CHAPTER II

IMPORT DUTIES

Introductory

The evolution of import duties has been surveyed in the previous chapter. We now examine the revenue potential of import duties with reference to the composition of the import trade and the policies affecting imports.

By 1953-54, industrial requirements constituted an important part of India's imports. In that year, 13·1 per cent. of the value of imports was accounted for by foodgrains, 24·5 per cent. by raw cotton and machinery, 43·2 per cent. by industrial requirements other than raw cotton and machinery and 19·2 per cent. by other items. Import duty revenue formed 21·8 per cent. of the total value of imports. Revenue from import duties on industrial requirements was 19·9 per cent. of their value and revenue from other items (excluding foodgrains) was 43·5 per cent. of their value.

Possibility of increasing the revenue from import duties

2. An analysis of the current structure of import duties reveals that the possibilities of increasing the revenue from import duties through increase in rates are on the whole small. This becomes clear on an analysis of the list of import items the rates of import duties on which are not 'bound' under the General Agreement on Tariffs and Trade and which are subject to duties of less than 30 per cent. We have reviewed the 1952-53 import trade and revenue statistics from this point of view.

Free items

3. In the free list, imports of foodgrains accounted in 1952-53 for Rs. 153 crores out of a total of Rs. 260 crores. These imports are likely to become steadily less important. Raw cotton accounted for another Rs. 77 crores, but the present policy is not to tax imports of raw cotton but to tax cotton cloth through excise duties. The other items account for Rs. 30 crores. Of these, the main item is raw jute amounting to Rs. 17 crores. If jute is to be taxed, it would probably be preferable to levy an excise duty on manufactures. The remaining items such as trade catalogues, books and sulphur are insignificant.

Low duty items

4. The value of imports subject to duty at rates below 10 per cent. was Rs. 91 crores in 1952-53. The most important item in this category was machinery, accounting for Rs. 75 crores. The rate of duty on machinery is 5¼ per cent. and an increase in it is not to be recommended as this is an essential item for promoting industrialisation. The other important items in the 0—10 per cent. duty category are various iron and steel goods accounting for Rs. 8·9 crores. The iron and steel items are subsidised because of high import prices and no useful purpose would be served by enhancement of duty. The remaining items in the 0—10 per cent. duty category, of which the value of imports amounted to Rs. 7 crores, are aeroplanes and parts (Rs. 4·8

crores) and miscellaneous industrial requirements. The revenue potentialities of additional duties on these are of little significance.

Moderate duty items

5. The value of imports of items subject to duties above 10 per cent. and below 30 per cent. in 1952-53 was Rs. 77 crores. These are practically all industrial requirements, with the exception of kerosene oil. We suggest elsewhere that there is a case for enhancement of the rate of excise duty on kerosene oil and a corresponding adjustment of the rate of import duty would be necessary. Other items in the group are lubricating, batching and fuel oils which accounted for Rs. 27 crores, various iron and steel items the value of imports of which was Rs. 12 crores, and railway materials imported to the value of Rs. 11 crores. The remaining Rs. 5 crores were accounted for by miscellaneous industrial requirements. Increase in duty on railway materials and imported iron and steel would serve no purpose. The rate on lubricating, batching and fuel oils is already 15 3/4 per cent. It would appear, therefore, that enhancement in this category except for kerosene would not be justifiable.

6. The general conclusion is that no appreciable increase in revenue appears possible from articles subject to an import duty of 30 per cent. or less.

Thus, while some adjustments may be possible, there is little scope for an increase of rates in import duties. The loss in import duty revenue would have to be accepted. In some cases, such as motor spirit and kerosene, there will be an automatic compensating increase in excise duty revenue. In other cases suitable new excise duties might be imposed.

The composition of trade and revenue from import duties

7. An examination of the main items in the import trade of the country from the standpoint of the yield from import duties reveals the change that has occurred in the character of the import trade, in the direction of the growth of imports of industrial requirements and, in consequence, the probability of some further reduction in the revenue from import duties.

8. Sugar is expected to yield a revenue of Rs. 8 crores to Rs. 10 crores in the current year due to heavy imports. Such a contribution is, however, unusual, imports having been negligible since 1939-40 until their recent revival. This is an instance of a commodity the import duty from which has declined very considerably as a result of protection. The revenue from sugar as a percentage of total import revenue was 8·4 in 1919-20, 16·5 in 1925-26, 22·4 in 1931-32, 1·1 in 1938-39 and 1·1 in 1953-54.

9. The contribution of alcoholic beverages to import duty revenue has also been steadily falling due to successive increases in rates and latterly to import control and to the policy of prohibition. Ale, beer, wines, spirits and liquors between them contributed 8·1 per cent. of total import duty revenue in 1920-21, 4·9 per cent. in 1938-39 and 1·8 per cent. in 1953-54. The rates on some of these items have recently been substantially enhanced. From the revenue point of view, however, these items are unlikely to be of significance for the future.

10. Betelnuts have acquired importance for revenue since the War, their contribution to import duty revenue having increased from 1·9 per cent. in 1938-39 to 3·9 per cent. in 1953-54. Rates of duty have been increased sharply, the duty collection as a percentage of the value of imports being 39·2 in 1938-39 and 154·0 in 1953-54. The revenue of Rs. 4·65 crores in 1953-54 is thus of some significance as a tax on consumption.

11. Unmanufactured tobacco imports were of little significance before the War as there was not much manufacture of cigarettes in India. During the War and in the immediate post-war period, revenue from this source was substantial, amounting to 7·8 per cent. of total import duty revenue in 1948-49. Since then, the development of cigarette tobacco production in India has reduced imports. In spite of an increase in duty as a percentage of value from 258·9 in 1948-49 to 304·8 in 1953-54, the contribution of unmanufactured tobacco to import duty revenue declined to 1·6 per cent. in the latter year. This item is unlikely to regain its position as a fruitful source of revenue.

12. Kerosene contributed 5·0 per cent. of total import revenue in 1931-32. The separation of Burma raised the figure to 8·9 per cent. in 1938-39. There has been a decline, since, to 5·9 per cent. in 1953-54. The decline in revenue since before the War has been due largely to reduction in duty rates from four annas six pies to three annas per imperial gallon in 1946. The revenue as a percentage of value of imports has declined from 55·1 in 1938-39 to 26·2 in 1953-54. The duty in *ad valorem* terms is thus just half the prewar figure. At this rate, kerosene yielded Rs. 7·19 crores of revenue in 1953-54. A large part of this revenue is likely to be obtained from the excise duty when the refineries in India go into full production.

13. Motor spirit acquired importance as a source of revenue after the separation of Burma, yielding 13 per cent. of total import duty revenue in 1938-39. The contribution of motor spirit to import duty revenue has increased considerably since then, being 23·0 per cent. in 1953-54. This was due primarily to the large increase that has taken place in the quantity of imports. Revenue as a percentage of the value of imports has declined considerably since before the War, being 89·1 in 1953-54 as against 164·0 in 1938-39. Motor spirit yielded Rs. 27·5 crores of import duty revenue in 1953-54. In due course, this revenue will be transferred to the excise head.

14. Fuel, batching and lubricating oils yielded about Rs. 3·5 crores per annum during the last three years and contribute about 2·5 per cent. of import duty revenue. The revenue from these items as a percentage of value of imports has risen slightly from 9·7 in 1938-39 to 12·2 in 1953-54.

15. The yield of the duty on machinery was the same in relation to total import revenue in 1953-54 as in 1938-39, being 5·6 per cent. Between the two years, there was a reduction in the revenue from machinery as a percentage of the value of imports from 12·2 to 7·9. The reason for the contribution of machinery to import duty revenue remaining constant in spite of its increased share in imports is the reduction in the rate of duty from 10 per cent. in 1938-39 to

$5\frac{1}{4}$ per cent. at present. Revenue as a percentage of imports is slightly higher than the duty rate because certain types of machinery are charged at higher protective rates. The yield from duties on machinery may increase in future at the current rates of duty.

16. The revenue from duties on hardware, implements, tools, instruments, etc., has kept pace with the general rise in import duty revenue, the duty collected in 1953-54 being Rs. 7·3 crores which was 6·1 per cent. of total import duty revenue. The revenue as a percentage of value of imports has gone up from 23·0 in 1938-39 to 27·7 in 1953-54. While the composition of imports within the group may change, there is no reason why the present level of revenue should not continue.

17. Chemicals, drugs and medicines have been an increasingly important item in the import trade, yielding 5·6 per cent. of total import duty revenue in 1953-54 as against 2·6 per cent. in 1938-39. The revenue as a percentage of value of imports rose from 19·9 in 1938-39 to 26·7 in 1953-54. There are plans for the production of many of these items in India and the expansion of local manufacture may affect the revenue from import duties.

18. The contribution of metals to import duty revenue was 7·2 per cent. of the total in 1919-20, 11·6 per cent. in 1925-26, 6·1 per cent. in 1931-32, 4·4 per cent. in 1938-39, and 3·4 per cent. in 1953-54. The imports of iron and steel are by far the most important item in this group. The rise in 1925-26 was due to the grant of protection. In the case of iron and steel, the revenue as a percentage of value of imports was 2·2 in 1920-21, 20·0 in 1925-26, 25·0 in 1931-32, 15·2 in 1938-39 and 13·0 in 1953-54. While the grant of protection has led to the establishment of a flourishing domestic industry, there has still been demand for imports with revenue of Rs. 4·1 crores in 1953-54. The further projected expansion of production in India may affect the revenue from this source.

19. The contribution of wood pulp, paper and stationery has increased from 2·8 per cent. of the total import revenue in 1938-39 to 3·5 per cent. in 1953-54, revenue in the latter year being Rs. 4·1 crores. As an expansion of the paper industry in India is being planned, it may be necessary to increase imports of wood pulp. There may also be increased imports of newsprint. There is, therefore, no reason to expect a decline in the revenue from this group.

20. The revenue from motor vehicles and parts was 3·2 per cent. of import duty revenue in 1938-39, 8·2 per cent. in 1948-49, 8·8 per cent. in 1951-52 and 5·3 per cent. in 1953-54. There was an increase in revenue in 1948-49 due to large imports and a further increase in 1951-52 as a result of an increase in rates as a measure of anticipatory protection. In May 1953, rates were reduced as a result of the Tariff Commission's recommendations and in 1953-54 revenue was 51·5 per cent. of the value of imports as against 30·2 per cent. in 1938-39 and 63·5 per cent. in 1952-53. It is difficult to estimate the revenue potential of this item as the yield from the duties must depend on the progress made in local manufacture.

21. Raw cotton has been important in some post-war years, yielding revenue of Rs. 6·1 crores in 1951-52. The import duty on this item has now been abolished. Imports of raw cotton can conveniently be taxed through excise duties on fine and superfine cloth.

22. Imports of cotton piecegoods were an important source of revenue prior to protection. In 1919-20, they yielded 26·6 per cent. of import duty revenue and in 1925-26, 15·4 per cent. The grant of protection, resulting in an increase in revenue as a percentage of value of imports from 11·2 in 1925-26 to 25·2 in 1931-32, was accompanied by a decline in the yield. The revenue in 1931-32 was only Rs. 3·7 crores as against Rs. 6·1 crores in 1925-26, these amounts being 15·4 per cent. of import duty revenue in 1925-26 and 10·3 per cent. of revenue in 1931-32. By 1938-39, there was a further increase in the burden of duty, revenue as a percentage of value of imports being 35·0; the contribution of revenue from cotton piecegoods to import duty revenue was 9·0 per cent. Since the War, rates of duty have been substantially enhanced, in spite of withdrawal of protection. Revenue as a percentage of value of imports was 68·6 in 1953-54. Revenue was negligible, forming only 0·55 per cent. of total import revenue. This was partly the result of low import quotas.

23. With the development of the art silk industry in India since the War, imports of art silk yarn and thread have become of importance. Revenue from this source was 1·0 per cent. of total import revenue in 1938-39, the corresponding percentages for 1951-52 and 1953-54 being 4·5 and 3·8. Revenue in relation to value of imports has varied only slightly since 1938-39, being 35·4 per cent. in that year, 34·5 per cent. in 1951-52 and 36·2 per cent. in 1953-54. Increased local production of yarn will in due course reduce the yield from this item, but as an excise duty is levied on art silk fabrics, it may be possible to make up the revenue under the excise head.

24. The revenue from silk, art silk and mixed fabrics was at one time of importance, the yield in 1932-33 forming 7·2 per cent. of total import duty revenue. The grant of protection in 1934 reduced imports, revenue from these items in 1938-39 being 4·2 per cent. of the total. Since the War, imports have been restricted and the industry continues to be protected. In 1953-54, the yield from these items was only Rs. 0·55 crores, forming 0·5 per cent. of total import revenue. It is very unlikely that any revenue will be derived from this source in future.

25. Imports of coal-tar dyes have increased considerably since before the War. The duty was 'bound' at 12 per cent. *ad valorem* under GATT and revenue in 1953-54 was Rs. 1·93 crores, forming 1·6 per cent. of total import revenue. The item has been renegotiated recently and the 'bound' level has been raised to 20 per cent. If protection is granted, revenue will, at any rate, not increase.

26. Fruits contributed Rs. 1·8 crores of revenue in 1953-54, forming 1·5 per cent. of total import revenue. Revenue was 17·4 per cent. of the value of imports.

27. Revenue from oilseeds and oils was only 11·1 per cent. of the value of imports in 1953-54 as against 29·3 per cent. in 1938-39. The contribution of these items to total import revenue was, however, less than 1 per cent. in both years. Rates are maintained at a low level because oils are either articles of food consumption or raw materials of essential industries.

28. The commodity-wise analysis indicates a substantial probable decrease in revenue from import duties, most of it being on account of an expected decline in imports of motor spirit and kerosene which should be made up through increased revenue from the excise duties on the same articles. The loss of revenue from raw cotton could be made up through the excise duty on cotton textiles. After allowing for this, there is still likely to be some decline in revenue from import duties.

Import control

29. We now examine the implications for revenue of certain items of commercial policy such as import control. Import control was instituted during World War II to ensure that available foreign exchange and shipping space were utilised for essential imports. The control has had to be continued even after the cessation of the War in view of the unsettled post-war trading conditions and the need for large imports of commodities needed for the development programme and of foodgrains. Import control is of relevance to the revenue from import duties partly because it affects the composition of imports; the pattern of imports must, however, be determined largely by the needs of the country's economy, and revenue considerations can play only a subordinate role in its determination. Import control can, however, affect revenue by placing greater reliance on quotas relatively to tariffs as a means of restriction of imports than the needs of the foreign exchange situation or the economy may warrant at any time. While we do not propose to express any opinion on the relative advantages of import control and tariffs as a means of granting protection, we wish to stress the need for keeping continuously under survey the possibility of modifications in the import control system with a view to securing additional revenue, consistently, of course, with the demands of the foreign exchange situation. The bulk of the import duty revenue is not affected by import control because it is derived from a few items which are permitted to be imported in substantial quantities; petroleum products, machinery, betelnuts, and motor vehicles and parts are instances of such commodities. There will, however, remain possibilities of marginal adjustments. The Government of India have in the recent past explored possibilities in this direction. Liberalisation of import quotas on consumer goods along with big increases in import duty rates was effected in 1953 and 1954. The value of licences issued for items liberalised in March 1953 increased from Rs. 2 crores in the second half of 1952 to Rs. 3·5 crores in the second half of 1953. It is estimated that the increased revenue as a result of these changes will amount to Rs. 1·5 crores in a full year. We welcome the decision recently announced by Government to liberalise the import of certain commodities simultaneously with the enhancement of the duties thereon as indicating their awareness of the revenue possibilities involved in such modifications. The possibility of further progress in this direction should continue to be explored.

30. Imports and import duty revenue have also been affected by international commercial agreements, such as the General Agreement on Tariffs and Trade and the Indo-British Trade Agreement, 1939. The value of such agreements from the commercial standpoint has to be balanced against the loss of revenue involved.

International commercial agreements

31. GATT is an agreement which was intended to be accompanied by a wider agreement concerning various aspects of international commercial policy. The Charter for an International Trade Organisation (Havana Charter) has not come into force, but GATT has continued. An international conference is currently being held to consider the desirability of continuing it for a further period.

General Agreement on Tariffs and Trade

32. India has agreed under GATT to reduce or 'bind' duties or preferences on commodities the value of imports of which was Rs. 85 crores in 1952-53. Imports of articles on which concessions have been granted, which may be termed 'conceded' were 19 per cent. of the value of total imports in that year. India has extended the concessions to non-GATT countries also, as the Indian tariff does not contain a 'most-favoured-nation' rate other than the Commonwealth Preference rate. The concessions have been granted mainly on machinery and consumer goods; concessions for raw materials are few. The rates which have been fixed by the Agreement for most types of machinery, above which increases may not be made, are above the rates actually in force; the effective concessions are, therefore, mainly on consumer goods.

Commercial aspects of GATT

33. The concessions received cover a large part of India's export trade; in 1952-53, the value of exports affected by concessions to all destinations was 79.6 per cent. of total exports. Concessions have been obtained directly on items the demand for which was deemed to be elastic and in particular in fields where there was considerable competition. Thus, U.S.A. reduced duties on mica, cashewnuts, various jute items, etc. The concessions obtained relate more to primary products than to manufactured articles.

34. A rough estimate has been made of the loss in revenue as a result of GATT, applying the difference between current and pre-GATT rates of import duty on conceded articles to values of imports in 1952-53. The revenue loss works out at Rs. 85 lakhs in relation to a total value of Rs. 120·4 crores for imports of conceded articles. This calculation does not, however, take account of the fact that in the absence of GATT, rates on a number of items could have been substantially enhanced. There are many consumer goods the rate on which has been pegged at 30 per cent. or less under GATT. If 40 per cent. duties were applied to GATT consumer goods items other than medicines, the increase of revenue on 1952-53 value figures would be about Rs. 35 lakhs. If quotas were liberalised to 100 per cent. and 40 per cent. duties applied, the gain in revenue from GATT consumer goods items other than medicines would be Rs. 1 crore. Again, duties may have been imposed on certain items of agricultural equipment used mainly by the richer farmers but for the obligation to permit duty-free entry. If it becomes possible

Revenue aspects of GATT

to liberalise imports, GATT will stand in the way of securing adequate revenue. The Government of India have had in the recent past to ask for release from obligations on a number of items both for revenue reasons and in order to grant protection.

View of the Fiscal Commission, 1949-50

35. The Fiscal Commission, 1949-50, was of the view that India should adhere to GATT, primarily in view of the need for international economic co-operation*. It laid down certain principles to guide negotiators†. The Commission did not, however, examine the revenue implications of the Agreement.

Conclusion

36. We have no doubt that in the present state of India's financial requirements, when GATT is reviewed, commercial factors would be carefully balanced against the revenue considerations involved. Much will depend on the probable trend of the balance of payments. If the foreign exchange position improves and imports of non-essential goods on a larger scale take place, the revenue loss may be considerable. If, on the other hand, imports continue to be restricted, the revenue significance of GATT may be small. We do not wish to venture a forecast on this matter, but would stress the need to attach due importance to the revenue aspect when the subject is reviewed.

Commonwealth Preference

37. The other major international commercial agreement to which India is a party is the Commonwealth Preference system. This was based on the Ottawa Agreement and later was revised by the U.K.-India, Trade Agreement, 1939. The system was introduced in the early 'thirties because of the desire to expand trade within the Commonwealth at a time when the volume and value of world trade had been declining rapidly owing to the depression. Continuance of the Agreement in 1939 was on a limited scale and was motivated chiefly by the need to ensure satisfactory arrangements regarding textiles. During the post-war period, the idea of Commonwealth trade has acquired new importance because of currency difficulties.

Commercial aspects of Commonwealth Preference

38. On the side of India, Commonwealth Preference takes the form of guaranteeing to the U.K. and certain Colonies margins between the rates of duty payable on their exports to India and duties levied on goods imported into India from other countries. The U.K. and certain Dominions and Colonies grant similar margins and have also guaranteed continued free entry for certain Indian products.

39. The value of imports of preferred items from U.K. in 1952-53 was Rs. 29·3 crores and from the Colonies, Rs. 10·9 crores. The total value of imports of preferred articles from all sources was Rs. 51 crores. The value of all commodity imports in 1952-53 was Rs. 633 crores, and the value of all commodity imports other than foodgrains was Rs. 480 crores. Imports of preferred commodities as a percentage of total imports declined from 10 in 1938-39 to 8 in 1952-53. Imports of preferred commodities as a percentage of

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*Report of the Fiscal Commission, 1949-50, paragraphs 301 and 310.

†*Ibid*, paragraph 310.

imports other than foodgrains rose from 10 to 11. Imports of preferred commodities from U.K. as a percentage of total imports of preferred commodities increased from 46 in 1938-39 to 57 in 1952-53. Thus, the importance of preferred commodities in India's imports has remained fairly constant and the share of U.K. in our market in preferred commodities has increased appreciably.

40. Only a small part of preference relates to consumer goods; imports of cloth, domestic refrigerators, sewing machines, wireless sets, gramophones and cycles were Rs. 7 crores in 1952-53. Chemicals, drugs and medicines accounted for Rs. 16·6 crores of imports. Motor lorries, etc., and vehicle parts accounted for Rs. 10·8 crores and various industrial requirements like miscellaneous instruments, electrical instruments, electrical control and transmission gear, and paints and colours accounted for Rs. 10 crores. The main items on which preferences are granted to the Colonies are betelnuts, dried fruits, oilseeds and oil and asphalt.

41. Turning to the export trade, we find that the total value of exports of preferred commodities to the U.K. was Rs. 81 crores and to all countries Rs. 344 crores in 1952-53. Exports to U.K. of preferred commodities as a percentage of total exports of preferred commodities was 23·5 in 1952-53. Exports of preferred commodities to all countries as a percentage of total exports was 61·8 in the same year. The preferences granted to India relate to jute manufactures, tea, coffee, woollens, biscuits, coir mats and various raw materials such as vegetable oils, bones and hides and skins.

42. The loss in revenue from preferences may be estimated at Rs. 3·5 crores—Rs. 2·6 crores on imports from U.K. and Rs. 0·9 crore on imports from the Colonies. This has been calculated by applying the preferential margin to the value of imports of preferred articles from U.K. and Colonies in 1952-53. Allowance should, however, be made for items of which the preferred areas supply less than 10 per cent. or more than 90 per cent. of India's requirements. In these cases, no real preference is granted as only either the preferential rate or the standard rate is effective and can be suitably adjusted. If such items are eliminated, the potential loss in revenue may be put at Rs. 2·1 crores on imports from U.K. and Rs. 0·2 crore on imports from the Colonies, making Rs. 2·3 crores in all; this is, of course, a very rough figure. In so far as the potential loss is compensated for by an equivalently low burden of duties on the consumer, there is no real disadvantage involved to the economy. We have not attempted to make precise estimates based on a study of relevant trade and market factors of the real cost of the preferences to the economy. This cost has to be balanced against the other advantages gained, primarily in the way of encouragement to the export trade.

Conclusion

43. We have suggested above that the revenue from import duties is likely to decline as a result of various factors. At the same time, the fact that the bulk of the import duty revenue is derived from a few major commodities which will continue to yield sizeable amounts of revenue has to be noted. In 1953-54, two-thirds of the import duty revenue was derived from eleven major groups of items, such as machinery, motor vehicles and parts, betelnuts and petroleum products. These commodities

will be of major revenue significance in the future also. While a careful watch needs to be kept over the revenue implications of commercial policies, such implications are unlikely to be of major significance.

44. Further, the decline in revenue from import duties as a result of an increase in the share of imports accounted for by industrial requirements is likely to be temporary. A decline in the imports of consumer goods usually takes place during the early stages of industrialisation. In due course, however, the increase in the level of national income as a result of economic development will once more stimulate imports of consumer goods. A decline in the revenue from import duties as a result of a shift towards import of industrial requirements bearing relatively low rates of import duty is thus a transitional feature of economic development.