

SWARAJYA

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OIL PRICE HIKE

A FURTHER HIKE in crude prices announced by the Organisation of Petroleum Exporting Countries (OPEC) from Doha, after a price freeze during the last 15 months, is bound to disturb the pattern of international trade and damage the economies of many less developed countries. The OPEC members were unanimous in their decision to raise the oil price, but differed only on the rate of increase. Computing the rise in the cost of manufacture at 26%, the OPEC members wanted to neutralise it by a corresponding increase in oil prices and, like a dog chasing its tail, spin a price spiral. That the basic assumption is erroneous has been established by a number of expert studies. For instance, the International Monetary Fund computed the increase at not more than 5%, if the armaments imports were excluded. Others have estimated the increase in import costs of OPEC countries at only about 2%. It is, therefore, a matter of great relief to the world that the price rise will be moderate. Saudi Arabia and the United Arab Emirates are raising the price by 5% and the others are pushing it up by 10% from the New Year and another 5% from July, 1977. Ever since 1973 Saudi Arabia has been advocating a policy of moderation in OPEC. However, the lower price lift for which the Saudis have opted is linked to a fair settlement of the West Asia question. If the Arab-Israeli conflict is not solved to the satisfaction of the OPEC countries, Saudi

Arabia and the UAE may follow suit and charge rates like other OPEC countries.

Even the present 10% increase in oil prices is bound to worsen international economic progress and add to the inflationary pressure throughout the world. Its effect on Europe, Japan and the U.S.A., which are already facing recessionary conditions and high unemployment, can only be adverse. About 80 per cent of West Asian oil is consumed by the U.S.A. and Europe. American consumption of oil is known to be rising and, in the absence of an effective crash programme for energy, the United States' dependence on imported oil has grown substantially since 1973. According to OECD sources, a 10% increase in oil price would mean an additional burden of \$5.6 billion on Western Europe alone. As in the past, the industrialised countries are bound to pass on this additional burden to the developing nations through higher export prices. The halting recovery of Western Europe and Japan will be further slowed down.

Already, the balance of payments deficit of the less developed nations have swollen from \$10 billion in 1973 to \$37 billion in 1975. Their position will now be rendered worse by the latest price hike. The OPEC group have, however, hinted at increased aid of about \$800 million to the less developed nations, affected by oil bills, but whom it will benefit and how far this aid will be adequate to alleviate the growing

miseries of these poor countries are not known yet. It is well to remember that this latest jolt from the OPEC group of countries is a blow at the hopes of an early economic recovery of the Third World in general and is not a gesture to facilitate the North-South Detente to bring about major changes in global economic restructuring and redistribution process envisaged at the UNCTAD IV meeting at Nairobi. The less developed nations can only hope that the OPEC will offer them significant price differentials, longer credit periods and generous discounts to soften the effects of the price hike on their economies.

The implications of the OPEC decision for India are not far to seek. This latest price escalation has come at a time when the country has contained the inflationary pressures and the economy is well set for steady progress. The import bill for oil for 1975-76 was Rs. 1,226 crores and, during the current year, it is expected to be higher. The latest price rise will add to the country's import bill by about Rs. 100 to Rs. 120 crores on an annual basis. The present consumption in the country is about 20 to 22 million tonnes, of which about 14 million tonnes of crude are now imported. On the basis of a 6% growth in the requirements of petroleum products, it is estimated that by 1980-81 the total consumption will go up to about 30 million tonnes. The need to step up indigenous production of crude is clear. The Bombay High wells are now

yielding about 20,000 barrels a day and, by the end of next year, will reach a level of 80,000 barrels a day. By 1975, this will give an output of about 3.5 million tonnes. The output of onshore wells in the North-Eastern Region can be stepped up to 6.5 million tonnes from their present output of less than 4 million tonnes. Still, there will be a gap of over 13 million tonnes in the next two or three years to be filled by imports. Fortunately, India's foreign exchange reserves are at present very comfortable to meet the cost of additional oil imports. The offer of the USSR to supply 5.5 million tonnes of crude in the next four years will be widely acclaimed as a friendly gesture of help.

At the same time, it is clear that the country has to give higher priority to evolving an appropriate energy policy. A massive investment is called for to tap indi-

genous sources of oil and their early exploration. Stringent measures should be adopted to economise on petrol consumption and, as the Petroleum Minister, Mr. K. D. Malavia, has pointed out, at least Rs. 100 crores per year should be saved through proper and efficient use of available petrol. Measures to substitute other energy sources for oil need to be explored and adopted if the perpetual drain on foreign exchange has to be ended.

The price rise will affect both passenger and goods transport costs, adding to inflation. It is for the Government to examine whether the price hike may not be absorbed by a reduction of excise duty, so that it may not have an adverse impact on trade and industry. We commend the idea for the consideration of the Government.

—R. Venkataraman
(24-12-1976)

CASE FOR AN INTEGRATED TEXTILE POLICY

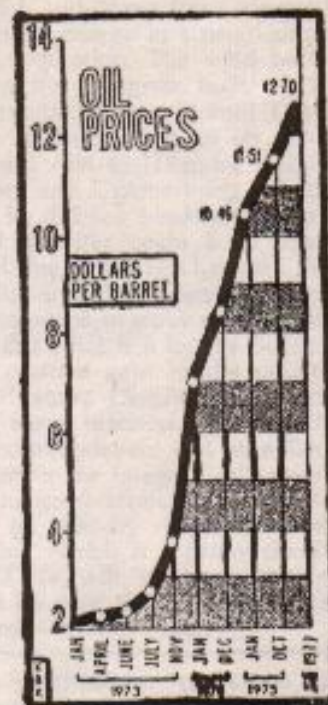
VIRENDRA AGARWALA

NEXT TO FOOD, fibres play a vital role in meeting man's elementary needs of life, viz., food, clothing and shelter in that order. For a country like India, where the population is large and is growing at an annual rate of 2.5 per cent, the demand for cotton textiles is sure to grow at a faster pace. Even if we are able to achieve the Fifth Plan target of 10,400 million metres of cotton cloth production, the *per capita* availability will still be meagre at about 16 metres. The *per capita* availability of manmade fibre-fabrics has shown improvement except in 1973 and 1974. A major part of even our cotton textile output is beyond the reach of the poor, specially in rural areas. Therefore, in the context of the new economic programme, improvement in the supply and quality of the cloth for the millions rightly assumes greater importance.

India is probably the world's largest long staple cotton producer and fourth largest cotton producer. The cotton textile is the country's oldest and leading indus-

try which in 1974 completed 120 years of existence. It employs nearly one-third of the work force, generates one-fifth of the value added in the organised industry sector and accounts for a sizable part of the invested capital in that sector. Furthermore, cotton textiles have been one of the major foreign exchange earners for the country. Our exports of cotton in terms of value have exceeded imports for the first time in 1973-74. Cotton has recently emerged with a problem demanding immediate national attention. On the one hand, we have the phenomenal success of our growers in producing the best of long staple varieties; on the other, they are faced with a glut, with a million bales of unsold long staple. Moreover, we have the equally sad spectacle of the cotton textile industry being in the manufacturing sector.

What we urgently need today is a comprehensive integrated policy. Such a policy should entail all the interrelated aspects of a cotton programme—cultivation of cotton, manufacture of cotton



—Courtesy: The National Herald

textiles, distribution and trade including export promotion. Such an approach bases its justification on the fact that imbalances at different levels of activity of the cotton textile industry have become quite prominent in recent years. To mention a few, there is an unsold surplus of long-staple cotton which was domestically non-available only a few years back; the biggest cotton textile industry of the world is unable to provide enough clothing for the large masses of the country's population; the handloom sector is hard pressed for yarn and credit, our exports of cotton textile goods are faced with hazardous prospects; the industry is old and is in urgent need of modernization.

Industry in Bad Shape

The Indian textile industry — the world's biggest — is in a bad shape. Nearly a third of the 600 mills are desperately sick and the number of closed units is constantly growing, during the last 12 months alone, some 16 mills have drawn their shutters. Much of the available capacity in the handloom and powerloom sectors is lying idle and in any case, the owners are unable to sell the cloth they produce at an econo-