Weekly Notes

Leaks in the Barrel

THE Damle formula for fixing prices of refined petroleum products lapses at the end of March 1965. The Government has, therefore, appointed a working group headed by Shri N N Talukdar, a retired Bengal civilian, to examine and report on:

(1) The manner of determination of the ex-refinery prices of refined petroleum products, including bitumen produced by the refineries:

(2) The manner of determination of landed prices in respect of similar products which may be imported;

(3) The determination of marketing and distribution charges of products mentioned in (1) and (2) above; and

(4) The determination of ceiling selling prices in respect of lube oils, greases and specialities.

The Working Group may also consider the possibility of linking prices with the physical supply areas for the products of the individual refineries and consider the possibilities of uniform or pooled prices for the whole of the country or in different zones. This is more significant than appears at first sight. In the case of the foreign refineries, the Damle Committee failed to determine the exact sources of crude supply because the companies claimed to be innocent of the identity of the ultimate suppliers and the prices charged by them to the chain of intermediaries, the last: of which consigned oil to the refineries here. The companies, incidentally, were also unaware of the practice of discounts on refined products as distinct. from crude oil!

In 1961 when the Damle Committee reported, the Government had only Soviet oil to fall back upon. Even that limited backing succeeded in wringing some concessions from the oil companies, though their timing was described as a mere coincidence. Now, with the Barauni and Koyali refineries expected to go into operation in 1965-66, and Cochin also to come on stream sometime later, the Government should be able to persuade the oil companies to have another look at their involved supply arrangements and costing devices.

Meanwhile, the Oil Minister has let it; be known that the new refineries proposed to be set up will follow the pattern adopted for the Cochin one — that of setting up separate Government companies with minority foreign participation. This does not mean, of course, that some of the important: features of the Cochin agreement with Philips are considered satisfactory or that they cannot be bettered.

First, it should certainly not prove necessary in the future to give contracts to the foreign participants for as long as 15 years for the supply of crude oil. Not only can the period of the contract be shortened but it could be restricted to only a part of the total crude requirements. Second, there is no reason why the Government should not insist that management of the refineries should be handed over to it as early as possible, taking into account availability of trained Indian personnel. In any case, it is impossible to argue that making over management for 15 years to the foreign collaborators, as has been done at Cochin, is unavoidable for technical reasons. Third, if the contracts for the Madras and Haldia refineries, which are the ones on the anvil now, go to any of the foreign companies which have marketing arrangements in India, the question of the agency to market the products will certainly arise. Considering that the Government is building up Indian Oil as a nation-wide oil distributing agency in the public sector, it would be difficult to justify any agreement which did not give it the distributing rights.

On the heels of the refineries in Madras and Haldia, others are proposed to be set up at Kandla, Marmagoa and Tuticorin, The decision to set up a diffused net-work of refineries has been based on the consideration that this will avoid transport of petroleum products over long distances. This was one of K D Malaviya's justifications for refusing permission to the existing private refineries to expand and is known to have been endorsed by the French oil expert, Dr Navarre, who was invited by the Government of India to advise it on oil refining and related matters. Is this why the hope that with Malaviyaji's exit the Government's hard line on the expansion of the private refineries would give way to a more accommodating approach has been belied so far?

World Bank and Haldia

A Correspondent writes:

THE Haldia port project has been dogged by the kind of delays to which we have become only too accustomed. And now, it appears, differences have developed between the Government and the World Bank on the economic importance of the project. Originally, the reason for developing Haldia was the rapid deterioration of Calcutta and the continuous decrease in the Hooghly river draughts. It came to be unquestioningly accepted universally that Calcutta could not be saved and that a subsidiary port was essential. However, what was initially supposed to be a subsidiary port rapidly developed into a major port with berths for iron ore, coal, oil, foodgrains and even general cargo. To support such large scale development, the authorities decided to include in the scheme a township which was to depopulate Calcutta.

Initially the World Bank, like everyone else, was full of enthusiasm for the project. But it took only a prefix minary examination to show that the commodities which were proposed to be exported from Haldia were cither not likely to move from that area *or* would not be moving in sufficient quantities to justify a major port. One of the most important commodities that was to be exported from Haldia was iron ore. The World Bank soon discovered that with the development of Goa, Visakhapatnarn and Paradeep, the entire iron ore export of India could very easily be handled without Haldia.

So a case was sought to be made for Haldia on the ground that there would be enough coal and oil for movement through the port to justify it. Coal, however, was speedily dropped when the Railway Ministry pointed out that it was actually considering reducing movement of coal by sea from the present two million tons. The Railways now feel they are in a position to cope with internal movement of coal and as Indian coal has never had an export market, it was difficult to make out a convincing case based on coal. Haldia's latest prop is oil. It is now proposed to set up a large refinery, fertiliser plant and petro-chemical complex in the hope, one almost suspects, of persuading the

World Bank to put up the money for the port.

Recent reports indicate that the World Bank is showing little inclination to bite. In fairness, it must be said that they have good reason to baulk against giving aid on the basis of the poor project reports which have been prepared. It is to be hoped, however, that the World Bank will not throw out the baby with the bath water. The basic problem of deterioration at Calcutta remains and the argument that, it requires a subsidiary port is justified. However, as to the size and the type of port that should be built, no decision can be taken until Calcutta has been given a reasonable chance to recover.

In spite of the bitter complaints that one hears about the poor performance of Calcutta, it needs to be stated that the river has not been given a fair chance. The incompetence of the authorities in purchasing even the simplest equipment, the time they have taken in building up a fleet of dredgers and the money they spent on needless and futile surveys — all have contributed to the neglect of Calcutta. The fact is that Calcutta requires large scale improvement not only of the river but of the port as well. It is not, and never will be, a great port for the export or import of bulk commodities, but that is not necessary. Bulk commodities can with reasonable facility move elsewhere and are in fact much better handled at other ports. The real value of Calcutta is that it is a great general cargo port — commodities like tea, jute, and machinery form the basis of the movement from Calcutta and these can be adequately handled by the present port wtih some improvements. It is a great disservice of the Haldia port scheme that it has diverted attention from the resurrection of Calcutta.

Banking in 1963

TWO interesting facts which had tended to escape notice are brought out in the Reserve Bank's report on the Trend and Progress of Banking in 1963. The first is that unsecured advances increased over the year by 30 per cent against an increase of less than 16 per cent in 1962. Secured advances, on the other hand, went up by only 8 per cent against nearly 10 per cent in the previous year. Unsecured advances amounted to Rs 54 crores in 1963 and they accounted for 16 per cent of the total credit expansion of Rs 159 crores in 1963. The Reserve Bank explains away this unusual increase with the statement that "whereas the comparatively small rise in unsecured advances during 1962 was due to the earlier control measures and moral suasion by the Bank, the large rise during 1963 (a good part of which was in respect of industrial concerns) reflected the pick-up in industrial activity in the latter half of the year."

It is difficult to swallow this explanation. The expansion in unsecured advances is particularly significant in the context of the Reserve Bank's efforts to curb such advances and the change in its lending policy announced in March following the large credit expansion during the busy season. Of course, an increase in unsecured advances need not necessarily be an undesirable development, especially in a traditional banking set up which places far too much emphasis on conventional security. What makes one view the development with apprehension is the suspicion that it placed larger resources at the disposal of those borrowers who, perhaps, deserved it less than others. It is no consolation to know that "a good part" of the increase went to industry. This implicit legitimisation of all advances to industry is clearly unjustified. Who got all the unsecured credit, for what ostensible purpose and for what was it actually used? The Reserve Bank could throw a little more light on these questions.

The second interesting fact revealed by the report is the striking reversal of the trend of increase in time deposils which had been noticed for some lime. Demand deposits of scheduled banks increased by Rs 180 crores and time deposits by Rs 103 crores in 1963, against Rs 84 crores and Rs 149 crores respectively in the previous year. The reversal is attributed to a number of factors, including the statistical re-classification of a large part of savings accounts as demand deposits following the liberalisation of rules regarding withdrawals, and the introduction of statutory reserve requirements on a uniform basis of 3 per cent, instead of 5 per cent of demand and 2 per cent of time deposits which had been in force since the establishment of the Reserve Bank in 1935. Among other factors responsible were, it is stated, the contributions to the National Defence Fund, the general state of uncertainty during the year and the diversion of fixed deposits to non-banking companies.

Cloth Control

ONE of the advantages of controls over the prices of essential consumer goods is that, regardless of the actual market prices, the cost of living index remains relatively stable and, therefore, demands for increases in dearness allowance can be resisted with some show of reason. From this point of view, the voluntary control on cloth prices through price-stamping has proved useful, even though the actual prices now are 30 to 40 per cent higher than in I960, when control was introduced. It is, of course, difficult to compare present prices with those prevailing in I960 for the pattern of production has been rapidly changing in favour of finer and more expensive varieties and a number of varieties which came under the stamping scheme originally have practically gone out of production. It should be said for the scheme that while mills have evaded control by changing varieties and stamping prices largely of their own choice, retail prices on the whole conform to the stamped prices.

This is not to say that there is a case for the continuance of the present arrangement — industry demands a price increase to compensate for higher costs, traders are extremely unhappy about the premiums they have to pay for the so-called 'popular* varieties, and the consumer has to pay higher prices anyway. What is the way out? The Tariff Commission is believed to have recommended a rather complicated formula for fixing the prices of different varieties, but. the Government clearly has no intention of taking on such onerous responsibilities. Indications are that Government and industry would probably agree to a formula under which expensive varieties would be decontrolled but mills would have to earmark at least 20 to 25 per cent of their output for standard varieties of mass consumption and sell them at controlled prices.

The industry has demanded more or less a guarantee that the controlled standard varieties would he lifted. It should not be difficult to give such a guarantee by fixing a floor price for various varieties, grouped by count of yarn, construction of cloth and price. This floor price should be based on the floor price of the grades of raw cotton normally used for these varieties. The grouping of varieties is mainly a technical job which can be done without much difficulty, but the