

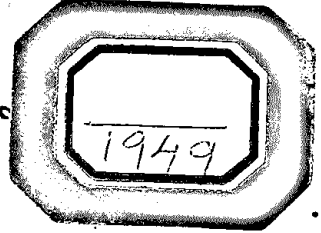


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GOVERNMENT OF INDIA
MINISTRY OF COMMERCE



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REPORT

OF THE

INDIAN TARIFF BOARD

ON THE CONTINUANCE OF PROTECTION TO THE
COCOA POWDER & CHOCOLATE INDUSTRY

BOMBAY

1949

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MINISTRY OF COMMERCE

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PERSONNEL OF THE BOARD

| | | |
|--|-----|------------------|
| Mr. G. L. MEHTA | ... | <i>President</i> |
| Dr. H. L. DEY, D.Sc. (Lond.) | ... | <i>Member</i> |
| Dr. B. V. NARAYANASWAMY NAIDU, M.A., B.Com., Ph.D., Barrister-at-law | ... | <i>Member</i> |
| Mr. R. DORAISWAMY | ... | <i>Secretary</i> |

PERSONNEL OF THE BOARD WHICH HEARD THE CASE

| | | |
|--|-----|------------------|
| Mr. G. L. MEHTA | ... | <i>President</i> |
| Dr. B. V. NARAYANASWAMY NAIDU, M.A., B.Com., Ph.D., Barrister-at-law | ... | <i>Member</i> |

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GOVERNMENT OF INDIA
MINISTRY OF COMMERCE.

New Delhi, the 21st January 1950

RESOLUTION
(Tariffs)

No. 12(10)TB/49. The Government of India granted protection to the cocoa powder and chocolate industry in 1947. This protection is due to expire on March 31, 1950. The Tariff Board have conducted a fresh inquiry into the conditions of this industry, and have recommended that for a further period of two years, ending March 31, 1952.

- (1) the existing protective duty at the rate of 30% *ad valorem* on cocoa and chocolate, other than confectionary, under item 18 of the First Schedule of the Indian Customs Tariff, should be maintained.
- (2) the existing exemption from duty of cocoa beans imported from abroad should be continued; and
- (3) all units of the industry should maintain and submit to the Tariff Board
 - (a) detailed cost data at the end of every year; and
 - (b) statistics of production, sales and stocks, together with the list of selling price, at the end of every six months.

2. Government accept the recommendations. The attention of the industry is invited to Recommendation (3).

- REPORT ON CONTINUANCE OF PROTECTION TO THE
COCOA POWDER AND CHOCOLATE INDUSTRY

In paragraph 2 of the Government of India, Ministry of
Introduction Commerce, Resolution No.30-T(1)/48, dated
6th August, 1948, the Board has been en-
trusted with the following functions:-

'The Tariff Board is also hereby authorised to maintain a continuous watch over the progress of protected industries by conducting enquiries, as and when necessary on the effect of the protective duties or other means of assistance granted, and advise Government regarding the necessity or otherwise of modifying the protection or assistance granted. The Board should also keep a careful watch to ensure that conditions attached to the grant of protection were fully implemented and that the protected industries were being run efficiently.'

In virtue of this function, the Board has examined the progress of the cocoa powder and chocolate industry, the protective duty in respect of which expires on 31st March, 1950.

2. (a) The claim of the industry for protection or assistance was referred to the interim Tariff Board by the Government of India in the Department of Commerce Resolution No.218-T(55)/45, dated 16th February, 1946 read with paragraphs 2, 3 and 7 of their Resolution No.218-T(55)/45 dated 3rd November, 1945. After conducting the necessary inquiry, the Board submitted its

Previous Tariff Board's recommendations and Government's orders thereon.

report in August, 1946. The recommendations of the Board were as follows:-

- “(i) The existing revenue duty of 30 per cent. *ad valorem* on cocoa powder and covering chocolate (item 18 of the Import Tariff Schedule) should be converted into a protective duty at the same rate, and the duty should remain in force for a period of not less than three years. The present preferential rate of 12 per cent. *ad valorem* in favour of imports from Burma should be abolished.
- (ii) The present import duty at 30 per cent. *ad valorem* payable on cocoa beans (item 12 of the Import Tariff Schedule) should be abolished. Further, the amount of customs duty already paid on imported cocoa beans, after the 16th February, 1946, should be refunded.
- (iii) Facilities should be given to the Indian manufacturers of cocoa and chocolate to import beans from West Africa and Brazil or, if necessary, from other countries.
- (iv) The existing revenue duty at 60 per cent. *ad valorem* on confectionery including eating chocolate (item 17(2) of the Import Tariff Schedule) should be continued as revenue duty for the entire period of protection. The present preferential rate at 12 per cent. *ad valorem* in favour of imports from Burma should be abolished.
- (v) The revenue import duty at 10 per cent. payable on cocoa and chocolate machinery (item 72 of the Import Tariff Schedule) should be refunded with effect from 1st August, 1946.

- (vi) So long as the present sugar control remains in force, an adequate quota of sugar should be given to the manufacturers of cocoa and chocolate .
- (vii) The manufacturers of cocoa and chocolate should take steps to employ foreign experts for a short period and also to form an Association.
- (viii) A summary enquiry through an Inspector should be made in the middle of the period of protection to ensure that the development of the industry is taking place on lines assumed in the report.''

(b) The Government of India, in the Department of Commerce, Resolution No.218-T(86)/46 dated 1st February, 1947, accepted the Board's principal recommendations, namely, (i) conversion of the revenue duty of 30 per cent. *ad valorem* on cocoa powder and covering chocolate into protective duty at the same rate, (ii) abolition of revenue duty of 30 per cent. *ad valorem* on cocoa beans, and (iii) facilities to Indian manufacturers for import of cocoa beans from abroad. They did not, however, agree to abolish the preferential rates applicable to imports from Burma, on the grounds that Burma was not in a position to compete effectively in the Indian market and that the duties themselves were governed by the Indo-Burma Trade Agreement, 1941. The protective duties came into force with effect from 19th April, 1949, under the provisions of the Indian Tariff (Amendment) Act, 1947. The duty is to remain in force in the first instance, upto 31st March, 1950. Government could not accept the fourth recommendation as they felt that it was not possible to give a guarantee that the existing revenue duty of 60 per cent. *ad valorem* on confectionery including eating chocolates would be continued for the full period of protection. As regards the fifth recommendation, the Central Government, in the Ministry of Finance, issued a notification on 23rd October, 1948, generally reducing the

customs duty on imported machinery from 10 per cent to 5 per cent. *ad valorem*. Government accepted the sixth and the seventh recommendations regarding the allotment of a fair quota of sugar to the industry and the formation of an association of the manufacturers of cocoa powder and chocolate. We may mention in this connection that the manufacturers of cocoa powder and chocolate have formed a sub-committee under the auspices of the Indian Confectionery Manufacturers' Association, Calcutta, As regards the eighth recommendation although Government accepted in principle the need for an inquiry through an inspector, no such inspection was undertaken during the period of protection.

3. (a) On 6th May, 1949, the Board issued a press
 Method of
 inquiry. communique inviting manufacturers, impor-
 ters, consumers and others interested in
 the industry or in the industries dependent upon the use of
 these articles who desired that their views should be consi-
 dered, to forward their representations to the Board. Simul-
 taneously, questionnaires for review cases were issued to
 all the known producers, importers and consumers. A list
 of those to whom the questionnaires were issued and those
 who replied is given in Appendix I. The Collectors of
 Customs, Bombay, Calcutta and Madras were also requested to
 furnish the c.i.f. prices of cocoa powder, chocolate and
 cocoa beans.

(b) Dr. B.V. Narayanaswamy Naidu and Mr. B.N. Adarkar
 Members of the Board, visited the factory of Pure Products
 and Madhu Canning Ltd., Bombay on 6th September, 1949.
 Dr. Narayanaswamy Naidu also visited on 6th October, 1949,
 the factory of Cadbury Fry (Export) Ltd., Colaba, where they
 undertake the processing and packing of imported cocoa
 powder.

(c) Representatives of the producers, importers and
 consumers met Dr. Naidu at the Board's office on September
 20th and 21st, 1949, and discussed with him various questions
 relating to production, demand and quality of cocoa powder

and chocolate. A list of those who were present during the discussion will be found in Appendix II.

(d) Mr. S.V. Rajan, the Board's Cost Accountant, visited the factory of Messrs. Sathe Biscuit and Chocolate Co.Ltd., Poona, between 6th October and 10th October, 1949, and examined the cost of production of cocoa powder and covering chocolate manufactured by them.

4. The chief raw materials required in the manufacture of cocoa powder and chocolate are:
Raw materials

- (1) Cocoa beans, and
- (2) Sugar.

(a) *COCOA BEANS*: Cocoa beans are grown chiefly in Brazil, West Africa and Ceylon. The Brazilian beans are the best in quality, the West African ranking second, and the Ceylonese last. The previous Tariff Board had recommended that the Indian manufacturers of cocoa and chocolate should be given facilities to import cocoa beans from Brazil and West Africa, free of import duty. Although this recommendation was accepted by Government cocoa beans could not be imported from Brazil or West Africa. This was due to the fact that the distribution of cocoa beans was controlled by the International Emergency Food Council until June 1949. Consequently, the Indian manufacturers had to import Ceylonese beans which were inferior in quality and also more expensive than the Brazilian or west African beans. The international control was, however, lifted in June, 1949, and the first shipments of beans from Brazil and West Africa began to come to India from July, 1949. At present, the manufacturers do not anticipate any difficulty in obtaining supplies of beans from abroad.

(b) *SUGAR*: Sugar is another important ingredient used in the manufacture of cocoa and chocolate. At the time of the last tariff inquiry, sugar was a controlled commodity and could be obtained at Re. 0-3-6 per lb. But in 1948 when it was decontrolled, its price increased to as much as

Re. 0-8-0 per lb. The Mahratta Chamber of Commerce have stated that the price of Indian sugar is one of the highest in the world, and this factor increases considerably the cost of production of cocoa and chocolate. Having regard to the development of the confectionery industry and the need for establishing the cocoa powder and chocolate industry, we hope the sugar manufacturers will be able to make available to the industry such quantities of sugar as are required by this industry in sufficient quantity and at a reasonable price.

(c) *OTHER MATERIALS*: As regards other packing materials like cellophane paper and aluminium foil, the industry does not seem to experience any difficulty.

5. The previous Tariff Board (1946) estimated the country's annual requirements for the next three years as follows:-

| Estimated Indian demand. | Cwts. |
|---|---------------|
| Cocoa Powder | 3,000 |
| Covering chocolate | 5,000 |
| Covering chocolate contained in eating chocolate. | 12,000 |
| <u>Total</u> | <u>20,000</u> |

This estimate of 20,000 cwts. is however, considered by the producers to be on the high side. The partition of the country has also reduced the demand. In a note submitted to the Tariff Board, the D.G.I. & S. has estimated the total consumption in 1947-48 to be 700 tons, i.e., 14,000 cwts. of cocoa powder and covering chocolate. The Indian Confectionery Manufacturers' Association, has estimated the demand in the Indian Union at 75 per cent. of the estimate of the previous Tariff Board for undivided India. It will be seen from the figures of imports (paragraph 9 below) that 2,267 cwts. of cocoa powder and chocolate were imported in 1946-47.

9,929 cwts. in 1947-48, and 11,624 cwts. in 1948-49. Taking all these factors into consideration, the annual demand for cocoa powder and chocolate for the next three years may be estimated as follows:-

| | |
|--|--------------|
| Cocoa powder | 2,500 cwts. |
| Covering chocolate | 4,000 '' |
| Covering chocolate contained in eating chocolate | 8,500 '' |
| Total | 15,000 Cwts. |

6. In paragraph 11 of its Report, the previous Tariff Board had estimated the domestic production of cocoa and chocolate to be 11,200 cwts. The D.G.I.&S. has informed us that the rated capacity of the indigenous firms is 9,200 cwts. per annum. Of the three principal producers mentioned by the previous Tariff Board, Messrs. Sathe Bros., Karachi, have closed down their factory since partition; and the factory of Pure Products & Madhu Canning Ltd., Bombay, is not in production as the firm is shifting its factory from Santa Cruz to Worli. The only firm which has been in continuous production during 1947 and 1948 has been Messrs. Sathe Biscuit and Chocolate Co. Ltd., Poona. The rated capacity of this firm is stated to be 1,000 cwts. of cocoa powder and 5,000 cwts. of chocolate; but the highest production of both cocoa powder and chocolate was 2,170 cwts. in 1947 and 1,004 in 1948. Since March, 1949, however, this factory also has closed down. According to the firm, when the factory closed down, it had eight months' stock in hand; the accumulation of stocks and the closure of the factory was due to cocoa powder and chocolate being placed on Open General Licence. The East India Distilleries and Sugar Factories Ltd., Madras (Managing Agents, Parry & Co.Ltd., Madras) had undertaken the manufacture of chocolate on an experimental basis in 1943 at the request of the Indian Red Cross Society; and they were manufacturing chocolate in small quantities, till about 1947.

Their production, however, was interrupted by the shifting of their factory to their new premises, where the firm proposes to resume the manufacture of chocolate. We have been informed that this firm intends to manufacture both covering chocolate and eating chocolate. Messrs. Cadbury-Fry (Export) Ltd., who have so far been importing cocoa and chocolate into the country, are at present erecting a plant in Bombay for the processing and packing of cocoa imported in bulk-containers during the initial stages. They have also plans for the expansion of their factory, with a view to undertake all processes of manufacture in this country, from the manufacture of cocoa powder from cocoa beans to the stage of finished products. Their rated capacity cannot yet be determined. In the present state of the industry, where various units are not in full or regular production, a reasonably accurate estimate of the domestic production cannot be arrived at.

7. (a) In paragraph 12 of its Report, the previous Tariff Quality Board has stated that the quality of the indigenous cocoa powder and chocolate did not compare favourably with the imported products. One of the recommendations of that Board, therefore, was that the industry should engage foreign experts for a short period. Messrs. Sathe Biscuit and Chocolate Co. Ltd., Poona, have informed us that they could not implement this recommendation, because they did not consider it absolutely necessary to do so. Moreover, they contended that, even if a foreign technician was employed, he would not be able to overcome the difficulties arising out of the climatic conditions of the country as proper machinery was not available. Lastly, the firm pointed out that the services of a competent technician could not be obtained. Mr. G.R. Sathe of this firm undertook a tour of the U.K., the U.S.A., Canada, Brazil and Switzerland with a view to study the technique of manufacture in those countries. He found that the process of manufacture adopted by his own firm was similar to those adopted

by the industry in other countries. Mr. Sathé stated that he also examined different types of machinery which made it possible to reduce the cost of production. He was of the opinion that climatic conditions played an important part in the efficiency of the industry in other countries and discussed the possibility of creating similar conditions in this country by means of refrigeration and dehumidification, and has since placed orders for a dehumidification plant as well as other machinery. Pure Products & Madhu Canning Ltd., Bombay, have also imported machinery worth about Rs. 75,000, which is in the process of installation.

(b) While the quality of cocoa manufactured by Sathes compares favourably with imported cocoa, the opinion of the confectionery manufacturers who are the main consumers of covering chocolate is that Sathes' product is not properly refined and blended and that it lacks flavour and uniformity of quality. Sathes explained that these defects are due to the fact that they have so far been using Ceylonese beans. By using Brazilian or West African beans and after the installation of new machinery which has been ordered, the firm expects to supply better quality of cocoa powder and chocolate.

8. Cocoa powder and chocolate, other than confectionery, Existing rate of duty. are at present assessed under item 18 of the First Schedule to the Indian Customs Tariff (Thirtieth Issue). The relevant extract from this Schedule is given below:-

| Item No. | Name of article | Nature of duty | Standard rate of duty | Preferential rate of duty if the article is the produce or manufacture of | Duration of protective rates of duty. |
|----------|---|----------------|--------------------------------|---|---------------------------------------|
| | | | | The U.K. A British colony Burma | |
| 18 | Cocoa and Chocolate other than confectionery. | Protective | 30 per cent. <i>ad valorem</i> | 12 per cent. | March 31st. 1950. |

9. (a) Cocoa powder and chocolate was put on Open General Licence XI on 3rd July, 1948, since when imports from sterling and soft currency areas were freely allowed, although there was a complete ban on imports from dollar and hard currency areas. When on 5th May, 1949, O.G.L. XI was cancelled, and O.G.L. XV introduced on 19th May, 1949, cocoa powder and chocolate was also included in it. But soon after on 28th July, 1949, this item was withdrawn from O.G.L. XV. Subsequently, on 25th August, 1949, O.G.L. XV itself was cancelled and a fresh list of items was published under O.G.L. XVI, which, however, did not include cocoa powder and chocolate. Thus, there is today a complete ban on imports from all sources.

(b) During the last three years the following quantities of cocoa powder and chocolate have been imported:-

| | Quantity (in cwts.) | Value (in rupees) |
|---|------------------------|----------------------|
| 1946-47 | 2,867 | 2,74,731 |
| 1947-48 | 9,929 | 14,93,613 |
| 1948-49 | 11,624 | 19,79,870 |
| 1949-50 (3 months ending June, 1949). | 3,480 | 6,50,604 |

These figures exclude the direct foreign trade of Pakistan Provinces of Sind and East Bengal with effect from 1st and 15th August, 1947, respectively. They include the Sea-borne trade of India and Pakistan with effect from 1st March 1948, and also Government stores from 1st April, 1948. From June, 1948, and 1st April, 1949, they also include foreign sea-borne trade of Cutch and Travancore and Saurashtra respectively. In view of the unduly heavy imports, and since Sathes also have on hand about 6/8 months' stock, the Indian

manufacturers asked for the continuance of protection as well as the ban on imports.

10. A statement showing the recent c.i.f. prices and landed costs of cocoa powder and chocolate, furnished by the principal importers and the Collectors of Customs, Bombay, Calcutta and Madras, is given in Appendix III. For purposes of comparison, shown in paragraph 12 below we have taken the latest and the lowest c.i.f. prices of Rs. 1-4-6 per lb. (packed in ½ lb. tins) for cocoa powder as furnished by Nestle's Products, Calcutta, and the Collectors of Customs, Calcutta, and Bombay; and Rs. 1-12-0 per lb. for covering chocolate as furnished by the Collector of Customs, Bombay. On this basis, the landed costs of these two articles work out as follows:-

| | Cocoa powder (½ lb. tins) per lb. | | | Covering Chocolate per lb. | | |
|---------------------------------|---|----|----|----------------------------------|----|----|
| | Rs. | A. | P. | Rs. | A. | P. |
| C.i.f. price | 1 | 4 | 6 | 1 | 12 | 0 |
| Customs duty at 30 per cent. | 0 | 6 | 2 | 0 | 8 | 6 |
| Clearing charges | 0 | 0 | 6 | 0 | 0 | 3 |
| Landed cost with duty, | 1 | 11 | 2 | 2 | 4 | 9 |

11. (a) The Board has examined the cost of production of covering chocolates and cocoa powder at the factory of Sathes in Poona, who are the principal manufacturers of these articles. The firm of Sathe Chocolate Works, originally a proprietary concern, has been converted into a public limited company since 1st April, 1949 under the name Sathe Biscuit & Chocolate Co. Ltd. The production

Board's estimate
of cost of pro-
duction and fair
selling price.

of chocolate and cocoa powder during the period January/October 1949 was negligible. Hence the period August/December 1948 when the production of these two items was fairly normal has been chosen for the purpose of cost investigation. The production during the costed period of August/December, 1948 was as follows:-

| | | |
|-------------------------------|------|--------|
| Covering chocolate (ordinary) | lbs. | 23,002 |
| " " (milk) | lbs. | 13,188 |
| Butter | lbs. | 3,548 |
| Cocoa powder | lbs. | 6,890 |

Since the last inquiry in 1946, the firm has supplemented a crushing equipment for cocoa paste by a new crusher whereby it is able to extract nearly 37 per cent of the 43 per cent butter content in the raw seed, thereby effecting a reduction in the consumption of the important raw material, cocoa bean

(b) The table on page 13 shows the cost per lb. of covering chocolate as estimated by the Tariff Board during 1946 and the cost of production as determined by us for the period August/December 1948.

(c) The table on page 14 shows the cost of cocoa powder as estimated by the previous Tariff Board in 1946 and the cost for the period August/December, 1948, as determined by the present Board.

SATHE BISCUIT & CHOCOLATE CO. LTD., POONA.

Statement showing the cost per lb. of covering chocolate as estimated by the Tariff Board in 1946 and the cost per lb. based on the actuals for the period August/December, 1948,

as estimated by the present Board.

Estimate made by the present Board for the period Aug./Dec. 1948.

Previous Board's estimate (1946)

| Details | Previous Board's estimate (1946) | | Estimate made by the present Board for the period Aug./Dec. 1948. | |
|---|----------------------------------|--------------|---|--------------|
| | Quantity | Rate per lb. | Quantity | Rate per lb. |
| | lbs. | Rs. | lbs. | Rs. |
| <i>Raw materials.</i> | | | | |
| (a) Cocoa Beans | 1.100 | 1.0714 | 0.831 | 1.040 |
| (b) Sugar | 0.571 | 0.2221 | 0.550 | 0.288 |
| (c) Flavours | | 0.002 | | 0.003 |
| 1. Total raw material cost | | 1.309 | | 1.025 |
| 2. Power & Fuel | | 0.017 | | 0.034 |
| 3. Labour including Bonus | | 0.051 | | 0.153 |
| 4. Repairs & Maintenance | | 0.012 | | 0.046 |
| 5. Consumable Stores | | 0.001 | | - |
| 6. Establishment | | 0.040 | | 0.122 |
| 7. Depreciation | | 0.031 | | 0.178 |
| 8. Other overheads | | 0.017 | | 0.124 |
| 9. Packing charges | | 0.068 | | 0.115 |
| 10. Selling expenses (advertisement) | | 0.036 | | 0.323 |
| 11. Interest on working capital | | 0.016 | | 0.021 |
| 12. Total cost of production | | 1.598 | | 2.141 |
| 13. Less credit for materials recovered (Cocoa Cakes) | 0.352 | 0.610 | 0.215 | 0.042 |
| 14. Net cost of production | | 1.383 | | 2.099 |
| 15. Return on block | | 0.059 | | 0.226 |
| 16. Freight differential | | 0.040 | | 0.020 |
| 17. Fair selling price | | 1.482 | | 2.345 |
| 18. Estimated production in tons | 240 | | | |

SATHE BISCUIT & CHOCOLATE CO. LTD., POONA.

Statement showing the cost of production per lb. of cocoa powder estimated by the Tariff Board in 1946 and the cost per lb. based on the actuals for the period August/December 1948, as estimated by the present Board.

Estimate made by the present Board for the period August/December 1948

Previous Board's estimate (1946)

| Details | Quantity | | Rate per lb. | | Cost per lb. | | Rate per lb. | | Cost per lb. | |
|---|----------|-------|--------------|-------|--------------|-----|--------------|-------|--------------|-------|
| | lbs. | Rs. | lbs. | Rs. | lbs. | Rs. | lbs. | Rs. | lbs. | Rs. |
| 1. Raw materials | | | | | | | | | | |
| (a) Cocoa Beans | - | - | 1.903 | 1.040 | - | - | 1.903 | 1.979 | - | - |
| (b) Cocoa cakes | 1.103 | 0.610 | - | - | - | - | - | - | - | 0.015 |
| (c) Flavour | - | - | - | - | - | - | - | - | - | 1.994 |
| Total Raw material cost | | | | | | | | | | 0.034 |
| 2. Power & Fuel | | | | | | | | | | 0.153 |
| 3. Labour including Bonus | | | | | | | | | | 0.046 |
| 4. Repairs & Maintenance | | | | | | | | | | - |
| 5. Consumable Stores | | | | | | | | | | 0.122 |
| 6. Establishment | | | | | | | | | | 0.178 |
| 7. Depreciation | | | | | | | | | | 0.124 |
| 8. Other Overheads | | | | | | | | | | 0.430 |
| 9. Packing charges | | | | | | | | | | 0.323 |
| 10. Selling expenses (advertisement) | | | | | | | | | | 0.019 |
| 11. Interest on working capital | | | | | | | | | | 3.423 |
| 12. Total | | | | | | | | | | |
| 13. Less credit for material recovered (cocoa butter) | | | | | | | | | 0.522 | 2.810 |
| 14. Net cost of production | | | | | | | | | | 1.467 |
| 15. Return on block | | | | | | | | | | 1.956 |
| 16. Freight | | | | | | | | | | 0.226 |
| 17. Fair selling price | | | | | | | | | | 0.020 |
| 18. Estimated production in tons | | | | | | | | | | 2.202 |

(d) Based on the costs investigated for the period August/December, 1948, estimates of costs of covering chocolate as well as cocoa powder have been worked out by the Board for 1950/51. In arriving at such estimates, the following factors have been taken into consideration:-

(1) Annual production has been taken at 240 tons of covering chocolates and 60 tons of cocoa powder.

(2) The cost of cocoa seeds has been based on the weighted average of the costs for consignments of Ceylonese, African and Brazilian origin.

(3) The manufacture of cocoa powder directly from seeds as the resultant cake after complete extraction contains only 15 per cent. of butter on the weight of the cake which is below the accepted standard of 25 per cent. butter content in cocoa powder. We have, therefore, allowed one-half of the proportionate credit for the cake in the manufacture of covering chocolates and full credit for cocoa butter in the manufacture of cocoa powder.

(4) Covering chocolates are sold in bulk packings while cocoa powder is sold in the standard packing of ¼ lb.

(5) Interest on working capital has been allowed at 4 per cent. on three months' cost of production while a return of 10 per cent. on the original value of the block has been allowed.

(6) Freight on cocoa powder and covering chocolate from Poona to Bombay is allowed at Re. 0.020 as against Re. 0.040 allowed by the previous Board. Most of the transport is done by public carriers.

On the above basis, our estimates for 1950/51 of the covering chocolate and cocoa powder are given on the following page:

SATHE BISCUIT & CHOCOLATE CO. LTD., POGNA.

Board's estimate of cost of production and fair selling price of covering chocolate per lb. for 1950-51.

Revised estimate for 1950-51

| Details | Quantity | Rate per | Cost per |
|---|----------|------------|--------------|
| | lbs. | lb. Rs. | lb. Rs. |
| RAW MATERIALS: | | | |
| (a) Cocoa Beans | 0.831 | 1.193 | 0.991 |
| (b) Sugar | 0.550 | 0.375 | 0.206 |
| (c) Flavour | | | <u>0.003</u> |
| 1. Total Raw material cost | | | 1.200 |
| 2. Power & Fuel | | | 0.011 |
| 3. Labour including Bonus | | | 0.076 |
| 4. Repairs & Maintenance | | | 0.012 |
| 5. Consumable stores | | | - |
| 6. Establishment | | | 0.024 |
| 7. Depreciation | | | 0.049 |
| 8. Other overheads | | | 0.037 |
| 9. Packing charges | | | 0.115 |
| 10. Selling expenses (Advertisement) | | | 0.069 |
| 11. Interest on working capital | | | <u>0.015</u> |
| 12. Total cost of production | | | 1.608 |
| 13. Less credit for materials recovered | 0.215 | 0.223 | <u>0.048</u> |
| (Cocoa cakes) | | | |
| 14. Net cost of production | | | 1.560 |
| 15. Return on Block | | | 0.059 |
| 16. Freight differential | | | <u>0.020</u> |
| 17. Fair selling price | | | <u>1.639</u> |
| 18. Estimated production in tons | 240 | | |

Board's estimate of the cost of production and fair selling price of cocoa powder per lb. for 1950-51

| Details | Revised estimate for 1950-51 | | |
|--|------------------------------|------------------------|------------------------|
| | Quantity lbs. | Rate per lb. Rs. | Cost per lb. Rs. |
| 1. Raw Materials | | | |
| (a) Cocoa Beans | 1.903 | 1.193 | 2.270 |
| (b) Cocoa cakes | - | - | - |
| (c) Flavour | | | <u>0.015</u> |
| Total raw material cost | | | 2.285 |
| 2. Power & Fuel | | | 0.011 |
| 3. Labour including Bonus | | | 0.076 |
| 4. Repairs & Maintenance | | | 0.012 |
| 5. Consumable Stores | | | - |
| 6. Establishment | | | 0.024 |
| 7. Depreciation | | | 0.049 |
| 8. Other overheads | | | 0.037 |
| 9. Packing charges | | | 0.430 |
| 10. Selling expenses (Advertisement) | | | 0.069 |
| 11. Interest on working capital | | | <u>0.013</u> |
| 12. Total | | | 3.006 |
| 13. Less credit for material recovered | 0.522 | 3.224 | <u>1.683</u> |
| (Cocoa Butter) | | | |
| 14. Net cost of production | | | 1.323 |
| 15. Return on Block | | | 0.059 |
| 16. Freight | | | <u>0.020</u> |
| 17. Fair selling price | | | <u>1.402</u> |
| 18. Estimated production in tons | 60 | | |

12. In paragraph 10 we have estimated the fair selling prices of covering chocolate and cocoa powder manufactured by Messrs. Sathé Biscuits and Chocolate Co. Ltd., Poona at Rs. 1.402 per lb. of cocoa powder (packed in ½ lb. tins) and Rs. 1.639 per lb. of covering chocolate. The following table shows the levels of duties required for protecting the indigenous manufactures of cocoa powder and chocolates on the basis of a comparison of the landed costs, without duty, of imported products and the Board's estimates for 1950-51 of fair selling prices of indigenous products:-

| | Cocoa Powder (½ lb. tins) | Chocolate (covering) |
|--|------------------------------|-------------------------|
| | Price per lb. | |
| (a) C.I.F. price | Rs. 1 4 6 | Rs. 1 12 0 |
| (b) Customs duty (30 per cent.) | Rs. 0 6 2 | Rs. 0 8 6 |
| (c) Clearing charges | Rs. 0 0 6 | Rs. 0 0 3 |
| (d) Landed cost | Rs. 1 11 2 | Rs. 2 4 9 |
| (e) Landed cost without duty | Rs. 1 5 0 | Rs. 1 12 3 |
| (f) Fair selling price as estimated by the Board | Rs. 1 6 5 | Rs. 1 10 3 |
| (g) Difference between fair selling price and landed cost without duty | + Rs. 0 1 5 | Rs. 0 2 0 |
| (h) Difference as percentage of c.i.f. | + 7.0% | - 7.0% |

13. (a) *COCOA POWDER*.- From the figures given above, it will be seen that the fair selling price of cocoa powder as estimated by us is Rs. 1-6-5 while the landed cost without duty of imported cocoa powder is Rs. 1-5-0. Thus there is a difference of Re. 0-1-5 between the fair selling price and the landed cost without duty. If to this we add the existing duty of 30 per cent., the landed cost would be Rs. 1-11-2 which is Re. 0-4-9 more than the fair selling price. The present rate of duty thus gives adequate protection to this industry. We, therefore, recommend that the existing protective duty should be continued for two years *i.e.*, up to March 31, 1952.

(b) *CHOCOLATE (COVERING)*.— The figures given above indicate that the landed cost, without duty, of imported covering chocolate is Rs. 1-12-3 whereas the fair selling price of the indigenous product as estimated by the Board is Rs. 1-10-3. If we take into account the existing 30 per cent. duty, the landed cost of the imported covering chocolate would be Rs. 2-4-9 as compared to Rs. 1-10-3 of the fair selling price of the indigenous product. This gives a margin of Re. 0-10-6 in favour of the indigenous product. Since the industry is still in an incipient stage and has to develop further, we consider that the same quantum of protection as for cocoa powder should be continued. We, therefore, recommend that the present 30 per cent. protective duty on covering chocolate should be continued for another two years, *i.e.* up to March 31, 1952.

(c) *COCOA BEANS*.— In paragraph 20 of its report, the previous Tariff Board recommended abolition of the then existing revenue duty of 30 per cent. *ad valorem* on imported cocoa beans (item No. 12 of the Indian Customs Tariff). Government accepted this recommendation and in terms of the Government of India, Finance Department (Revenue Division), Notification No. 5-Customs, dated 15th March, 1947, cocoa beans imported into the country are exempt from payment of the Customs duty leviable thereon. We consider that this concession should be extended to the industry for the entire period of protection.

14. As already mentioned in paragraph 1 above, under watch to be maintained over the progress of the industry, the Ministry of Commerce Resolution No. 30-T(1)/48, dated 6th August, 1948, the Board is authorised to maintain a continuous watch over the progress of protected industries and advise Government regarding the necessity or otherwise of modifying the protection or assistance granted. In order that the Board may keep an effective watch over the progress of this indus-

try, it is necessary that all the units in the industry should maintain and forward to the Board, detailed cost data at the end of every year and statistics of production, sales and stocks, together with the list of selling prices at the end of every six months.

15. Our conclusions and recommendations are summarised as under:-
 Summary of conclusions and recommendations. (i) The total demand for cocoa powder and chocolate for the next three years may be estimated at 15,000 cwts. per annum, the break-up being as follows: -

| | |
|---|-------------|
| Cocoa powder | 2,500 cwts. |
| Covering chocolate | 4,000 " |
| Covering chocolate contained in eating chocolate | 8,500 " |

(Paragraph 5)

(ii) While the quality of cocoa manufactured by Sathes compares favourably with the imported cocoa, there is still scope for improvement with regard to chocolate (paragraph 7)

(iii) The present 30 per cent. *ad valorem* protective duty on cocoa powder and covering chocolate should be continued for another two years *i.e.* up to March 31, 1952. [Paragraph 13 (a) and (b)]

(iv) Cocoa beans should be allowed to be imported duty free as at present, for the entire period of protection. [Paragraph 13 (c)]

(v) All the units in the industry should maintain and forward to the Board, detailed cost data at the end of every year and statistics of production, sales and stocks, together with the list of selling prices at the end of every six months. (Paragraph 14).

16. We wish to acknowledge the help we have received
Acknowledgment from the various associations, producers and
individuals who furnished us with information and gave
evidence before us. We wish to thank Mr. S. S. Mehta,
Technical Adviser and Mr. S. V. Rajan, Cost Accountant, for
their assistance in connection with this inquiry.

G. L. MEHTA,
President.

B. V. NARAYANASWAMY,
Member.

R. DORAISWAMY,
Secretary.

Bombay,
15th December, 1949.

APPENDICES

APPENDIX I

[Vide paragraph 3 (a)]

List of firms to whom questionnaires were issued and from whom replies or memoranda were received.

(* Those who have replied)

(a) PRODUCERS:

- *1. Sathe Biscuit & Chocolate Co. Ltd.,
820, Bhavani Peth, Poona 2.
- *2 Pure Products & Madhu Canning Ltd.,
Kodak House, Hornby Road, Fort,
Bombay.
- *3. G. G. Chocolate Factory,
Agra.
4. D. D. Writer & Co.,
Bhawani Shanker Road,
Dadar, Bombay 14.
- *5. Parry & Co. Ltd.,
Post Box No. 12, Madras.
- *6. Indian Confectionery Manufacturers' Association,
23-B, Netaji Subhas Road, Calcutta.
- *7. Mahratta Chamber of Commerce and Industries,
Tilak Road, Poona 2.

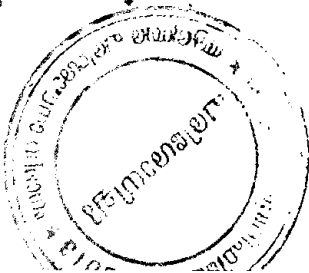
(b) IMPORTERS:

- *1. Cadbury-Fry (Export) Ltd.,
Spencer's Building, Forjet Street,
Bombay 26.
- *2. Nestle's Products (India) Ltd.,
7, Hare Street, Calcutta.
3. Graham Trading Co. (India) Ltd.,
16, Bank Street, Bombay 1.
4. Herbertsons Ltd.,
11-13, Elphinstone Circle,
Bombay.

APPENDIX III
(Vide paragraph 9)

Statement showing the break-up of landed costs into c.i.f., customs duty
clearing charges of cocoa powder, and chocolate per lb.

| Sl. No. | Source of information | Origin of import | Date of import | Type and specification | C.I.F. Re. as ps. | Customs duty Re. as ps. | Clearing charges Re. as ps. | Landed price | Selling price | Remarks |
|-------------------------------|---|------------------|----------------|--|-------------------|-------------------------|-----------------------------|--------------|---------------|---------|
| A. COCOA POWDER: | | | | | | | | | | |
| 1. | Nestle's Products (India) Ltd., Calcutta. | U.K. | June '49 | Cocoa Powder | 1 4 6 | 0 6 2 | 0 0 6 | 1 11 2 | 2 5 4 | |
| 2. | Cadbury-Fry (Export) Ltd., Bombay. | U.K. | Present | Cocoa (% lb. tin) | - | - | - | 2 5 0 | 2 10 3 | |
| 3. | Collector of Customs, Calcutta. | U.K. | 17-5-1949 | Peter's Cocoa (1 lb. tin) | 1 4 0 | - | - | - | - | |
| | | U.K. | 17-5-1949 | Peter's Cocoa (% lb. tin) | 1 4 6 | - | - | - | - | |
| | | U.K. | 17-5-1949 | Peter's Cocoa (% lb. tin) | 1 8 11 | - | - | - | - | |
| | | U.K. | 26-5-1949 | Romtreas Cocoa (1 lb. tin) | 1 5 4 | - | - | - | - | |
| 4. | Collector of Customs, Madras. | Australia | 30-5-1949 | Bourne Villa Cocoa (1 lb. tin) | 1 14 2 | 0 9 2 | 0 1 0 | 2 2 10 | - | |
| | | Australia | 30-5-1949 | Romtreas Cocoa (% lb. tin) | 2 0 0 | 0 9 7 | 0 2 0 | 2 11 7 | - | |
| | | U.K. | 1-7-1949 | Peter's Brand Cocoa (1 lb. tin) | 1 4 0 | 0 6 0 | 0 0 4 | 1 10 4 | - | |
| | | U.K. | 1-7-1949 | Peter's Brand Cocoa (% lb. tin) | 1 5 4 | 0 7 2 | 0 0 6 | 1 12 8 | - | |
| | | U.K. | 1-7-1949 | Peter's Brand Cocoa (% lb. tin) | 1 10 8 | 0 8 0 | 0 0 8 | 2 8 8 | - | |
| | | U.K. | 30-5-1949 | Romtreas Cocoa (1 lb. tin) | 1 5 0 | 0 6 3 | 0 0 2 | 1 11 5 | - | |
| 5. | Collector of Customs, Bombay. | New Zealand | 1949 | Bourne Villa Cocoa (% lb. tin) | 1 9 9 | - | - | - | - | |
| | | U.K. | 20-4-1949 | Romtreas Cocoa (% lb. tin) | 1 6 9 | - | - | - | - | |
| | | U.K. | 20-4-1949 | Romtreas Cocoa (1 lb. tin) | 1 5 4 | - | - | - | - | |
| | | Nearm Behmas | 1949 | Nestle's Cocoa (1 lb. tin) | 1 4 0 | - | - | - | - | |
| | | " | 1949 | Cocoa (% lb. tin) | 1 4 6 | - | - | - | - | |
| | | " | 1949 | Cocoa (% lb. tin) | 1 7 11 | - | - | - | - | |
| B. COVERING CHOCOLATE: | | | | | | | | | | |
| 1. | Nestle's Products (India) Ltd., Calcutta. | Denmark | June 1949 | Covering choco-late | 1 14 0 | 0 9 0 | 0 0 3 | 2 7 3 | 3 4 0 | |
| 2. | Cadbury-Fry (Export) Ltd., Bombay. | New Zealand | Present | - | - | - | - | 2 9 0 | 2 12 0 | |
| 3. | Collector of Customs, Madras. | U.K. | 3-2-1948 | Chocolate cover-ture for manu-facturing purposes | 1 6 6 | 0 6 9 | 0 0 1 | 1 13 4 | - | |
| 4. | Collector of Customs, Bombay. | New Zealand | 1949 | Milk Chocolate coverture. | 1 12 0 | - | - | - | - | |



Handwritten signature and the number '1378' written vertically.

