Weekly Notes

Tariff Preference

AUSTRALIA'S decision to give tariff preference to exports of manufactures and semi-manufactures from developing countries has been hailed by India's Minister of Commerce as "bold and imaginative". Without detracting from the merits of the Australian move the context in which it has been made needs to be mentioned. Australia recently refused to approve the new Article 37 of the General Agreement on Tariffs and Trade which requires members to give high priority to reducing non-tariff barriers and to refrain from increasing tariff barriers on imports of interest to the developing countries. The new Article embodies, if only imperfectly, the conclusions of the U N Conference on Trade and Development. Australia's reasons for rejecting if have to do partly with her distrust of the GATT as an arrangement favouring only industrial exports and partly with the anxiety not to commit herself to not raising tariffs in any circumstance. Australian official spokesmen have further explained that in their view across-the-board tariff cuts as required under Article 37 would benefit the developed countries more than the developing ones. By offering to give tariff preference to specific exports from the developing countries the Australian Government has thus retained its control over tariffs and at the same time appeared to be not insensitive to the problems of the developing countries.

Under the preference system adopted by Australia, tariff rates will be reduced by between 7½ per cent and 20 per cent on imports of selected commodities from developing countries. The commodities covered include soaps, leather, carpets, coir goods, electric fans, sewing machines, machine tools, furniture and snorts goods. Two features of the preference system make it less attractive to the developing countries than it might have been. First, the Australian Government reserves the right to withdraw the preferential tariff on imports of a particular commodity from a developing country if in its view the country is "competitive" in the manufacture of that commodity. Thus, for instance, matt-woven fabrics of certain specifications of Indian and Pakistani origin have been considered ineligible for preferential tariffs. Second', along with, the preferential tariffs, Australia has fixed quotas for imports from developing countries of each item. In some cases at least the quotas fixed are very small. A further criticism could be that the list of goods entitled to preferential tariffs should have been longer.

Neither these criticisms nor the fact of Australia's refusal to accept Article *37,* however, negatives the fact that the tariff preference for developing countries is an important step towards the modification of international trade practice to meet the problems of development. Preferential treatment for developing countries is the most important part of the decisions of the UNCTAD and Australia deserves to be congratulated *(or* taking the initiative in offering such preference.

Tariff reduction by developed countries does not, however, automatically open up their markets to the exports of developing countries. These exports have to be able to compete with identical goods produced in the preference-giving country. In the case of manufactured goods at least this well not be easy since it requires a growth of productivity in manufacturing industry in preference-recipient countries which is higher than that in the preference-granting developed country. The benefits of tariff preference will be reduced also if the preference-granting countries consider the preferences as a substitute for aid. The developing countries would then lose on the swing in the form of aid what they gain on the roundabout in the. form of trade. The developing countries themselves do not appear to be adequately aware of this possibility.

Too Much Money or Too Little ?

WITH the end *of t*he busy season the monetary authorities have now to face the problems of the sleck season. The Governor of the Reserve Bank has already given notice to bankers that they would have to cut back credit sharply. And now it has been reported in the press that the authorities intend t*o* keep the screw tight not during the slack season only but the entire last year of the Third Plan. The Reserve Bank is credited with the intention *of* keeping expansion of money supply down to five per cent during the year on the ground that a faster growth would give a fillip to inflationary trends,

If the reports correctly portray the monetary authorities' intentions, then the influence of orthodox quantity theorists is plain enough. But even from the quantity theory viewpoint, the permissible rate of expansion of 5 per cent chosen is intriguing. In a year when national income at constant prices is expected to grow at a rate between 6 and 7 per cent, what exactly is the rationale of a 5 per cent expansion in money supply? Or is *the* Reserve Bank hoping to induce a price deflation in the coming months?

A deflation we may well get, but one not marked by a price fall. The investment of the last few years has created *new* capacity in almost all sectors of industry which has to be utilised while the import restrictions recently clamped are bound to affect production. Where will that leave costs and prices? Besides, what about bank credit to the Government, for monetary expansion is not all the result of credit extension to the private sector. If with the slack season contraction of bank credit, there occurs a simultaneous rise in bank subscription to Government loans, banking statistics may show a gratifying fall in the figure of bank credit without, of course, reducing money supply. Has this possibility been fully considered while setting the 5 per cent growth ceiling for money supply?

No Bounty For Cement-Makers

THE cement industry has been in bad shape for the last four years. Consumers have suffered. Penny-wise price fixation and concern with what was described as concentration of economic: power put the industry in a strait jacket. The cement industry is no more for no less) inefficient than other industries but thanks to the prices set in 1961, its profitability has been consistently and significantly low. er than average, and retention of protits has been wholly on account of development rebate, which is not available for distribution. Till recently, Associated Cement was not given any licences for largescale expansion be, cause it contributes about 40 per cent (against two-thirds before the war) of total output, while the Dalmia-Sahu-Jains have been denied expansion since the publication of the Vivian Bose Commission Report. It is hardly surprising then that inspite of two public-sector plants, a shortage of about two million tonnes has emerged — and manufacturers of cement machinery are waiting for orders.

Some belated recognition of the need for positive action is noticeable now. Government has set up a Cement Corporation but it will take time to deliver the goods. The development rebate has been raised from 20 per cent to 25 per cent which is equivalent, in event of expansion of fixed assets, to an increase of about Rs 6 per tonne of cement. Now, with effect from June 1, the ex-works price allowed to producers will be raised by Rs 4 per tonne and the selling price by Rs 8.35 per tonne. The price increase is meant to offset rise in costs, as laid down by the Tariff Commission formula. Previous increases were sanctioned in June 1963 and June 1964, aggregating Rs 4 per tonne against a cost increase of Rs 5.91 in 1961, claimed by the industry. The industry now claims that the cost increase between May 1964 and March 1965 has been Rs 217 per tonne, exclusive of higher railway freights since April 1965 and the rise in interest rates on borrowings. Since the latest increase of Rs 4 per tonne, like the earlier one, has no retrospective effect, the industry is not terrible enthusiastic about it,

A comparable situation was allowed to develop in the steel industry in the early fifties and had to be set right at great cost later. Spokesman of The cement industry have been demanding an expansion allowance in the price *on* the basis allowed to steel companies. The Tariff Commission is slated to make a fresh inquiry into the industry next year, but there is a case for not waiting that long. A number of steps can be suggested. Retention prices can be increased at the expense of the margin allowed to the State Trading Corporation and a large part of this increase segregated in a special development reserve. Or, following the Raj Committee scheme and on the analogy of sugar, Government and high priority users should get a specified percentage of the output of each producer and the balance of production should be decontrolled.

From Port to Consumer

THE shortage of middle distillates, kerosene and high speed diesel, threatens to upset the precarious stability of prices which had been established in the last few months in vulnerable areas. The reason for the shortage is two-fold; delays at Barauni which was expected to supply a large part of the eastern and northern markets, and the denial of. foreign exchange to the Western oil companies for the import of these deficit products during April-September 1965. Unless Cochin and Koyali are commissioned on schedule —which is unlikely to happen—the shortage will continue into 1966, As the foreign exchange position got tighter and the demand for kerosene and HSD increased rapidly, Government had two alternatives. One was to ask the oil companies to import deficit products against rupees. This the companies would not, partly in view of possible repercussions in other importing countries. The companies offered a sop in the form of a moratorium on their remittances of profits but this rightly failed to satisfy Government because, among other reasons, there was no offer to reduce prices. The other and immediate alternative which the Government adopted was to step *up* rupee payment imports from USSR and Rumania under existing arrangements and to negotiate with Kuwait and France for cheaper or easier imports. Meanwhile, areas like Calcutta which arc supplied mainly from imports are facing a difficult situation.

Indian Oil Corporation which handles all petroleum imports on Government account has nearly doubled its imports from USSR and Rumania and will, in the bargain, effect a net saving of foreign exchange because these imports are cheaper. IOC's problem, however, is not of import but storage and distribution. Its ability to relieve shortages on an emergency basis is not doubted but arrangements have to be put on a permanent basis if only because it has to handle the capacity production of Barauni by the *end of* the year and later the increasing flew of supplies from Koyali and Cochin. IOC has little storage facility and its distribution organisation is still rudimentary compared to those of Western oil companies. The companies continue to have the products of the Bombay and Visakhapatnam refineries besides imported lubricants which are still relatively unrestricted. They will not handle oil (crude or refined) from the communist countries through their own network nor will they place indents upon IOC. At most, they might agree to temporary leasing of storage facilities; they can be compelled to do so under emergency powers. Their dealers are all captive and cannot walk over to IOC except at great loss. While much has been heard about IOC'S import programme, one would, therefore, like to know a little more about its arrangements for storage and distribu, tion, apart from bulk sales to large consumers.

Capital View

Romesh Thapar is away from Delhi. Capital View will be resumed on his return,

— Ed.

Coal Folly

THERE is only one bona fide reason we can think of for the appointment of a committee to study the prospects of coal exports—that the government is abysmally ignorant of the conditions in the world fuel market. At the present prices, mineral oil is a cheaper fuel in almost all uses; the only assured uses for coal are in the making of coal-based chemicals and of coke for blast furnaces. Where it is particularly cheap, it is barely competitive with oil in thermal power generation.

If coal continues to be widely used in spite of being uncompetitive, It is partly for historical reasons and partly due to deliberate government policy. Many of the world's older industrial plants use coal as a fuel, and railways have large fleets of steam engines; coal continues to be used where the conversion to oil is expensive or impossible. Britain, France and Germany levy discriminatory taxes *on* fuel oil in order to prevent precipitate unemployment among coal miners, and many countries, including India, protect; coal mining for balance of payments reasons. The reasons behind India's present coal exports are largely historical —the bulk of them goes to East Pakistani jute mills.

In these circumstances there are three principal ways of stimulating coal exports. First, we might give a whacking subsidy on coal exports to make them competitive with oil and promise to continue the subsidy over a long period. However, since the relative price of coal to oil is lower at nome than in the international market owing to the oil duty, it would be more sensible to save foreign exchange on oil by subsidising home consumption of coal Second, we might take payment for coal from imports abroad in their own currency; some scope for doing so exists perhaps in South-East Asia, Ceylon and East Africa. Then, however, we would require to enter into trade agreements with the coal importing countries and to shop around to see what we could buy from them. The idea of Afro-Asian trade co-operation or payments union is worth pursuing,