

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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SUBSIDIES

Notifications of Contracting Parties

Addendum

INDIA

By letter of 21 December 1960 the Government of India has submitted to the secretariat the following notification of subsidies under Article XVI:

Notification of Subsidies under Article XVI

Report of the Government of India for 1960

I. Nature and extent of the subsidy

The Indian handloom industry provides employment for about 1.5 million people residing mostly in rural areas. Following the slump conditions which prevailed during the early part of 1952, sales of handloom cloth in India declined sharply and led to the accumulation of large unsold stocks. As a result, quite a number of weaving establishments had to close down, thus aggravating the already serious unemployment position in the countryside. It became a matter of great urgency, socially and economically to relieve the distress caused by these closures.

One of the reasons which affected the sales of handloom cloth at that time was the relatively high price which the consumers had to pay for it as compared with similar cloth woven on power-looms or manufactured in textile mills. Unless the cost of handloom cloth to consumers was substantially reduced, there was no prospect of popularizing its use or rehabilitating this village industry on a sound basis. The question of introducing technological improvements in the methods of production, better salesmanship, etc., needed careful planning and suitable steps have been taken to effect long-term improvements. But as there was pressing need to afford immediate relief to handloom weavers, the Government of India sanctioned, in September 1953, a scheme of financial assistance for the grant of rebates on the internal sales of handloom cloth with a view to reducing the price of these fabrics to domestic consumers. The procedure at present followed for the grant of this rebate is as follows:

1. A rebate at the rate of 5 nP (five Naye Paise) in the rupee (i.e. 5 per cent) is allowed on genuine retail sales of handloom cloth worth Rs.2/-/- or more by

- (a) weavers' co-operative societies and/or State-owned depots, and
- (b) consumer co-operative societies which purchase handloom cloth only from weavers' co-operative societies and which deal, so far as cloth business is concerned, only in handwoven cloth.

2. A special additional rebate at the rate of 5 nP (five Naye Paise only) in the rupee (i.e. 5 per cent) is being allowed on genuine retail sales of handloom cloth for a total period of fifteen days in the year, i.e. for eight days during the Annual All-India Handloom Week celebrations and for seven days on suitable festival occasions to be chosen by the individual State Governments/Union Territories concerned with the prior approval of the Union Ministry of Commerce and Industry.

3. Rebate on wholesale sales: A rebate at the rate 3 nP (three Naye Paise) in the rupee (i.e. 3 per cent) is allowed on wholesale sales of handloom cloth by weavers' co-operative societies. The State Governments have the option of allowing or not allowing the rebate on wholesale sales, having regard to the need for limiting the total expenditure on rebates.

4. Rebate on exports sales: A rebate at the rate of 5 nP (five Naye Paise) in the rupee (i.e. 5 per cent) is admissible to:

- (a) Co-operative societies or State-trading organizations on sales for export of handloom cloth purchased from weavers' co-operative societies; and
- (b) Co-operative societies exporting handloom cloth direct. The rebate is calculated on the purchase price of the goods bought for export and no other charges are to be added for calculating the rebate. The goods which have received the rebate are not to be re-imported into India.

Initially, the scheme of rebates did not apply to sales of handloom cloth for export. At the same time, the export of cloth on which the rebate had already been allowed could not be effectively prevented and some export of the subsidized cloth did take place. This gave rise to complaints from co-operative societies and State-trading organizations that, by not allowing the rebate directly on exports, they had been placed under a handicap vis-à-vis others who had purchased cloth from them at the concessional prices. In order to remove this anomaly, the scheme was extended with effect from 24 September 1954 to handloom cloth exported directly by co-operative societies and State-trading organizations. The subsidy is granted under administrative instructions.

II. Effect of subsidy

Having regard to the fact that the cost of production of handloom fabrics is high, the subsidy of 5 per cent can have no significant influence on exports. The grant of rebate by the Government of India on the external sales of handloom cloth has not resulted in export at prices lower than those charged to the domestic consumer as the rebate is applicable to internal sales as well. Further exports of handloom cloth by co-operative societies and State-trading organizations, which alone are entitled to the rebate under the scheme, form a very small proportion of India's total exports of handloom fabrics which means that the effect of the rebate on exports of handloom cloth is not appreciable. This is borne out by the attached statistics of production, exports etc. of handloom fabrics during the years 1957 to 1959.

Estimated Production of Handloom Cloth in
India and Quantity Exported

| Year | Production | | Export | | Remarks |
|------|-----------------------------|-----------------------------|-----------------------------|---------------------------|--|
| | Quantity (million yards) | Quantity (million yards) | Quantity (million yards) | Value (million rupees) | |
| 1957 | 1,643.4 | | 37.5* | 55.6 | As there is practically no import of handloom fabrics into India, the difference between the estimated production and exports may be taken to be the quantity consumed internally. |
| 1958 | 1,797.9 | | 35.7* | 52.3 | |
| 1959 | 1,906.8 | | 35.6* | 66.9 | |

These figures represent total exports of handloom fabrics. Exports by co-operatives and State-trading organizations, which alone benefit from the rebate of 5 per cent, are much less.