

CHAPTER XIX

INTERACTION OF RAW JUTE AND JUTE GOODS PRICES

In the short period.

Normally, the prices of jute and jute goods would react in the short period to the demand and supply factors for each. High prices of jute will push up prices of jute goods. At that stage, due to fall in demand for jute goods on account of the resistance to high prices or emergence of competition from other producers or increased demand for substitute products for jute goods, their prices will tend to fall and this will ultimately bring down the prices of jute. Conversely, low prices of jute will stimulate demand for jute goods as a cheap packaging medium and this will show itself in an increased demand for the latter causing a spurt in jute prices. The supply position of raw jute has an important effect in the short period as jute is a seasonal product. On the other hand, the prices of raw jute have not followed in any way the trend in the real costs to the cultivator. Since as the industry forms the sole buyer, the demand factor would predominate so long as there is consumer's market for jute goods. Thus, in the short period, if demand is strong and supply of jute is short the latter will be main determinant. Divergence between price trends of raw jute and jute goods is not normally great. But there is always a time lag in the movement in the price of raw jute and jute goods.

in the long period.

Over the long period, the principal factors which would govern fluctuations in prices of jute and jute goods are the general level of commodity output in the world market. As the output of the jute industry is mainly for export, the demand in the world market is naturally the most important factor. It is circumstanced by the seasonal variation in the size of agricultural crops, the comparative position regarding use of substitute packaging materials and the extension of bulk handling methods. Fluctuations in overseas demand have therefore a big influence on prices.

On devaluation of the rupee, a high export duty was levied to mop up the enormous profits that were being made in overseas markets when our export prices of jute and jute goods were under control. Since then competition from overseas markets has increased and over a period, prices of hessian in the U.S.A. market has began to decline. The share of India in the U.S.A. market was thereby being slowly reduced. It has been stated that with the level of the duties that prevailed, foreign purchasers who had newer and more efficient machinery were able to produce jute goods more cheaply and were always able to underquote Indian suppliers in the U.S.A. market. We have not been able to obtain from any witnesses who appeared before us any useful data to show comparative costs of foreign jute manufacturers. Over the period of decline in prices, Government had kept the position constantly under review. Successive cuts in the rate of export duty, reduced it to a level at which admittedly the advantage it was reported to have given to foreign manufacturers was removed. If the Government tax policy has affected the market for Indian jute goods, it was not on account of the fact that the duties at the level they were in force were excessive and had engendered justifiable opposition in buying countries, but it was for the reason that the purchasing policy of overseas buyers is influenced by their constant expectation of the inevitable reduction in the rates of duty, particularly in a falling market.

Effects of export duty and foreign demand.

Fluctuations in costs of production have relatively small effect because such fluctuations are generally not great and are mainly confined to the extent of variations due to changes in the price of raw jute which is the main element in cost. Other elements in the costs of production have not shown so much variation during the short period, though over a long period—as between pre-war and the present day—due to general increase in wage levels and of incidence of labour welfare measures, they have accounted for a degree of rise in keeping with the general increase in costs of industrial output.

Changes in price of raw jute and wages.

The significance of these market factors affecting the Calcutta market have been examined, particularly in relation to competitors like Dundee or the continental manufacturers or the demand factor like the demand of the U.S.A. In view of price control, there are at present fixed prices for internal consumption in the U.K. and

Overseas competitors.

therefore U.K. prices have had comparatively little effect on Indian prices. As in the case of Indian prices, continental and foreign mills' prices are determined by world market factors and with the scaling down of the export duty, the competitive advantage of foreign mills has been reduced. The advantage they derived from Indian export duties is sought to be explained by some witnesses on the basis of decline of Indian hessian in the U.S.A.—vide Table XXII below:—

TABLE XXII
India's share of hessian imports into the U.S.A.
(See also Annexure XXVI)

Years	Indias' share	Other countries share
	%	%
1946	97.3	2.7
1947	95.7	4.3
1948	95.7	4.3
1949	87.0	13.0
1950	82.7	17.3
1951	82.5	17.5
1952	82.3	17.7
1953 (9 months)	76.1	23.9

U. S. A market
sent ment.

The I.J.M.A. have pointed out that so far as raw jute is concerned prices of Indian jute goods have been raised for the Indian mills as a result of the bolstering up of prices of Pakistan jute by foreign manufacturers. As regards hessians, U.S.A. market quotation is the main determining factor as that country is by far the largest buyer. In spite of competition from Dundee and continental manufacturers, India is still the largest supplier of hessian. Indian prices are therefore a predominant factor in determining hessian price levels. The effect of the Calcutta prices on the U.S.A. spot and afloat prices may be seen from Annexure XXV.

The trends therein, it will be noticed are parallel. But the change from a seller's market to a buyer's market will be shown from the fact that while in 1951-52 Calcutta prices led the way, in the latter half of 1952, U.S.A. prices appeared to dominate Calcutta prices and have absorbed successive price reductions made possible by cuts in the export duty. Some witnesses have pointed out that by the establishment of a futures market in New York the daily world prices of hessians and possibly other jute goods

might come to be fixed in New York without any consideration for the Calcutta market, sentiment (reply from Champadani Mills). We do not agree that there is any such danger. The establishment of a similar market in India as recommended by us would even out the risk of fluctuations.

Fluctuations in overseas demand have an important effect in the short period, particularly in a market so sensitive to changes like the jute goods market. A large demand stepped up on account of defence requirements from a foreign country, a substantial increase in the seasonal requirements of an importing country or its holding off from the markets for a period (e.g. Australia, China, in recent times) or a large Government contract for bantar or other purpose, are all factors which contribute to accentuate fluctuations when the demand is concentrated over a short period when stocks of jute goods and of raw jute in the country are not large. It is in situations like this that speculation in local markets have had free play. In such circumstances unhealthy speculation in the price of jute and jute goods springs up to the great detriment both of the jute manufacturing industry and the cultivators. Over the period when supplies of raw jute have been short and imports on a large scale from Pakistan were necessary, the risk of speculation could only be obviated by the banning of futures markets. The same was the case with regard to jute goods also so long as there was a seller's market, and the demand was so great or the production so short that export quota had to be fixed. But in the long period, trends would be different. In the case of raw jute the increase in Indian production to attain a measure of self-sufficiency and the position of Pakistan as the largest supplier of raw jute to our overseas competitors are factors which would combat the effects of speculative factors. Similarly, in the case of jute goods also the strong position of competitive producers overseas and the emergence of Pakistan as a producer of jute goods would also circumscribe the scope for speculation. Speculation can not be avoided by merely forbidding it and letting it function illegally. By providing facilities in a regulated futures market where those interested in jute and jute goods trade and industry could hedge their operations so that the effect on market sentiment would not be one of accentuating price differences, there is greater scope of

bringing about price stabilisation. We consider the indication of fair prices together with other measures suggested will allow full scope for competitive market factors within limits and secure what is the most important desideratum for the export trade, a degree of stability of raw jute prices on which depends largely the stability of jute goods prices.*

**Note.*—Shri P. S. Gupta and Shri D. Sandilya are of the view that having regard to the variety of factors that continually affect jute and jute goods markets, there may not be much practical advantage in the scheme of indicating fair prices as envisaged in the Report. They believe that except perhaps at the time of sowings and the marketing of his crop, the grower is unlikely to derive any material benefit by the proposed announcement of fair prices.