



सत्यमेव जयते

**TARIFF COMMISSION
GOVERNMENT OF INDIA**

R E P O R T
ON
**The Continuance of Protection to the
Safety Match Industry**



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**BOMBAY
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Report on the continuance
of protection to the Safety
Match Industry—1963.



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PERSONNEL OF THE COMMISSION

SHRI K. R. P. AIYANGAR	<i>Chairman</i>
SHRI J. N. SEN GUPTA	<i>Member</i>
DR. R. BALAKRISHNA	.	.	.	.	.	.	.	.	<i>Member</i>

SECRETARY

SHRI PRAMOD SINGH



New Delhi the 14th Sept., 1965.

RESOLUTION

Tariffs

No. 16(1)-Tar/64.—The Tariff Commission has submitted its Report on the continuance of protection to the Safety Match Industry on the basis of an inquiry undertaken by it under Sections 11(e) and 13 of the Tariff Commission Act, 1951. Its recommendation is that the indefinite protection to the Safety Match Industry may be withdrawn.

2. Government accept the above recommendation and necessary legislation to withdraw the protection from the Safety Match Industry will be undertaken in Parliament in due course. The existing rates of Customs duty will, however continue.

ORDER

ORDERED that the Resolution be published in the Gazette of India and a copy thereof be communicated to all concerned.

(B. D. JAYAL),

Joint Secretary to the Govt. of India



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REPORT ON THE CONTINUANCE OF PROTECTION TO THE SAFETY MATCH INDUSTRY

1.1. In continuation of our Report of even date on fixation of fair selling prices of safety matches we are submitting this Report which is in the nature of a review of the match industry by us under Section 11(e) read with Section 13 of the Tariff Commission Act, 1951. To the extent that our inquiry into prices covers common ground about the development of the industry and its present state in the context of the production costs and the central excise and import tariffs, we refrain from giving in this Report in detail our observations and findings in the other Report.

1. Introduction

1.2. The costing of the industry which has been done in connection with the fixation of fair prices has also offered us adequate data for dealing with the issue of continuance of protection. The cost reports have been sent to Government as confidential annexures to our price Report on safety matches.

2.1. A brief resume is given about the background of protection to the match industry. A high revenue duty of Rs. 1-8-0 per gross on imported matches was levied in 1922 and this helped to establish many match factories in India and imports declined. Indian match manufacturers made requests to Government for grant of protection to the industry and the Government of India referred the matter in October 1926 to an *ad hoc* Tariff Board which submitted its Report to Government in April 1928. By the beginning of the First World War Sweden had acquired a substantial share of the world match industry in spite of the entry of Japan into the field. Swedish Match Co. and its associate, International Match Corporation of U.S.A. still retained during the inter-war period a dominant control over the manufacture of matches in about 30 countries of the world and catered to almost two-thirds of the total world demand. In more than a score of countries these companies had either a complete monopoly granted by Government or acquired a virtual monopoly in different ways for regulation of prices. It was in this context that Western India Match Co. was first registered as a private limited company in 1923 and later converted to a public limited company in 1929 with four factories in India and one in Pakistan. Swedish Match Co. who own 50 per cent of the share capital are also the managing agents of this company. Assam Match Co., an associate, started in 1925, is also under the control of Swedish Match Co. which owns 70 per cent of the shares. Outside this group there were at the time of 1928 inquiry 27 factories. The number of such small factories and their output grew only after the grant of protection.

2.2. In April 1928, Government of India accepted the recommendation of the Tariff Board that the match industry should receive protection as it fulfilled the three conditions for receiving protection enunciated by the Fiscal Commission of 1921. No limit was prescribed

in regard to the period of protection mainly on the ground that the species of match wood trees required for the industry would take more than 20 years to mature after the plantation. The existing revenue duty of Rs. 1-8-0 per gross of matches was converted into a protective duty. Government accepted the Tariff Board's view that manufacture of matches was not a fit industry for development on cottage lines. It was recognised that in certain circumstances when excise duty might be levied, conditions might arise in which some concession to the cottage industry might be required. Government also accepted the findings of the Board that in the prevailing circumstances there was no question of unfair competition from the Swedish Match Co., but in the event of developments leading to undue control to the detriment of the Indian industry safeguards would be considered.

2.3. When excise duties were levied for the first time on matches in 1934 a rebate of 10 pies per gross on the excise duty of Re. 1 was given to small factories manufacturing not more than 100 gross boxes a day. The excise duties were enhanced in 1941. In our price Report we have given fuller details of changes in the excise structure on matches.

2.4. In 1956 a review by the Commission under Section 15 of the Tariff Commission Act was submitted to Government. It was, however, not published. In that Report the progress of the industry since the grant of protection upto 1955 was briefly surveyed. It was noted with satisfaction that as against a total demand in 1928 of 17 million gross boxes of which 7.75 million gross boxes including 4.16 million of Indian production was supplied by the Swedish Match Co., the demand in 1955-56 of 31 million gross boxes (which would rise to 35 million by 1958-59) included a contribution of 18 million gross boxes from WIMCO group and 13 million gross boxes from non-WIMCO factories. The most significant development in the non-WIMCO sector of the industry was the sturdy growth of cottage factories particularly in the Southern districts of Madras which belied the views of the Tariff Board. The latter section had actually expanded to such an extent that in the Commission's review it was noted that they were competing with WIMCO factories for an increasing share of the domestic market. We have already referred in our price Report to the background policy which encouraged development of the cottage section and the establishment of a gentleman's agreement for limiting the output of WIMCO to about 50 per cent of the domestic demand. Imports which were insignificant have virtually remained banned since 1955. In the Review Report (1956) no specific recommendation was made about the continuance of protection but it was observed "With the cessation of imports and the expansion of the non-WIMCO factories the question of protection to Indian matches has lapsed and the emphasis shifted to the extent to which and the conditions on which the market is to be shared between the WIMCO and non-WIMCO factories."

2.5. It is in this context that we had to take up the question of continuance of protection which the safety match industry has now enjoyed for 35 years.

3.1. The established importers are not allowed any quota for imports of safety matches. This is because the indigenous industry, both mechanised and non-mechanised sectors, has progressed very well and has been able to meet the entire demand of the country for this product.

3. Import control policy, imports and exports

3.2. Imports of safety matches have progressively declined over a period of years. During the decade 1931-32 to 1941-42 imports totalled 5.8 million gross boxes valued at Rs. 1.05 crores. During the next decade they have come down to 0.74 million gross boxes valued at Rs. 0.24 crore. The small imports that have taken place annually for amounts valued at a few hundreds were mainly from U.K., Netherlands, U.S.A. and East Pakistan. Since 1960-61 there have been practically no imports.

3.3. The exports of matches have also been negligible. Between 1939 and 1947 WIMCO's exports amounted to about 1.01 lakh cases, an insignificant percentage of its production. This included consignments sent abroad at Government's request for armed forces in the neighbouring war theatres. WIMCO's exports have been mainly to Nepal, Bhutan and Tibet. Small exports have been made to Ceylon, Maldives and Sudan. There is no assistance for exports now besides the draw-back of excise duty. WIMCO has stated that the fragility of match sticks made from Indian timber does not make it exportable and considers that prospects of exports can be bright only if it can produce "wax matches".

4. Matches, undipped splints and veneers are assessed to duty under item No. 34(4) of the First Schedule to the Indian Tariff Act, 1934 the relevant extract from which 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	
1	2	3	4	5	6	7	8
34(4) Matches, undipped splints and veneers—							
(a)	Matches	Protective	One naya paisa for every 10 matches or part thereof.	..	..	..	..
(b)	Undipped splints such as are ordinarily used for match making.	..	Rs. 1.0 per kilogram.	..	..	..	..

1	2	3	4	5	6	7	8
(c)	Veneers such as are ordinarily used for making boxes including boxes and parts of boxes made of such veneers.	Protective	Rs. 1.30 per kilogram.	..	..	..	..

NOTES.—1. Under the Finance Act, 1963, a general surcharge of 10 per cent of duty has been levied on all import duties.

2. Under Government of India, Ministry of Finance (Department of Revenue) Notification No. G.S.R. 387 Customs, dated 1st March, 1963, matches are exempt from the countervailing excise duty leviable under Section 2A of the Indian Tariff Act, 1934.

5.1. The large-scale as well as small-scale manufacturers have prayed for continuance of tariff protection to the industry. However, they have not specified the period or quantum of further protection. While desiring the continuance of protection some of them have stated that though the continuance of protection may not be considered justifiable on the grounds of costs of production and selling prices, it is necessary for the sake of the employment potentiality the industry commands. The Sivakasi Chamber of Match Industries, which represents small-scale producers, is of the opinion that unless protection now granted against the import of matches is continued, the hand-made match industry which has steadily grown up and is at present meeting more than 40 per cent of the country's needs will be wiped out overnight. In support of its claim to the continuance of protection, WIMCO has stated:

"..... We, however, understand that the prices that the foreign manufacturers, particularly those of the Eastern European countries are quoting, are substantially lower than our cost of manufacture. This leads us to believe that if free imports of matches are allowed in this country, the foreign matches which are better in quality would conquer the market. The result of a situation like this would be a reduction in the production of indigenous manufacturers which may compel us as well as others to lay off a number of workers from the approximately 100,000 that the industry employs today. It may not be out of place to mention that in the coming years also it will be difficult for the Indian Match Industry to compete with foreign manufactured matches due to the following reasons:—

- (1) Inferior quality of timber that we have to use which results in a lower yield per tree as compared with Aspen and other species used by foreign manufacturers.
- (2) Due to Government not allowing imports of latest machinery it has not been possible to modernise and rationalise our manufacturing processes. Conversely, foreign manufacturers have been inventing new machines and replacing their machinery resulting in more efficient operation of their units and thereby reduction in their production costs.
- (3) Rising costs of wood and other raw materials."

5.2. The Khadi and Village Industries Commission is of the view that as long as imports of matches are banned, protection to the match industry need not be continued.

5.3. The D.G.T.D. has supported continuance of protection to the match industry. The main reasons advanced by the Directorate are that (i) the supply position of the basic raw material (timber) is still very nebulous, (ii) the cost of production in India is higher as compared to the c.i.f. prices of matches from exporting countries such as Czechoslovakia and (iii) withdrawal of protection is likely to hurt the indigenous small scale and cottage sector of the industry, which is labour intensive.

5.4. We have received the following information regarding c.i.f. prices of Swedish matches through the Embassy of India, Stockholm. For the standard 5-E size containing on an average 50 matches of aspen wood the f.o.b. price is 200 Swedish kronor (Rs. 184.43) for 50 gross boxes, that is, Rs. 3.69 per gross. The freight and insurance charges are about £ 2.12.2, that is, Rs. 34.87 for 50 gross, so that with freight and insurance of 69 nP. and clearing charges at 1 per cent, landed cost without duty would be Rs. 4.42 per gross. Another f.o.b. quotation received by us is from the High Commission of India in U.K. The price quoted is 8 sh. 3 d. (Rs. 5.50) per gross boxes of 40's equivalent to Rs. 6.88 in terms of 50's. Adding freight and insurance, the c.i.f. price at an Indian port comes to Rs. 7.14 per gross boxes of 50's. At present no countervailing excise duty is levied, excise duty itself even at the highest rate of Rs. 4.68 per gross, being less than the import duty which is Rs. 7.92 per gross, inclusive of surcharge. In the course of discussion representatives of WIMCO while accepting the position that production costs in India compare favourably with the f.o.b. prices of Swedish matches, suggested that there was still a risk of matches being found from cheaper East European sources. They have since furnished us quotations for matches manufactured by East European countries in the Middle-East at 3 sh. to 3 sh. 2 d. (Rs. 2 to Rs. 2.11) per gross, c.i.f. Having regard to the conditions of trade in those regions we do not consider a comparison with their prices is appropriate.

5.5. In our Price Report we have assessed the fair price of safety matches made in India by the organised sector which, exclusive of selling expenses, outward freight and excise duty, comes to Rs. 2.80 per gross. This price is considerably lower than the landed costs of matches from Sweden or U.K. as is evident from the following table. The indigenous industry has therefore an advantage over its overseas competitors.

(Per gross boxes of 50 matches)			
	Rs.		
1. Fair ex-works price of indigenous matches	2.80	2.80	
	Sweden	U. K.	
2. C. i. f. price	4.38	7.14	
3. Clearing charges at 1%	0.04	0.04	
4. Landed cost without duty	4.42	7.18	
5. Difference between (1) and (4)	(-)		
6. Existing rate of duty (inclusive of surcharge)			

5.6. So long as matches are subject to an excise duty, even in the absence of an import duty a countervailing excise duty will have to be levied. Considering that the current rates of excise duty are very high in relation to the cost of production of matches and are only lower than the import duty, there is no risk that de-protection of the industry will result in any harm to its interests. The imports of matches are also under ban. Over a thirty year period the industry has become strongly established. Even if there is foreign participation for the group of factories accounting for the largest share of the output, the units remain as much under Government control as other indigenous units. The Indian industry has been able to meet over a period of almost two decades the entire needs of the domestic consumer. Accepted industrial policy already affords a degree of protection for smaller units of the non-mechanised type. Under a scheme of incentive for its growth the industry has proliferated and even its decentralised sector has shown up an amount of resilience and economy in costs. In the circumstances we consider the indefinite protection to the safety match industry may be withdrawn. It will be for Government to decide whether or not it should be done after giving the industry notice of the withdrawal of protection after a reasonable period of, say, one year.



K. R. P. AIYANGAR,
Chairman.

J. N. SEN GUPTA,
Member.

R. BALAKRISHNA,
Member.

PRAMOD SINGH,
Secretary.

BOMBAY,
Dated 31st December, 1963.