroad without subsidising these sales. The justification for creating a modernised sector would then be (a) that these units will be in a position to undertake a proportionately larger export commitment with a somewhat reduced subsidy (or inducement), per unit of output sold abroad, (b) that export opportunities can be availed of more readily than now because of the undoubted advantages offered by modern equipment to cater to consumer specifications abroad* and (c) that once consumer specifications are met adequately there are far better chances of realising a satisfactory unit price in export sales. For securing the desired results the units concerned may have to be nurtured into a well-knit organisation with a subsidy programme of their own. Preferential allocation of yarn will clearly have to continue in any future scheme of export promotion and facilities of this type will have to be made available to all units, modernised or not. However, the fact that the modernised unit would be required to sell a much larger proportion of its output than the average unit in the industry, in the foreign markets, would on the former considerable financial strains. Difficulties of this nature should be recognised in advance and appropriate solutions (either in the form of special allocations of yarn at concessional prices or direct financial subsidies) adopted.

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*Importers in most advanced countries seem to prefer pieces of wider and longer weave which are capable of being produced only by modern looms. Equipment in use in India in most cases does not permit production of this type of pieces. It has been mentioned that an import quota granted by West Germany for Indian art-silk fabrics could not be availed of because of the Indian industry's in ability to cater to German specifications.

41. Finally, since it may not be practicable to create the modernised sector all at once, and since for some years to come the main reliance will have to be placed on the present institutional facilities for export promotion, the necessary refinements will need to be effected to secure better results. The situation as it exists today is that the great majority of the smaller weaving units have no interests in export trade, and if, as it happens, most of them are registered with the Export Promotion Council, it is solely for purposes of sharing in the import entitlement schemes. There will have to be a more explicit recognition of the facts of the trade in future schemes.

42. This is already evident in the Government's recent decision to enhance the import entitlement ceilings to Rs. 15,000 per loom. Logically, the next step would be to licence a few export houses on a cooperative basis or as limited concerns for undertaking exports and for participating directly in the incentive schemes. The membership of the export houses may then have to be made compulsory for all units wishing to share in the incentive schemes. Such an organisational change would facilitate a closer supervision of the export trade and may also control the malpractices which at present is impossible because of the very large number of direct participants in the entitlement scheme. Incidentally, the institution of export houses may also help to strengthen the smaller units of the industry whose financial weakness has been a factor making for considerable instability in the domestic prices of yarn and fabrics.

43. As far as possible, the export houses should be organised on a regional basis to facilitate easy procurement of supplies from member units. Each export house should have a core of processing units among its members so that grey cloth produced by smaller units can be converted into finished fabrics for export without relying on outside agencies. A number of practical difficulties are bound to arise in matters like allocation of the yarn entitlements among the member units and pricing policies for cloth procured from them. Before licensing the export houses, their draft constitutions, especially the proposed arrangements for distribution of yarn entitlements and pricing policies will have to be carefully looked into. A simpler approach would be to provide for allocation on the basis of loomage registered with the export house; it should be the duty of the export house to distribute its purchases equitably and take disciplinary action against defaulting units. As regards pricing policies, the export house may be allowed to 'load' the prices of yarn to the extent necessary to subsidise export sales, and also determine the prices at which it will procure grey fabrics or finished fabrics from its members.

Summary of conclusions and Prospects.

44. In view of the peculiar developments in the art silk industry in recent years, the short-term aspects of export promotion have to be considered separately from the longer-term aspects. In the immediate future, there appears to be little that can be done apart from securing results similar to those obtained in the recent past by a judicious policy of combining a relative scarcity of yarn supplies, a reasonble growth in domestic consumption of art silk fabrics, a close link between exports and allocations of domestically produced and

imported yarn, and additions to weaving capacity. This policy would have a far better chance of being realised if the entire export trade is organised through selected export houses who would provide an effective organisational link between the Government, the export promotion council and foreign importers on the one hand and the small producing units on the other. These export houses would also probably be a source of financial strength to the smaller units whose weak economic position makes for inherent instability in the domestic yarn market as events in recent weeks have shown.

45. The longer run policy should be directed to stabilising the art silk industry with a definite export orientation. The growth of world exports of fabrics from man-made fibres has been rapid, and the view is advanced here that the art silk industry can be turned into a growing one serving the needs of exports as well as domestic consumption. The cotton textile industry faces a difficult situation requiring large imports of raw materials, on the one hand, but with declining export prospects, on the other. There is good reason then to turn to newer lines which offer better prospects. Given appropriate incentives and aids the weaving sector of the art silk industry may gradually outgrow its present organisational handicaps, and together with the spinning units which are organised mostly as large-sized modern enterprises, the industry has a significant role to play both in meeting the growing needs of cloth within the country and in the export trade. With consumer preference gradually shifting towards finer and Glossier varieties of cloth, rayon and synthetic fibres are emerging as substitutes for finer cotton in respect of which the country has to depend to a considerable extent on imports. The same general trend operating in international markets makes art silk exports a promising foreign exchange earner, and a possible off-setting force against the declining trends in cotton textile exports.

46. To make the industry both export-oriented and competitive would require measures in several directions. In the first place certain basic measures are needed to bring about an organisational reform in the weaving sector and to reduce the high cost of production, so that the export trade can rest on surer foundations. Modernisation of the weaving industry, in respect of which some initial steps have already been taken by Government, should proceed with all speed, with disincentives at present standing in the way being removed also. More specifically, facilities should be provided for introducing automatic equipment both for replacement and expansion purposes, the accent being on setting up big sized units. Introduction of automatic looms in the industry is unlikely to result in any net loss of employment opportunities, as the industry is a growing one, and the targets in the Third Plan aim at a large increase in production and consumption of art silk fabrics.

47. The modernised units should be encouraged to concentrate on production for exports and to this end the appropriate financial inducements which would enable to balance the losses in export sales should be granted. This is necessary because the reduction in weaving costs, even if it be large, may prove inadequate to make Indian fabrics competitive in foreign markets, unless it is accompanied by a reduction in the cost of the domestic spinning industry. Available cost data in respect of domestic spinning industry do not

show any promise of improvement in the next few years. Indications are that even assuming a continuation of the present concessional allocation of yarn to exporters and modernisation of the weaving industry, Indian fabrics may require an export subsidy equivalent to about 20 per cent of the f.o.b., price to be competitive in foreign makets. However, this does not appear to be a wholly unfavourable prospect, because many newer exports, and some of the order industries like cotton textiles, find themselves in need of an even higher scale of export subsidy.

48. The artsilk industry, though not long ago wholly an import dependent industry, has made striking progress towards self sufficiency in recent years. The development of the domestic spinning industry and prospects of self sufficiency in the various raw materials connected with production of yarn point to a situation in the not distant future when the import content in domestic production of art silk fabrics can be reduced significantly, and well below that of fabrics produced from imported cotton. Although the industry has been a large net user of foreign exchange in recent years*, the position is gradually expected to change for the better. Near self sufficiency in yarn, wood pulp, chemicals and development of domestic fabricating capacity in respect of spinning machinery may bring about a virtual balancing of the foreign exchange accounts of the industry during the next 5 to 6 years; from then on, the industry can look forward to its new role as a net earner of foreign exchange.

49. This assumes a viable position in respect of domestic costs and a strongly export-oriented production activity. The art silk industry, particularly the spinning sector, is continuously subject to technological innovations and the Indian industry can neglect them only at the risk of raising its costs in relation to that of its competitors, and of failure to avail of new opportunities presenting themselves in foreign markets. The objective should be to double the ratio of exports from 10—12 per cent. to 20—25 per cent. of total output in about 10 years *pari passu* with an increase in the total output of art silk fabrics. This would also require the adoption of a flexible policy for the import of yarn, because of the importance of total output in increasing exports.

*A calculation attempted in respect of the period 1957 to 1961 regarding the foreign exchange earnings and expenditures of the art silk industry showed an average annual net outgo of foreign exchange of Rs. 19 crores.

APPENDIX

The Cost of Production In the Rayon Spinning Industry

The Office of the Textile Commissioner have recently made an investigation into the cost of production in some of the newer rayon spinning units. Data relating to two of the units, *i.e.*, J. K. Rayon and South Indian Viscose, made available by the Textile Commissioner's Office* on an informal basis are given below. The costs relate to production of 150 denier rayon filament yarn and are expressed in terms of nP per lb. Depreciation has been calculated on the 'straight-line method' on the basis of writing off of the assets within 12 years. Return on capital has been calculated (a) for net block on the basis of 10 per cent. and (b) for working capital at 6 per cent. of the 4 months' costs of production.

Cost of Production per pound of 150 denier Rayon Filament yarn

(in nP.)

Capacity of the unit per day	J.K. Rayon 5 tons	South Indian Viscose 10 tons
1. Raw materials (comprising wood pulp and chemicals)	106	104
2. Textile processing & packing	33	37
3. Manufacturing charges and return on capital	151	154
(*a*) Labour, salaries, etc.	69	44
(*b*) Repairs	4	3
(*c*) Depreciation	30	52
(*d*) Return on capital	48	55
TOTAL COST	290	295

2. The cost as worked out above may be compared with the price (exclusive of excise duty) of 340 nP. fixed by the Textiles Commissioner for 150 denier yarn under the price Regulation Scheme and the c.i.f. price of 227 nP. for imported yarn. As compared to c.i.f. prices of imported yarn, the cost of production of the two newer units is some 30 per cent. higher while the price fixed by the Textile Commissioner widens this difference to nearly 50 per cent. The indigenous spinning industry is, however, required at present to make available about 25 per cent. of its production to exporters of art silk fabrics at a concessional price of 254 nP. This concessional price involves selling below cost in the case of newer units but since the loss affects only about a fourth of their sales, the impact on their profit margins has apparently been small. In the future, the share of production allocated against export promotion scheme may have to be stepped up. But the problem is that even the present

*The Office of the Textile Commissioner, however, bear no responsibility for the analysis and interpretation contained in this note.

concessional price places the domestic weaving industry at a cost disadvantage *vis-a-vis* foreign competitors who obtain the yarn at or below the international price. In the following paragraphs the main factors bearing on the cost elements are discussed.

3. It will be noted from the cost data given above that depreciation and return on capital account for about 25 per cent. of the total cost in the case of J. K. Rayon and about 35% in the case of South Indian Viscose. One should normally expect that a plant with a larger capacity—in this case South Indian Viscose—will have lower capital costs per unit of production but the results are quite the opposite in the two instances. Different sources from which machinery is obtained, imperfections of the international machinery market the shifts in the import control policies in India which tend to have a bearing on the bargaining capacity of Indian importers *vis-a-vis* suppliers abroad, would explain this anomaly. Imports licensed against free foreign exchange resources, in view of the wider choice regarding sources of supply, are perhaps cheaper than those obtained on deferred payment terms. This aspect cannot be ignored in the case of the rayon spinning industry has been obtained on deferred payment terms in recent years. Another factor which must be allowed for—and this is common for all the units—is that the Indian industry which has been developed with foreign technical collaboration may not have had much freedom in negotiating either the best price or in securing technologically the most upto date or efficient machinery.

4. Other main cost elements are wages and salaries, wood pulp and chemicals. So far as wages and salaries are concerned, this item amounted to 44 nP. in the case of South Indian Viscose and 69 nP. in the case of J. K. Rayon their respective weightage in the total cost being 15 per cent. and 25 per cent. In this case at least there is evidence to confirm that unit costs tend to come down with higher capacity. As regards wood pulp, this item usually constitutes a static bill amountng to about 52 to 53 nP. per lb. of yarn. Wood pulp is being imported from abroad. Dependence on imports in this case places the Indian industry at a considerable disadvantage over foreign producers who use locally produced pulp and who do not have to incur high ocean transportation charges which add some 20 per cent. to the f.o.b. cost of wood pulp. The Third Plan assigns a target of 100,000 tons for production of wood pulp, a target which if realised would make the country self-sufficient in this respect. But the progress towards realisation of the target has been slow. Amongst the several units licensed for production of wood pulp, only one unit with a capacity of about 35,000 tons or so is likely to go into production by 1965. There is also no assurance that the indigenous wood pulp when produced in sufficient quantities will be cheaper than the imported product. As a new industry it is bound to experience initial difficulties which might militate against efficient production and any immediate lowering of costs.

5. Chemicals used in production of rayon yarn are mainly caustic soda, carbon disulphide and sulphuric acid. The rayon spinning units usually maintain their own plants for production of chemicals.

These various chemicals cost about 52 nP. per pound of rayon yarn. At present, excepting for capital costs of chemical machinery, and sulphur, there is hardly any direct import cost in respect of chemicals. It is rather difficult to ascertain the handicaps of Indian rayon units regarding cost of production of chemicals as compared to producers abroad. The most important chemical in rayon yarn production is caustic soda. The domestic wholesale prices of caustic soda are found to be some 20 per cent. higher than the unit values of imported varieties.

6. It is not possible to pinpoint the items in respect of which immediate or significant cost reductions can be carried out. As will be apparent from the foregoing, the industry's costs appear to be higher than those of its competitors abroad in all the main cost elements. It may not be possible to count on sawings in capital costs of machinery. A gradual replacement of imported machinery by indigenous machinery may not itself reduce the capital costs unless there is scope for reducing the cost of indigenous manufacturers in this respect. In regard to raw materials, there is no assurance that local production of wood pulp would result in securing supplies at a lower price than imported pulp, while indigenous production of chemicals has not so far helped a reduction in costs, evidence if anything being to the contrary. From the point of view of exports, what is possible is a continuation of the present concessional pricing with some modifications so as to soften their impact on the profit margins of the spinning industry. The suggestion that in respect of yarn allocated against exports, the spinning industry while being required to deliver yarn at the present concessional prices, should simultaneously be reimbursed for proportionate costs of excise|import duties incorporated in its cost structure (such as duty imposed on caustic soda and on imported machinery). The rebates on this account may work out to about 10 nP. per pound.

APPENDIX II

Analysis of the action taken by Government on the recommendations contained in the 165th Report of the Estimates Committee (Second Lok Sabha)

1. Total number of recommendations	20
2. Recommendations that have been accepted by Government (*vide* recommendation Nos. 1, 3, 4, 7, 8, 9, 12,14, 15, 16, 17, 18, 19, 20, referred to in Chapter II)	
Number	14
Percentage to total	70%
3. Recommendation which the Committee do not want to pursue in view of Government's reply [*vide* recommendation Nos. 2(ii), 10]	
Number	1½
Percentage to total	7·5%
4. Recommendations in respect of which replies of Government have not been accepted by the Committee [*vide* recommendations Nos. 2(i), 5, 6, 11, 13]	
Number	4½
Percentage to total	22.5%

GMGIPND—LS I—662 (Ai) LS—10-8-64—1110.