HOW CONTROLLED INDUSTRIES WORK IN INDIA—A CASE STUDY

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

INTRODUCTION

Even to ardent advocates of planning in India, like myself, the working of controls under the present mode of planning has come in as a serious shock. Authors of the Bombay Plan and others had hoped that planning in India would mean effective mobilisation of scarce resources and consequent rapid and largescale economic development. Controls are needed to achieve this objective. But under the Soviet model of planning implemented in our country through the Second and Third Five-Year Plans, the state has sought to take over as many economic activities as possible and laid down extensive and intricate controls. In the process, a large bureaucracy has been created; regulation has bordered on regimentation; and controls, instead of helping rapid economic growth, have effectively hindered it. The story of the steel industry is a case study in point.

The steel industry in India is a saga of the vision and dynamism of private enterprise. Its record is a matter of pride to any patriotic citizen. The industry operates under the most stringent controls; and yet shows remarkable results. The recent decision of the Union Government brushing aside the Tariff Commission's recommendations on the retention price of steel has not only focussed public attention on the inequities and absurdities that can be and are perpetrated in the name of "social justice", but also illustrates how national economic development is hampered.

The statement by Sir Biren Mookerjee, Chairman of the Indian Iron & Steel Company, although addressed to IISCO shareholders, is an excellent analysis of the working of the steel industry as such under the controls dispensation. The cogent presentation of facts in a dispassionate manner by one who has devoted the best part of his life to the service of Indian industry and economic development needs serious attention of the public. Also of interest are his views on the practical way of expanding the steel industry in India. The Forum of Free Enterprise has, therefore, thought it fit to present salient excerpts from the speech to the public of India which is the ultimate arbiter of the country's destiny. I have suggested the title of the booklet, "How Controlled Industries Work in India — A Case Study". Two brief prefatory notes on the Tariff Commission and the steel retention price have been added to give the necessary background material to the lay public not conversant with the technicalities of the steel industry.

We are grateful to Sir Biren Mookerjee for permitting us to use his speech and to Mr. S. V. Rayan, Editor of "Commerce", for help in preparing the prefatory notes.

A. D. SHROFF
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PREFATORY NOTE A
The Tariff Commission

The Tariff Commission, set up under the Indian Tariff Commission Act. 1951, started functioning in Bombay in January 1952. It met a 30-year-old demand for a permanent tariff body to examine and review cases for granting protection and was considered as the logical outcome of the recommendations made by the two Fiscal Commissions of 1921-22 to 1949-50.

The Tariff Commission is a quasi-judicial body not under the control or subject to the direction of any Minister, but guided solely by the general directions given to it by the Tariff Act. It is a permanent body.

The functions of the Commission, as set out in the Indian Tariff Commission Act, 1951, are wider than those of the previous Tariff Board. These include (a) inquiry and report on the grant of protection for the encouragement of an industry; (b) variations in the customs or other duties for the purpose of protecting an industry; (c) action to deal with dumping and abuses of protection by a protected industry; (d) inquiry and report on the effects of protection on the general price level and cost of living; (e) the effects of tariff concessions given under trade agreements on the development of specified industry; and (f) such other matters as tariff anomalies. Further, it has been invested with powers to consider claims to protection not only from established industries, but also from industries which have not yet started production and are not likely to do so unless protection is granted to them.

The Tariff Commission can, on its own initiative, start inquiries in regard to industries already enjoying protection. But it cannot institute an inquiry on its own initiative regarding initial grant of protection and the fixation of prices of particular commodities. In these two later cases, it can act only on reference from the Government.

The Commission is now responsible for investigating into the working of protection periodically and reporting to the Government. The responsibility for examining the special conditions that might have been imposed on a protected industry is vested in the Commission. Further, the Tariff Board has wide discretion in regard to the determination of general principles relating to fixation of tariffs and obligations of protected industries.

The Tariff Commission is free to decide the duration of protection according to the requirements of each industry, both for the initial grant of protection and at subsequent stages of its development.

As regards the Tariff Commission's function of fixing fair prices payable to producers, the following excerpts from an article by a former Chairman of that body, Mr. C. Ramasubban, in the "Commerce" Annual of 1959, will be found interesting.

"Pragmatic and social considerations have been the basis of the terms of reference in regard to price inquiries. In the case of iron and steel produced by the major producers, the Commission was requested to determine the retention prices payable to them, while the prices recoverable from consumers were laid down by the Government...

"A study of its several reports would go to show the resilient approach to price policy, its assessment of the social and economic purpose of price control and regulation, and its concern for the interest of consumer alongside of continued attempt to reconcile them with those of producers . . .

"A tradition has been established whereby the Commission has never failed to make forthright recommendations in all deserving cases. Its expertise and objectivity as regards the development and regulation of industries have been established over a period of years, thanks to the mechanism employed by it for conducting its inquiries and the very capable and experienced secretariat which it possesses."

PREFATORY NOTE B

Retention Prices

Ever since the Second World War and thereafter, the supply of such essential goods as steel, cement, paper, cotton textiles, sugar and caustic soda, to mention only a few, has been lagging behind demand. If the operation of free market forces had been permitted, their prices would have gone up tremendously, thereby causing great hardship to consumers. In course of time, however, the supply would have increased and the abnormal situation would have corrected itself, for, attracted by the large profit-margin, new entrepreneurs would have entered the field of manulacture and the existing manufacturers themselves would have expanded their capacity

That is the law of supply and demand. But Its operation takes time. In the case of capital intensive, big basic industries such as steel and cement, the interval would be quite long, especially in countries like India where, capital, entrepreneurial skill and technical know-how are not readily available and the necessary capital goods for establishing these industries have to be imported from abroad. Accordingly, the duration of hardship to consumers pending the creation of new capacity will be so long as to create unpleasant complication in a democratic set-up. There will he a hue and cry from consumers. Besides, the general price level itself will be adversely affected, resulting in an inflationary situation. If ail this were to happen in an economy devoted to planned progress, the development programmes would suffer.

Planning has been in vague in India ever since 1951. The Government was not prepared to allow the prices of scarce commodities of essential nature to find their level in a free market. Such a step would have been highly unpopular, besides upsetting the Plans. It, therefore, decided to control the prices payable to manufacturers of goods and also those payable by consumers. The prices payable to the former are known as "ex-factory prices" or "retention prices" as they are more popularly known. The term "retention price" has come into vogue, especially in the iron and steel industry, because that is the price which the manufacturers are allowed to retain from the prices charged to consumers. Ordinarily, the difference between the two should include only the legitimate profit-margin of middlemen between manufacturers and consumers. But, in the case of steel, it also contains a special element meant to subsidise imported steel which costs more than the indigenous steel. This element is credited to a special fund, called the price equalisation fund, controlled by the Government.

The "retention price", that is, the price payable to producers, is fixed by the Tariff Commission after elaborate inquiries into their cost of production. In fixing this price, the Commission makes certain assumptions regarding the utilisation of the rated capacity of plant and machinery. If actual utilisation of capacity is less than its assumption, the manufacturers suffer; if it is more, they gain. The Commission also provides for depreciation and a margin of profit which it considers fair to enable manufacturers to remunerate their paid-up capital st a reasonable rate and to build up reserves for unforeseen contingencies and also for financing, at least to some extent modernisation of plant and machinery and expansion.

The Tariff Commission can fix prices of only those goods that are referred to it by the Government. Normally, the Government accepts the Commission's recommendations. But, in recent years, the Government has disagreed with the Commission in a number of cases, more especially in regard to steel, cement and certain heavy chemicals. In all these cases, the Government thought that the Commission had been more liberal than need be in fixing the profit margin. It, therefore, modified them in a downward direction. There has been no instance, so far as one can remember, of the Government effecting an upward revision of the retention prices recommended by the Tariff Commission.

In law, the Government is perfectly justified in altering the Tariff Commission's recommendation which are only suggestions from an advisory body and do not constitute an award by a tribunal or a court. But, in practice, it would be a healthy convention if the Government did not interfere with the carefully thought-out recommendations of the Commission, based on an impartial and independent study of the problems referred to it. Such a convention would be conducive to engendering confidence among entrepreneurs and investors alike. It would make sure that their fortunes would not be influenced by the whims and fancies of politicians in charge of the Ministry concerned.

Experience of the system of retention prices in the past one decade shows that it has been one of the principal causes for the stunted growth of India's major industries in the private sector. By fixing the profit-margin at unrealistically low levels, the Government has crippled the competitive capacity of these industries to attract enough equity capital from investors and forced them to rely on borrowings. The worst sufferers of this policy are: cement, steel, coal and basic chemicals. This in turn has retarded the pace of India's industrial growth and weakened its defence potential.

HOW CONTROLLED INDUSTRIES WORK IN INDIA—A CASE STUDY

Sir Biren Mookerjee*

AFTER conducting the usual careful investigations, visits to the works and discussions with the representatives of the Steel Companies, the Tariff Commission submitted its report to the Government in April, 1962, having made such deductions and adjustments in costs as it thought fit. It was not until the 7th September 1962, that the Government's decision on this important matter was announced in Parliament according to which steel retention prices were increased by Rs. 10.50 per tonne on an assumed product mix basis commencing from the 1st of April 1960. as against the Tariff Commission's recommendations of an increase of Rs. 38 per tonne over the provisional increase announced by the Government in February, 1961.

Curiously enough the Government apparently did not consider the retention prices of individual categories of steel as important, as these details were only made available on the 12th October 1962. This delay in announcement on Government's part of the category-wise retention prices of steel prevented the Company from closing its annual accounts and presenting the auditors' report within the prescribed period: hence two appeals had to be made to the Company Law authorities to extend the permissible date of the annual general meeting to the maximum limit of 3 months, namely, the 31st December 1962.

The most surprising part of the Government's decision was the drastic and unconventional manner in which the

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Tariff Commission's carefully considered recommendation and mature judgment were turned down fiatly in respect of the normal retention prices for the past two years, ending on 31st March, 1962 as well as a special element that should have been allowed in the retention price in addition, for payment by the Tata Iron & Steel Company and IISCo., of interest on and towards repayment of special advance of Rs. 10 Crores each made to these Companies by the Government.

On the recommendation of the Tariff Commission in 1959, the Government of India in terms of the Resolution No. PS45(112)/57 dated the 25th November, 1959, decided that the Interest on the Special Advance should be charged to the Company as from 1st July, 1958, at 5 per cent per annum and the calculation of a special element in the normal retention price for steel for meeting this interest charge was postponed until after 31st March, 1960, when it was necessary to work out the fair retention price of steel produced by the main producers. As the interest accrued from the 1st of July, 1958, the Company had to, under the Indian Companies Act, make provision for this accrued liability in the past years' accounts and as in terms of an Agreement with the Government of India dated the 15th July 1953, it was expected that in fixing the retention prices of steel for the two years ended 31st March 1962, a special element should be included in such prices to fully cover interest upto the end of this period, a corresponding amount was included in Sales Retention Prices in those years as the anticipated earnings from such special element. This expectation has, however, been belied. Although a special element to cover Interest and Repayment of Special Advance was recommended by the Tariff Commission, the Government of India has, in reversal of its earlier decision, rejected this recommendation. This has put the Company in a very awkward situation. The Interest on Special Advance charged in the previous two years' Accounts has to remain as such but the anticipated compensatory element in steel retention prices amounting to Rs. 1,40,01,141 included in the Accounts of

those two years had to be written back from the current year's "Sales"; besides, whether Interest is actually paid in cash or not, the Company has to go on charging such accrued interest from year to year without a corresponding compensating element in "Sales". Repeated representations have been made to the Government, but it does not seem to realise this difficulty of the Company; it appears to be under the impression that so long as the Company has not to make actual cash payment to Government, it is immaterial whether any special element is included in the prices or not. The Government just cannot realise that the Company does not keep its Accounts, as Government departments do, on a Cash basis but on the normal Commercial basis where any liability accrued, whether paid or not, has to be duly provided in the Accounts.

Tariff Commission's Recommendations and Government's Decision

At long last, that is, after two and a half years, Retention Prices of steel were announced by the Government on the 7th of September 1962 on an estimated product mix basis. Apart from the fact of Government's rejection of the Tariff Commission's deliberations and conclusions, it has come to an *ad hoc* decision totally divorced from the conditions specially laid down in 1953 for the calculation of retention prices of steel, after taking into consideration repayment of loans to the Government and the World Bank (International Bank for Reconstruction and Development), maintenance of regular dividend and putting into reserve statutorily or otherwise sufficient sums in order to enable the Company to remain healthy and to continue to increase production and achieve expansion out of its own resources as and when the country needed extra steel. It now appears from Government's latest announcement in the papers that the Tariff Commission's sins are that it arrived at its conclusions according to these formulae and conditions laid down by the Government earlier and according to which the Board of Directors agreed to accept loans on behalf of shareholders for the expansion schemes. If now these conditions and formulae for calculating retention prices are changed for the worse, as has been announced recently, there is little or no hope of further expansions to the plant.

Government's decision regarding cutting down the retention prices recommended by the Tariff Commission has, as announced on 7th September 1962, been arrived at by :

(a) Reducing the value of the block considered fair. after careful study by the Tariff Commission, from Rs. 1,300 to Rs. 1,176 per tonne.

(b) Reducing the working capital provision to 4 months' cost of production as against 8 months' claimed by us in our representation and 6 months allowed by the Tariff Commission.

(c) Disallowing the inclusion of Rs. 8 per tonne as recommended by the Tariff Commission towards interest on Special Advance and its repayment.

The reasons stated for making a reduction in block are :

(1) The operational efficiency of the plant should be taken at 100 per cent as against 90 per cent optimum considered by the Tariff Commission.

(2) The capital block of Rs. 10 Crores received as Special Advance from the Government should be excluded.

Apart from reduction of Rs. 8 per tonne on account of the Special Element towards payment of interest and repayment of Special Advance, the total reduction effected by Government per tonne of steel from what was recommended by the Tariff Commission comes to Rs. 19.50 per tonne as shown below :—

(1) Reduction in capital block due to deduction of special advance.	Rs. 10.30 per tonne
(2) Reduction of block by taking operational efficiency at 100 per cent.	Re. 6.20 per tonne
(3) Reduction in working capital.	Rs. 3.00 ,,
Total ...	Rs. 19.50 per tonne

As a result of this, the Company has been deprived of approximately Rs. 2.8 crores on despatches of 1.4 million tonnes of saleable steel during the 2 years and will also suffer in future as, we fear, this will also apply to the provisional price to be fixed from 1st April 1962 onwards.

But the story is actually different. The new prices fixed by the Government for individual categories of steel will only enable the Company to earn an increase of Rs. 8.53 per tonne as against Rs. 10.50 per tonne announced by the Government on the despatch of steel made during the last two years.

The target of operational efficiency as contemplated' by the Government recently should have been based on an approach inspired by lessons of realism and past experience rather than dogmas. Nowhere in the world have steel plants been rated to operate at 100 per cent of their rated capacities. It can only be expected over short spells. The Tariff Commission very rightly adopted 90 per cent efficiency as a factor of normal operation. I quote below some interesting figures of capacity utilisation as published by the **U.K.** Iron & Steel Board (vide para 65—Annual Report—1961):—

Year	% capacity utilisation assumed by the Board	Actual Operation
1954	90	98.0
1955	90	98.0
1956	90	97.0
1957	90	96.4
1958	90	87.1
1959	90	78.9
1960	90	93.9
1961	90	88.5
Average over 8 years		92.2

Although the average of actual operation works out to 92.2% the Board for calculation purposes maintains 90% as the target of capacity utilisation.

It may not be difficult to attain 100 per cent efficiency occasionally, but provision must be made for bad weather and unfavourable circumstances which do arise more often than not and over which no management control can be exercised; in our case the transport and raw material difficulties are well-known. The fixation of block value at 100 per cent utilisation of capacity in the steel industry is unrealistic and I am afraid, will be of no help to the industry. It is my sincere suggestion that the matter should be reconsidered and given a second thought by the Government. It must also be remembered that when vital issues of this nature are referred by the Government to an independent semi-judicial and expert body like the Tariff Commission, its recommendations should not be flouted in the manner in which it has been done in this case, as it is bound to undermine confidence in the private sector and definitely make foreign aid participation very doubtful.

As regards the disallowance of the Special Advance of Rs. 10 crores from the block a great deal has been said. both in Parliament and outside it, about this interest-free loan to the Company by the Government. I have so far refrained from answering queries from stock holders, financial journals and papers, as I thought it to be Government's duty to explain the reasons and motive behind such a loan first to Parliament. Since 1958 Government's ideas on the repayment of the interest-free loan have been undergoing many changes, some even contradictory. It is only fair to stock-holders that I should now take them into confidence and explain how this interest-free loan of Rs. 10 crores came into being.

At the request of the Government of India, Mr. Eugene R. Black, the World Bank President, paid a visit to India in February 1952 to acquaint himself of the broad aspects of the country's development programme in the light of the Five-Year Plan. On the 17th February he, accompanied by

Mrs. Black, Messrs. Joseph Rucinslri, Chief Economist of the Loan Department, Leonard B. Rist, Director of Economic Department, and Harold N. Graves, Director of Public Relations, arrived at Burnpur on a two-day visit to have a first-hand study of the Company's 'expansion programme.

Being satisfied with the merit of our expansion scheme, he was kind enough to send to India in June 1952, a Fact Finding and Feasibility Probing Mission of four members headed by Mr. George D. Woods, one of India's best friends outside the World Bank and the President of the First Boston Corporation of New York. The Commission consisted of Mr. Woods, Mr. Maccurda, his personal adviser, Mr. Joseph Rucinski of the World Bank and Mr. Carl Fiesher, Technical Consultant to the Bank. They visited our Works and went into the details of the First Expansion Scheme with the Company's Consulting Engineers and the Works' senior executives. On being satisfied with our scheme generally in every respect, discussions with the Government were started in Delhi directly afterwards. At these discussions, the then Finance and Commerce & Industries Ministers were present along with thair respective secretaries and advisers. IISCo. was represented by my colleague, Mr. F. G. Liversedge, and myself. At the conclusion of these discussions, the World Bank's representatives agreed to put the matter up to the World Bank Directors, subject to a detailed scheme of the plant proposed, its costs broken up into foreign exchange and local currency, the legal aspects of mortgage of all lands and property of the Company etc., considered. The foreign exchange requirement to be met by the World Bank was approximately estimated to be Rupees 15 Crores or 31½ million dollars. ,Government's loan to the Company on the same terms and conditions, but ranking second to the World Bank and the then debenture holders, was set up approximately to be Rs. 7.9 Crores. The Company was to find an equal amount, namely, Rs. 7.9 crores, from its own resources. It was then found, a further Rs. 10 crores was needed for financing the entire scheme, as well as to meet the working expenses. The question then arose how to bridge this gulf. The Woods Commission came to the conclusion that the then Tariff Board's function as directed by the Government in the case of the steel industry, was not so much as to find ways and means of protecting the indigenous industry from foreign invasion but to prevent it from claiming a higher world price for its commodities, obviously for Government's own benefit; the Government, therefore, in all fairness could hardly refuse to find for the industry the needed amount, and they said, if I remember correctly, "Whose money are you giving away and to whom; in the case of jute, tea, sugar, copper and other such commodities, the industries are allowed to claim or sell at the highest prices the World market was willing to pay, but in the case of steel, the industry was beaten down by the Tariff Board on a framed-up formula fixed by Government. All that the Government has to do is to remove it and the steel industry would no longer need financial aid from Government, other than a guarantee of the repayment of foreign exchange loan". After a couple of days' thinking, the Government agreed to find the money as a loan which the World Bank's representatives thought should be "rent free", meaning interest free. The Ministers agreed to the loan to be termed as a Special Advance and interest free, but thought in order to avoid questions being asked in Parliament, the whole or part of the corpus should be repaid some time, i.e., when the Company was opulent enough to do so and no further expansions were contemplated. The World Bank representatives were of the opinion that so long as it was agreed that the amount would only be paid, both interest, if any, and the corpus out of a special element to be included over and above the normal retention price, they would have no objection. The Government agreed to it, but later thought it should also include the clause wherein it would reserve the right to ask the Company to raise additional share capital for the repayment of whole or part of the corpus as and when the Company was in a position to do so. The World Bank's representatives were of the opinion that this should only be done subject to mutual agreement between the Government and the Company.

The World Bank's representatives then went on to

explain that the primary function of the I.B.R.D., whose capital was subscribed by a number of nations, was to rehabilitate and/or expand industry in the private sector only and in doing so to enable such industry to remain in a healthy financial position in order that it could expand on its own, and further, the Tariff Board must be instructed by the Government that it must pot, as in the past, take away incentives from the Company in the way of any operational efficiency or savings in the cost of production or by increased production, and a normal depreciation and a reasonable return on capital etc., should be maintained. Both the Government and the Company agreed to these principles and the Government issued new directions to the Tariff Board which later on was converted into the Tariff Commission with statutory powers. It appears the Government now wishes to resile from its previous commitments and undertakings it had then made.

The recommendation by the Tariff Commission of Rs. 8/- per tonne relating to the repayment of Special Advance and interest thereon has not been accepted by the Government. The reason, in its own words, being "Finally, in revision of their earlier decision taken in 1959, Government now consider that it is not necessary to provide an element in the retention price for the payment of interest on and repayment of special advance. The agreement with the Companies provided for an alternative method of repayment of a part of the Special Advance with interest, namely, issue of share capital by the Companies at such time or times as the Government of India may, in agreement with the Companies, decide."

For the benefit of the stock-holders I give below the relevant extract from the agreement between the President of India and the Company dated the 15th of July, 1953:—

Clause 1 (iv) (c) :

"The Government of India shall decide, on the advice of the Tariff Commission, whether after the 30th June 1958 (or such later date as aforesaid), the Company should be charged any interest on the said advance and at what rate the Company should repay the advance. PROVIDED that the interest and repayment of the advance shall to the extent to which the same is not paid out of the share capital to be raised by the Company in accordance with Clause 3(c) be payable by the Company out of its earnings arising from a special element in the prices of iron and/or steel over and above the normal retention prices, after deducting from earnings all taxes payable by the Company to the Government of India on such earnings at the rate or rates applicable to the Company's total income during the period ending the 31st March 1969."

It is further amplified later in Clause 3(c) which reads as follows:—

"Notwithstanding the provisions in paragraph (c) and (d) of Sub-clause (iv) of Clause 1 laying down the manner of payment of special advance to make an issue of share capital at such time or times as the Government of India may call upon the Company to do and to repay out of the proceeds of such issue a portion of the special advance. The proposals for any such issue (included the timing, the amount of the share capital to be so raised and the portion of the special advance to be repaid out of the proceeds of the issue of shares and other particulars relating thereto) shall be as may be agreed between the Government and the Company."

It will be seen, therefore, the intention of the Government in 1953 in regard to expansion of the steel industry in the Private Sector has undergone a very great change, for if the Company has to raise capital to repay the advance of Rs. 10 crores, and this contention is upheld by the Government it virtually means saying good-bye to any future expansion, even if it be for merely the balancing of our plant and thereby effecting a fully economic unit.

Apart from all that I have said in this connection, I

utterly fail to see any logic or justification in the Government's action in deducting the corpus of the Special Advance of Rs. 10 crores to arrive at the standard block on which overheads are to be allowed. If the Government has now changed its mind and treats this money as a free gift, i.e., neither interest nor repayment of the corpus being required, then there may be something in the Government's contention. But in its recent statement made on the 19th September, the Government has reiterated its stand regarding the repayment of the advance and indicated that it could ask the Company to repay this Special Advance out of an issue of fresh capital. Therefore, it is not a gift and if that be so, then on what ground can Government take, this totally unreasonable and unrealistic stand ?

It can be safely vouched and nobody will deny the special position and importance of the steel industry in our country, particularly in an era of expanding economy based on rapid industrialisation. Contribution made by this Industry in the past, specially in the field of saving foreign exchange is very considerable, and this is explained clearly in the appended two charts (A & B) showing—

A. The net price per tonne of steel given to the producers, the price paid by the public and what it would have cost the country if imported from overseas.

B. Saving of foreign exchange effected due to indigenous production over the past ten years, in other words, the cost of a new one million ton capacity integrated steel plant.

That then has virtually been the contribution of the two steel plants in the Private Sector. Does it therefore behove the Government to accord to this industry the perfunctory and niggardly manner of treatment it has been subjected to? Is it not a matter of elementary economics that the benefit of maximum possible incentive should be extended to the industry to allow it not only to exist, but to function and produce on as high and efficient a level as is possible? Why then this ire as if the industry has done something terrible, and deny it a healthy climate all round to earn a reasonable return on the capital employed, which is largely being ploughed back from profits and maintain an increasing output, thereby enchancing the growth of national wealth?

When the Government's decision on the retention price of steel was released, there was widespread criticism and the Government made a statement on the 19th of September 1962 in an attempt to justify its official action for reducing substantially the prices recommended by the Tariff Commission. I will now deal with the arguments advanced by the Government item by item and prove to YOU how futile these are.

It was stated that the Government had .accepted the Works costs as calculated by the Tariff Commission and this constituted 70 per cent of the total retention prices. This statement seems to imply that a great favour has been done to the steel industry by the Government, by its acceptance of this major element of the retention price. This is no favour at all. The Government could not help but accept as correct, calculations of Works costs by the Tariff Commission, as these were not estimates of future Works costs, but facts based on historical costs on the actual performances of the producers during the period of price fixation, namely from 1st of April 1960 to 31st of March 1962.

In regard to reduction by the Government of the working capital of our Company to 4 months' cost of production as against 8 months' claimed by the Company in its representation and 6 months' allowed by the Tariff Commission, the reasons given by the Government to justify its stand are based on two grounds:—

(a) That every indentor of steel has to pay in advance 25 per cent of the total value of his order in cash to the steel producer before it can be booked, and therefore, the

Companies invariably had a fairly large sum of money at their disposal.

(b) That at any given time the Companies had large sums of money belonging to the Government in their Possession and these were not actually paid into Government account.

In regard to (a) the statement made by the Government that every indentor had to pay 25 per cent security deposit against order is absolutely baseless. This could easily have been verified from any Government Accounts Officer and it would have been found that no Government department gives any security deposit whatsoever, whereas on the other hand Governments take months to pay your bills. It is a fact that producers dare not ask for any security deposit from the Government, including the Railways, and large well-established customers which constitute more than 80 per cent of their sales. It is only in the case of small bazaar parties that the producers take a security deposit and this too with the Iron and Steel Controller's acquiescence, as no order can be booked without his approval. Some years ago it was found that some of these small bazaar parties having booked orders (for reasons best known to them) were found to be non-existent, or refused to accept bills when the railway wagons arrived at the destination. What then could our Sales Organisation do other than to run to the Iron and Steel Controller for his approval to divert the railway wagons to some other party—in the meantime demurrage accrued as well as the extra freight for diverting the wagons. Who then was responsible for the extra cost of freight and demurrage as our sales organisation was in no way responsible for the order? The then Iron and Steel Controller thereupon decided that for these unknown and unreliable parties the producers were entitled to demand 25 Per cent with the order, in order to reimburse them in such cases of default. These advances are mostly in G. P. Notes and fixed deposits in banks. The interest accruing is payable to the customers and the Company has no access whatsoever to these funds.

To make my point clear, I append below a statement for the 3 years, 1959-60, 60-61 and 61-62 showing the, gross steel sales from Burnpur and the security deposits and advance payments in cash received by our Company:—

	1959/60	1960/61	1961/62
	Rs.	Rs.	Rs.
Gross Steel sales	39 crores	46 crores	50 crores
Security deposit and advance payments in cash	26 lakhs	30 lakhs	29 lakhs
Percentage	0.67	0.65	0.58

In view of these actual figures from the Company's audited accounts, the statement made by the Government seems to be most irresponsible, as during the three years under reference the maximum amount lying with the Company was between 0.67% to 0.58% which is nowhere near 25% stated by the Government.

In regard to (b), the statement that at any time the producers owe large sums of money to the Government is again just a myth. Both Mr. Bhoothalingam and Mr. N. N. Wanchoo, Secretaries to the Ministry of Iron and Steel, have written to me complaining about the large outstanding from the Company to the Government and every time we have written back in reply to prove that Government's statements were incorrect. Moreover, the Government seems conveniently to forget that it is our Company that does it a favour by collecting surcharge moneys on its behalf and further all collection expenses including cash discount allowed by us on the amount of the surcharge are being borne by the Company. Besides, whether the Company receives payment of a bill or not, it is required to pay the surcharge portion of the bill immediately to the Iron & Steel Controller. How can the Government then

quibble over a few lakhs of rupees worth of surcharge money that necessarily must remain outstanding at any time with the Company as claims cannot be finalised within the period?

On the other side of the picture, apart from outstanding bills for materials supplied by the Company, it has to wait years to get reimbursement from the Equalisation Fund in respect of any increases in the retention prices. These increases are due to the Company as costs and overheads have gone up in the meantime and which are beyond the control of the Company. Although it has already been out of pocket to this extent, it cannot claim any reimbursement from the Government unless the Government so deigns, at its leisurely pace to decide on the revised retention price. As an example, in the case of the recent increase in steel prices which are really due from the 1st of April, 1960, the notification by the Government of such increase in the retention prices is dated 7th of September 1962, and the category-wise retention prices were made available to the Company only on the 12th of October 1962, i.e., a time lag of about two and half years. This, in other words, means that crores of rupees due to the Company has been lying with the Equalisation Fund for this period, whilst our Company had to borrow money from banks and pay interest on it to meet its day-to-day obligations.

For the reduction in the return on capital, it has been stated by the Government that our Company, like Tata Iron & Steel Company, had no more than one-fourth of the total capital of the Company in the form of equity capital and that this ratio may have still fallen further. The Government's contention is that the rest of the capital has been borrowed and, therefore, should be treated differently as it was not the stock-holders' money. I append below a statement showing that during the 10 years, i.e., from the date of the Expansion Scheme until 31st of March this year, our Company has contributed out of its own resources—and which really is your money—to the extent of Rs. 34.69 crores, a sum which cannot be sneered at on any account:—

Capital Expenditure and Sources of Funds *during* the *ten* years *1952/53* to *1961/62*.

	Rs. Crores	Rs. Crores	Rs. Crores
Expenditure on Extensions .			
Burnpur—			
1950 Extensions	4.97		
1953 ,,	37.64		
1955 ,,	18.46		
General	5.97	67.04	
Kulti ...		3.76	70.80
Less: Outside Sources of Funds for Extensions:			
World Bank Loans		21.28	
Government of India Loans		7.35	
Special Advance		10.00	
New Shares Issued		7.00	45.63
Extensions financed out of own Resources			25.17

Capital Expenditure financed *out of own* Resources *upto* 31-3-62

For Extension as above ...	Rs.	25.17	Crores
World Bank Loans Repayment .	,,	5.80	,,
Govt. of India Loan Repayment ...	,	2.13	,,
Sterling Debenture Repayment .	,,	1.59	,,
	Rs.	34.69	**Crores**

This, in other words, means that in addition to a sum of Rs. 7 Crores contributed by shareholders as a rights issue in July 1957, a sum of Rs. 34.69 Crores has already been ploughed back from our profits during these years, making a total contribution from shareholders Rs. 41.69 Crores, and this process will continue until all loans, past and future, are repaid.

In my previous statements as well as in the Annual General Meetings in the past, I have made it known that these large sums of money, which shareholders are investing in the Ccmpany from year to year will one day be partly converted into equities. But the Board of Directors were precluded even from thinking about it owing to the penal tax of 30 Per cent, now reduced to 12½ per cent, levied by the Government on bonus issue. From these figures it will be seen that our Company has made contributions towards the expansion scheme in no mean measure. No integrated modern steel plant, no matter what part of the free world it is situated in, can be expanded or modernised with stockholders' money only. It has to take recourse to borrowing funds from banks and the most enterprising and sensible Governments come forward to give them such help as needed in order to reap the benefit of extra production of iron and steel, thereby creating extra expansion in the country's heavy industries etc., as well as finding an outlet for foreign exchange by exporting goods.

The Government also seems to argue that if a part of the gross block is financed by loan capital the structure of the Company's finance should be different and the return on such capital should accordingly be calculated on different lines. To say the least, this is a strange way of thinking on the principles of economics, as it is both unorthodox and unheard of. If the Government had these ideas in mind, it should have, in all fairness and to all concerned, declared them in unequivocal terms when these very loans were being negotiated. It would then have been for the Board of Directors and the stockholders either to accept or reject the terms and conditions at the time and not to have a surprise suddenly sprung on them as at present.

As already stated, the Government's latest contention has been that on account of the special capital structure of the Company and on account of not achieving 100 per cent production, the return on capital should be correspondingly reduced, and for this purpose the Government has decided to cut a slice into the block which is standing up proudly at our Works. But as depreciation is calculated on block, this has also resulted in a reduction in the total quantum of depreciation allowed by the Tariff Commission. Are we not justified in enquiring, why this unwarrantable reduction in depreciation? I can only term this action as adding insult to injury.

It has also been said in Parliament the other day that our Company has earned huge profits during the year under review. I do not know, in the case of a Company like ours, what the yard-stick for this "hugeness" is. All I can say is that the Company has earned only a reasonable profit, commensurate with its requirements and obligations. Besides, uniform retention prices were fixed for all Producers, and if any one Company has earned a little extra due to efficient working, that I should have said, would have been a matter for congratulation and not resentment. I am sure it is not Government's desire to discard all cardinal principles of economic aid to penalise efficiency.

Increase of Steel Production under the Fourth Five-Year Plan

The assessment of the future demand for steel in India is a futile exercise of mind and brain as the quantum is so large as to outstrip the ability to achieve it by any specified period of time.

The maximum achievement can only be accomplished by first concentrating on making available predetermined and realistic quantities of the necessary raw materials, its transport and the power required by predetermined dates and planning the simultaneous completion of matching Steel capacity.

To erect Iron and Steel Plants first, with the pious hope that the raw materials, power and transport will "turn-up" is the mistake of the past and would be a criminal waste of money and energy if blindly followed in future.

Although the type of product required in the future has to be estimated, the estimate must be subjected to continual review as the pattern of product will inevitably change as time goes on. In adopting long-term planning for the development of new capacity, the development potential of the existing capacity must not be lost sight of as it is cheaper and quicker to achieve this than putting down a new plant of the same capacity. Development of capacity should be a continual process and to obtain maximum production with utmost efficiency from existing units, it is imperative that they be kept up-to-date technologically. In these days of advancement in new steelmaking, long before the building of a new Steel Plant is complete, it is more often than not out of date, making it necessary to adopt newer techniques and equipment to maintain an efficient economic and technological balance.

The location of new Steel Plants is of vital importance. The principal influencing factors in the past have been the proximity of raw materials, power, water and adequate rail transport. It is thus very tempting to proceed to locate new Steel Plants along the traditional Iron Ore/Coal rail route. Unfortunately, in our country this route is grossly overloaded now, and in the absence of large-scale railroad development and modern techniques of handling it, the addition of one or more Steel Plants is bound to have a detrimental effect on the units already in existence. Throughout the world, the trend is for bigger and bigger Steel Plant capacity until new plants of 3/5 million tonnes are not uncommon. Therefore, any designing of plants should take into account the probable ultimate size. If the intention is to develop larger plants for export purpose, then the ideal place for them is on a navigable river or sea-board.

The reserves of the basic Iron and Steelmaking raw materials in India have been variously quoted, some of the figures are such that if accepted, would discourage long-term planning of Steelmaking capacity. One such item is lime-stone. but it is difficult to believe that a country the size of India is relatively short of good quality limestone. To establish the truth of the matter, large-scale prospecting must be carried out, uninhibited by thoughts of distance from the consumer. Transport facilities must be developed to match the sources of supply and this would be a much better proposition than spending large sums of money beneficiating local inferior limestones and running into the vexed transport problem.

It has to be accepted that the quality of Coking Coal in India has never been and never will be "good" and that it is worse today than ever before. Here again the calculated reserves are based on inadequate knowledge of the possible existence of coal lying below the normal working depth of Indian coal mines. It has not been conclusively proved that Coking Coal does not exist as valuable reserves below a depth of 2,000 ft. In the meantime, the existing coking coal quality must be improved by washing to produce a product of consistent ash level even if the ash is still not as low as desirable. Conservation of the existing reserves is imperative even to the extent of prohibiting the use of any Grade of Metallurgical Coal for purposes other than Metallurgical. Every effort has to be made to reduce the consumption of Coke per tonne of Pig Iron by resorting to modern Technology in regard to preparation of Blast Furnace Raw Materials and the use of fuel injection coupled with refractory materials to withstand the maximum blast heat attainable.

Of all the raw materials, Iron Ore is the most plentiful

in India and is of high Fe content. Unfortunately, most, if not all, of the ores also contain a high Al_2O_3 content, a factor which contributes to a greater Coke consumption (an expensive item) than would otherwise be the case, particularly where Pig Iron is manufactured specifically for Steelmaking.

The beneficiation of ore in the form of uniform and smaller sizing together with washing should greatly improve Blast Furnace operation and the quality of Pig Iron obtained.

The measures taken to obtain a smaller and regular Ore size will result in a substantial quantity of under-size Ore at the Mines. Many processes have been developed to agglomerate under-size ore for use in Blast Furnaces, each of them having their own merit for a particular set of conditions. None of them has universal application which makes the selection of one or the other a matter of the greatest importance. It is suggested that in view of the vast Iron Ore reserves in this country compared with the reserves of the other raw materials there is plenty of time to study all methods of agglomeration in an effort to find the best possible solution to India's particular problem; which may or may not be the popular method of Sintering.

The washing of Coking Coal will simultaneously produce a discard fraction of middlings, the disposal of which will not be a problem if used for the generation of electrical power. Here is opportunity to alleviate the chronic shortage of electric power. Such Power Generating Stations should be erected in conjunction with or adjacent to several Coal Preparation Plants.

Due to the rapid industrial development of India there is a great dearth of experienced technicians. Training programmes have been organised to create an army of trained personnel required to man the new Steel Plants. This is a gigantic task in itself; unfortunately, it cannot be said to have been wisely handled. Far too many trainees without previous Works experience have been sent abroad for a training of doubtful value when instead they should have been employed in the construction of the plant they would eventually have to operate. Thus a valuable opportunity was lpst in which a large number of selected men destined to be Supervisors or Managers would have matured with the experience of working with their own hands. It is suggested that in future, training programmes should be designed in such a manner that all trainees, irrespective of their ultimate destiny, are required to "work on the job" for an extended period of time before final selection. Training abroad should be limited to those who are already mature to some extent and who can profit most from specialised training. General overseas training is useless. Until such time, and in my humble opinion of some thirty-two years' experience, the country has to bring out highly experienced overseas staff to train our men to man our plants—a matter of ten to twelve years.

The views expressed in this booklet do not necessarily represent the views of the Forum of Free Enterprise.

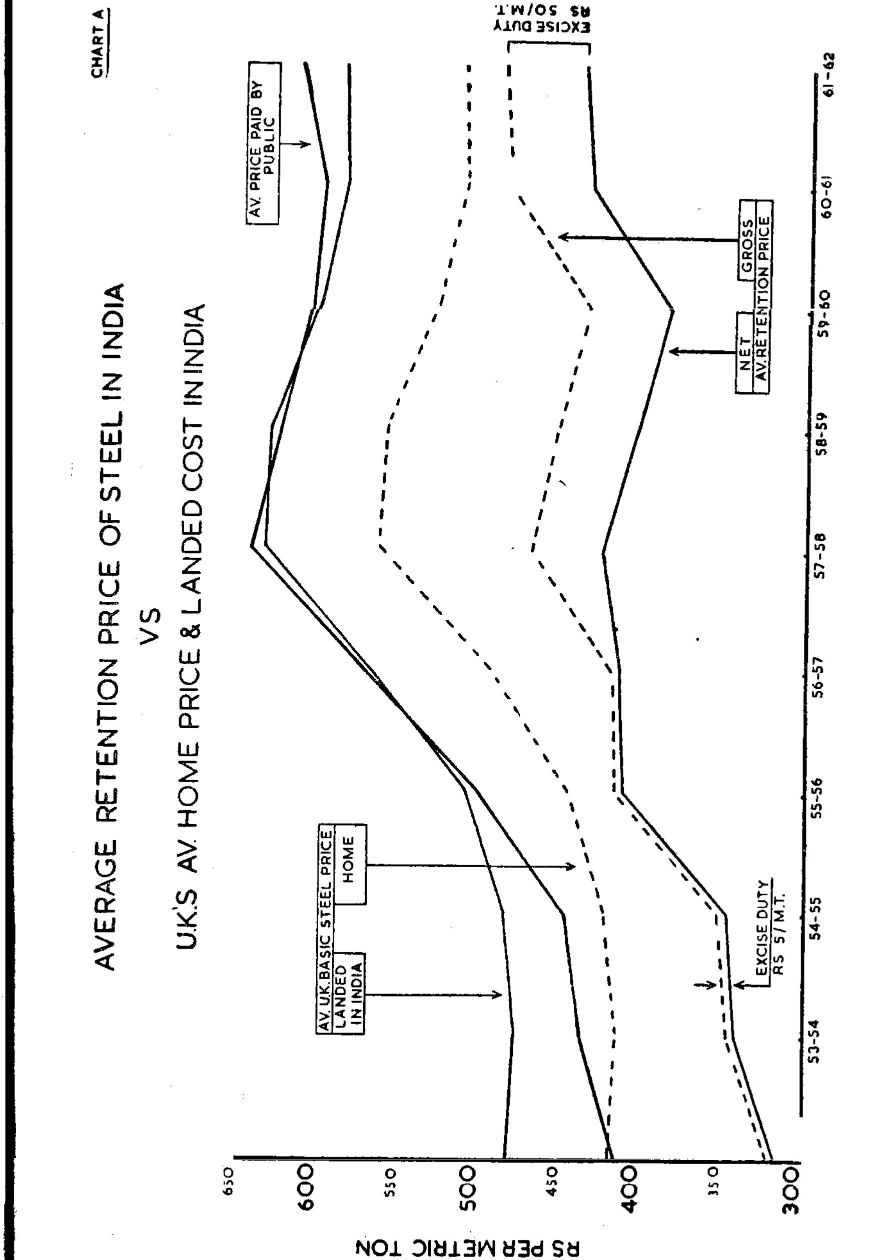
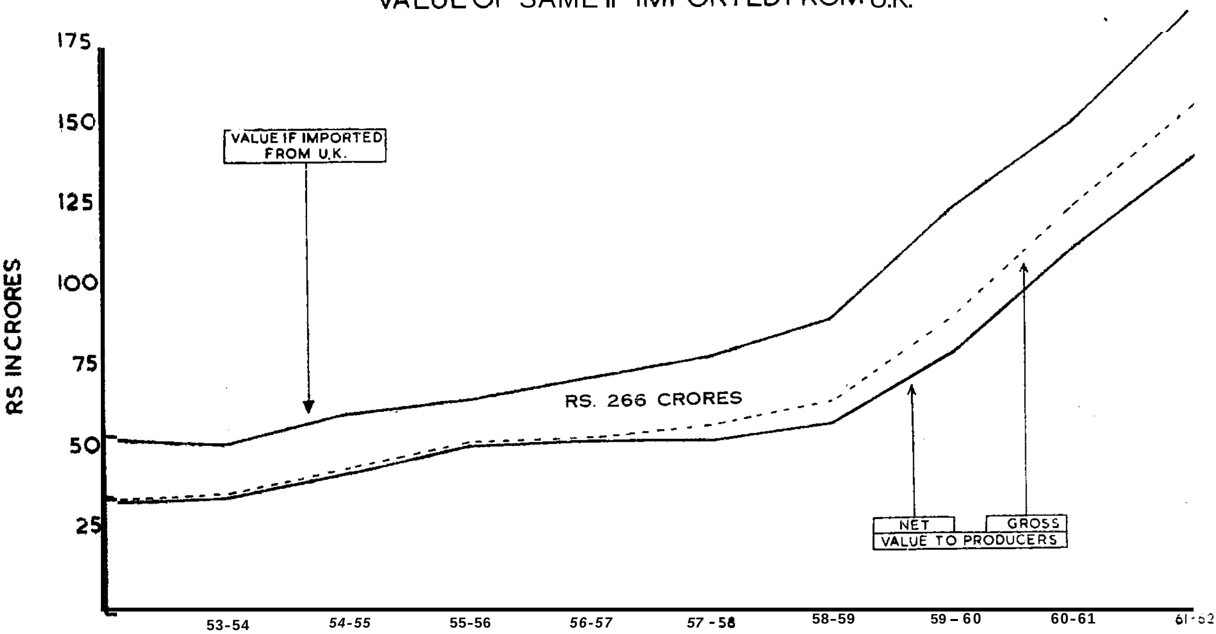


CHART 8

VALUE OF STEEL PRODUCED IN INDIA VS VALUE OF SAME IF IMPORTED FROM U.K.



NET VALUE RECEIVED BY PRODUCERS OVER THE 10 YEARS = RS 660 CRORES
VALUE OF ABOVE IF IMPORTED INTO THE COUNTRY = RS 926 "
NET SAVINGS = RS 266 "

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff

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The Forum of Free Enterprise is a non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

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