

CHAPTER - 3

CRISIS IN JUTE INDUSTRY

Jute, the golden fibre, still plays a very important role in the economy of India, especially in the rural economy of jute growing states. Jute manufactures accounts for nearly 7% of our total foreign exchange earnings through our export of all commodities. Over 2 lakhs of industrial workers are employed directly in the jute industry and about 20 lakh People earn their livelihood from secondary sectors of the industry. About 40 lakh families of various states are engaged in the production of jute fibre. But the Industry is presently facing a crisis. The crisis is outcome of different factors which are discussed in the following subheads.

- I. A. **Export Stagnation :** Jute was an export-oriented industry. But export of jute goods have been declining rather sharply since mid-seventies, from 5.83 lakh tonnes in 1974-75 to 3.17 lakh tonnes in 1978-79. Jute manufactured goods have contributed significantly towards the export earnings of India. Even though, over the years, India has become a residual supplier of jute goods in the export market, they still remain major foreign exchange earners. In the decade of sixties (1960-69) these exports averaged about Rs. 2000 million and accounted for nearly 20% of India's foreign exchange earnings in 1967 and about 28% of the value of exports to dollar and sterling areas. In 1968, however, the percentage of foreign exchange earnings from jute declined to 16%, continuing a declining trend. Although total exports crossed 9 lakh tones in 1964-65 and 1965-66 when jute manufacturing in Bangladesh was disrupted, jute exports from India started to decline after the mid-sixties. The year 1971-72 was an exception when they were bolstered by the Bangladesh war. In 1980-81, exports accounted for only 30 percent of the total production as against 83 percent in 1950-51.

A.1. **Raw Jute supply, Export duty and Competition from Bangladesh :**

Over the decade of the 1970s, the volume of India's jute-manufactures exports declined as a whole by an annual compound rate of about 3.5 per cent mainly as a result of the sharp decline in the exports of carpet backing and sacking. In fact, even in current value terms, carpet backing exports went down annually by about One per cent (compound). When export value indices are converted into real (constant) terms by deflating them through indices of international export prices of OECD, the rate of fall of all jute goods exports Over the decade turned out to be a staggering 10 per cent per annum, with all the constructions registering decline - particularly carpet backing which showed a negative growth rate of about 20 percent annually. As regards unit value realisations, the decline in real terms was about 6 per cent per years, carpet backing again faring the worst (about 9 per cent per year). It is striking to note that apart from jute manufactures, no major export commodity of India showed a falling tendency in terms of volume over the decade of the 1970s. And even in terms of value of exports, whereas all leading articles of export of the country experienced rising trends over the period, jute goods showed no trend of statistifical significance. Table 3.1 shows the volume and value of India exports of jute manufactures.

The declining tendency of the export quantum of jute goods has continued over the 1980s. Whereas exports had averaged over 500 thousand tonnes per year during the previous decade, they averaged 422 thousand tonnes during the first two years of the present decade, viz, 1980-81 and 1981-82. In 1982-83 it went down further to 330 thousand tonnes and the estimated level of exports in 1983-84 was only 234 thousand tonnes-an all time low. Exports picked up in 1984-85 to 265 thousand tonnes but were still below the 1982-83 level. Thus the long terms decline in Indias' exports of jute manufactures becomes amply evident.

Table- 3.1 : Volume and Value of Indian Exports of Jute Manufactures (Financial year).

Year	Volume (Thousand Tonnes)	Value (Million Rs.)
1970-71	559.0	1899.3
1971-72	669.6	2647.1
1972-73	578.4	2490.6
1973-74	561.9	2269.9
1974-75	583.2	2948.5
1975-76	516.3	2493.2
1976-77	452.7	1992.4
1977-78	521.4	2440.9
1978-79	328.1	1657.3
1979-80	492.4	3347.0
1980-81	439.9	3274.2
1981-82	404.8	2393.2
1982-83	329.5	2018.3
1983-84	233.5	1637.1
1984-85	264.7	2999.3
1988-89	202.7	2178.0
1992-93	184.0	3183.2

Source : JMDC, various editions of Indian Jute, EPW, Dec 13, '86, page 2191 and Annual Summary of Jute and Gunny Statistics, 1992-93, IJMA.

It is also notable that exports of jute textiles as per cent of production steadily declined to around 22 in 1984-85 from 55 in 1969-70. And between 1975-76 and 1981-82 India's share in world exports of jute goods fell sharply from around 40 to 30 per cent. From a traditional position of dominance, India has been relegated to a secondary position as supplier in the world jute goods market.

The decline in India's exports of jute manufactures is attributable to three main factors :-

(a) a short fall in the raw jute supply, as due to partition of the country the large part of jute growing area went to erst while East Pakistan.

(b) increasing competition from Bangladesh and the establishment of jute and allied fibre industries in developing countries, and

(c) the impact of penetration of synthetic material in packaging and other uses as a substitute for jute.

The major share of exports of raw jute and allied fibre is held by Pakistan and Thailand, India, although a ~~major~~ ^{major} producer of jute, consumes almost its entire production and in the past has been a major importer of raw jute.

Almost every overseas market is a potential customer of jute. There has been an increase, however, in the use of jute in the rapidly growing tufted carpet market which has tended to offset the decline in traditional uses of jute goods. Major factors affecting export markets are as follows :-

1. Bulk handling :- The significance of bulk handling is important in the developed countries, particularly in the U.S.A., Canada and Europe. Inroads to the jute trade have been significant in the past.

2. Synthetics :- There have been major inroads to the jute trade by synthetics. Polyethelene is used extensively in North America and Europe for the packing of fertilisers and chemicals. Polypropylene is a direct threat to jute in almost all major products although the major impact of polypropylene is yet to come.

3. Local fibre production :- There has been a tendency in countries where it is possible to grow indigenous fibre to meet requirements of packaging through indigenous production.

4. Consumer packaging :- Major inroads into the jute trade have been made in the developed countries by consumer packaging both in paper and polyethelene. Consumer preference for attractive packaging have inhibited the use of jute as a packaging item.

5. End users :- Because of the crop pattern in Asia, including erratic prices of goods year by year, there has been a tendency for end users of jute products to actively search for substitutes.

6. Tariffs and quotas :- All countries having local processing industries have some form of tariffs and quotas to protect the local industry.

Although India held a higher reputation for quality of jute goods over other manufacturers in the past, investigation in markets abroad has shown that at present Pakistan goods are generally preferred to Indian goods.

There are other factors significant to India's trade which, though not strictly quantifiable, significantly affected past performance and have ramifications for future trade.

The long supply lines between Asia and the major markets have caused problems in disruption of supply arising both from jute crop patterns in Asia and the fluctuations in price of Jute.

Often psychological factors out of the control of India have caused end users to look elsewhere for alternative supplies.

In some African countries, plans are being made and carried out for production and manufacture of indigenous jute goods.

The Indian jute industry is generally not marketing oriented with its implication of market intelligence, analysis, plans, action and control. The industry also is so organised, divided into small units, that it is difficult to adopt a systematic approach to marketing similar to that now adopted by synthetic competitors.

The low yield rate of Indian jute attributes to the high cost of raw fibre and, in turn, a higher price of manufactured goods. This low yield rate again makes it equally difficult for the grower to supply the fibre at prices that would enable the industry to compete with synthetics. (which are now making rapid inroads into the markets where jute products so long had a monopoly)

The price fluctuation is aggravated by the speculative tendency of trade in raw jute in which some jute mill owners are reported to be associated.

The growers with small holdings and large families who predominate in Eastern India are the most stable jute growers. Their capacity for investment is very low and they cannot provide the inputs which could increase their yield. The situation applies equally to share croppers who predominate in the major jute growing states. A survey carried out by the Indian Central Jute Committee in 1963-64 showed that the percentage of share croppers to total number of growers was ~~2%~~ 14.4% in West Bengal, 10% in Assam and 7% in Bihar. The share croppers' monetary return is even less than that of the small grower as he is usually required to give away half of the production to the land owners.

The low yield rate, the fluctuations in production and the low proportion of high quality fibre are major disadvantages to the Indian jute industry.

The declining trend in exports will be further revealed from the following table :

Table - 3.2

Despatches of Jute goods from Mills.

<u>Jute year</u> <u>(July to June)</u>	<u>For Export purposes</u> <u>(000 tones)</u>
1944-45	7,02.8
1949-50	745.7
1954-55	864.4
1959-60	847.0
1964-65	926.8
1969-70	465.6
1974-75	501.8
1979-80	439.4

1980-81	406.0
1981-82	360.1
1982-83	316.4
1987-88	254.4
1992-93	215.1

(Source : Annual Summary of Jute & Gunny statistics, Jute year, 1982-83 and 1992-93, Issued by the statistics Deptt., Indian Jute Mills Association)

To analyse the composition of exports of jute goods, it may be pointed out that the share of hessian in total exports has gradually increased from 42.5 per cent in 1950-51 to as much as 65.8 per cent in 1980-81 whereas sacking has lost its importance as an export item. While the increasing share of hessian may be attributed to USSR emerging as a major importer of the item since the mid-1960s, the declining share of sacking is mainly due to heavy under cutting by Bangladesh and the facility of longer credit at a concessional rate of interest in that country. Carpet backing has emerged as an important export item, its share increasing from 4.9 per cent in 1960-61 to as much as 33.69 per cent in 1971-72. In recent years, export of this commodity has suffered because of recession in the importing countries and competition from synthetics-encouraged in the past by disproportionately high prices of jute goods as a result of buoyant demand.

Till 1970-71, U.S.A. was the largest importer of hessian from India. It has now been overtaken by the USSR which emerged as a major importer in the mid-sixties. Considering the direction of India's exports of jute manufactures as a whole in terms of value on the basis of JMDC (Jute Manufacturing Du. Corpn.) data, the following developments are specially worthy of note. The USSR is now by far the largest customer for India, and its share varying from 20 to 25 per cent

between 1972-73 and 1979-80, shot up to 58 per cent in 1984-85. On the other hand, the share of the US, which was more than 40 per cent between 1970-71 and 1973-74 fell to only 7 per cent in 1984-85. The importance of the U.K., which has traditionally been minor has increased but its share in the total remains low at around 5 per cent. The proportion sold in Australia seems to be on the decline particularly because of the fall in demand for wool packs with increasing competition from synthetics, while exports to New Zealand have remained fairly steady at a low level of about 1.5 per cent of the total. The share of Indian jute goods absorbed by Canada has worsened significantly, while in respect of Japan this has varied much from year to year. Among developing countries, the proportion accounted for by Argentina has fluctuated within a fairly wide range of 8 per cent in 1976-78 to 0.2 per cent in 1984-85. And of late, the import quanta of Iran and Egypt have dwindled strikingly.

In the mid-sixties, the leading position of jute goods in the export markets was affected by the export duty, imposed in 1966. This gave an impetus to substitution by synthetics which became comparatively cheaper. Sudden imposition of export duties on jute goods has been a major constraint to long term export efforts as it has created uncertainty in the minds of both the importer and the exporter. The first major rise of export duty was from Rs. 350 per tonne of hessian in late September, 1949 to as much as Rs. 1500 per tonne of the same item by November, 1950. This resulted in a sharp fall in US consumption of the product from nearly 68 million yards per month in 1950 to only 43 million yards per month during 1951. After a few years of respite, duties, as high as Rs. 900 per tonne of hessian, Rs. 600 per tonne of sacking and Rs. 900 per tonne of carpet backing, respectively, were reimposed on the 6th of June, 1966. This largely neutralised the impact of the devaluation of the rupee, on the same day, which was intended to give a boost to exports. Again, in 1970-71 when carpet backing accounted for 27.5 per cent of our total exports

and when the position could have been strengthened due to disruptions in Bangladesh, the Government raised the export duty on carpet backing from Rs. 300 per tonne in March, 1970 to Rs. 700 per tonne in December, 1971. Similarly during 1979-80, the export duty (abolished in 1975) was reimposed to the tune of Rs. 100 per tonne of hessian merely on revenue consideration.

The export duties have caused tremendous harm to the export effort and provided an umbrella to Bangladesh and synthetics. For instance, hessian exports declined from 4.56 lakh tonnes in 1965-66 to 3.60 lakh tonnes in 1966-67. Sacking exports also suffered a set back and so did the total earnings which fell from Rs. 287.8 crores to Rs. 250.8 crores. In the same year, Bangladesh maintained its exports of hessian and increased those of sacking. As a result of the duty, increased in March 1970, carpet backing exports declined from 2.04 lakh tonnes in 1969-70 to 1.53 lakh tonnes in 1970-71 i.e. by 25 per cent. In the same year exports of this item from Bangladesh increased by 22 per cent. The export duty on carpet backing continued till 3rd May, 1975. During this period the share of Indian carpet backing in U.S. imports declined from 75 per cent to 64 per cent, while that of Bangladesh increased from 21.8 per cent to 35 per cent. As a result of the duty of Rs. 1000 per ~~ton~~ tonne of hessian imposed on 18th February, 1980, India's share in total U.S. imports of this item declined from 45.4 per cent in 1980 to 40 per cent in 1981, while that of Bangladesh increased from 47.3 per cent to 57.5 per cent.

Another explanatory factor behind India's poor export performance in regard to jute textiles in the recent period is its failure to maintain competitiveness in foreign markets. Pakistan became an important rival supplier since 1954, and specially since 1959, and in more recent years the declining share of India's exports vis-a-vis that of Bangladesh her closest competitor - has been a matter of profound concern. The share of India in the combined exports of India and Bangladesh (together these two countries account for well over 70 per cent of the world exports of

jute goods) has gone down steadily. In the case of hessian, India's share in the combined total came down from 76 per cent in 1971-72 to 62 per cent in 1980-81 and to 42 per cent in 1983-84. In respect of carpet backing, the fall in India's share has been more pronounced - from 88 per cent in 1971-72 to 45 per cent in 1980-81 and 24 per cent in 1983-84. As regards sacking, the share of India dropped even more drastically - from 50 per cent in 1971-72 to 16 per cent in 1980-81, and less than 10 per cent in 1983-84. Considering exports of all jute products, the proportionate share of Bangladesh in the combined total leapt from a mere 26 per cent in 1970-71 to 67 per cent in 1983-84. Thus India was displaced from her leading position by Bangladesh in respect of sacking as early as 1972-73, in regard to carpet backing in 1980-81, and concerning jute manufactures as a whole mainly from around 1976-77. As already hinted, it has increasingly become a minority supplier of all broad classes of jute textiles.

A look into the relative prices of jute goods exported by the two major rival exporters, viz, India and Bangladesh, would also be relevant in this context. It is however, difficult to adduce any fully satisfactory quantitative evidence, given the suspected practice of under-invoicing of exports. For, this rules out the use of relative unit values in the foreign trade statistics of the exporting countries, or even of cif. unit values recorded in the importing countries in so far as the latter are based on the former. Market quotations, i.e, spot prices (f.o.b) of 'standard items' as being broadly comparable and that expressed in terms of American dollars per unit of jute goods concerned of the two countries might give some general indication of the price advantage that the industry of one country enjoyed over the other. As the shipping distance from Calcutta and a Bangladesh port could be taken to be more or less identical, f.o.b. prices might be comparable from the point of view of an importer.

As an exploratory exercise the annual average prices in Calcutta and Bangladesh respectively, of the two well known 'standard items' (B-Twill sacks per 100 ~~yards~~ ~~sacks~~ ~~per~~ ~~100~~ ~~yards~~ bags and 40 inches x 100 ~~oz~~ hessian per 100 yards) are compared for period 1971 and 1984. Table - 3.3 contains these price data in terms of U.S. dollars.

Table - 3.3 : Price of Hessian and Sacking, Exports of India and Bangladesh.

Year	Hessian (40 inches x 100z) (U.S. Dollars per 100 yards)		Sacking (B-Twill) (U.S. Dollars per 100 bags)	
	<u>India</u>	<u>Bangladesh</u>	<u>India</u>	<u>Bangladesh</u>
1971	11.72	11.53	35.00	23.21
1972	14.84	16.03	37.61	36.64
1973	12.50	13.34	31.95	32.49
1974	16.17	16.90	35.78	34.33
1975	16.37	19.41	45.66	51.56
1976	12.12	11.62	36.23	34.30
1977	12.30	12.69	35.42	32.76
1978	16.29	16.19	44.13	42.66
1979	19.86	20.48	52.12	46.33
1980	29.20	30.15	66.48	65.83
1981	20.30	21.33	57.57	56.85
1982	16.43	16.55	47.82	46.62
1983	17.54	17.55	51.35	47.01
1984	22.71	20.92	65.75	55.23

Source : K. Berger and H. Smit (1985), "Jute growing, processing & Trade-A Modelling Analysis"; EPW, Dec 13, '86, P.- 2193.

It is seen that in respect of sacking exports (where India has been sweepingly out classed by Bangladesh), the latter had almost throughout the period enjoyed a favourable price ratio comparable with India. In the case of hessian the situation was virtually the opposite with India resisting the onslaughts of Bangladesh exports in a better way. Up till

1981-82 Indian exports of hessian in fact exceeded those of Bangladesh.

This line of approaching the issue of competitiveness of exports has, however, several obvious limitations, besides such statistical problems of estimation as non-incorporation of variables representing index of economic activity and trend. For instance, the prices considered are in respect of spot transactions whereas the prices actually paid by importers tend to be subject to discounts, and Bangladesh exporters are said to have offered such discounts liberally-to the extent of two to six per cent, or even higher in the case of sacking. Secondly, inter-country price comparisons in terms of official exchange rates may be misleading because of over-valuation or under valuation of currencies. Thirdly, trade transactions at contractual prices under bilateral arrangements with the socialist-block countries partly blurs the price-quantity relationship for exports. Last but not least, the approach bypasses a disaggregated analysis based on the geographical location of the import markets. In this background one should enquire into the likely relevance of non-price factors, e.g. quantity, marketing and servicing in determining the competitiveness of India's jute goods exports, and the observed decline in India's relative share. It is stated that there are evidences of Bangladesh's products being of better quality, specially hessian which is of better colour than Indian hessian. Moreover, quicker delivery schedules and more stable supplies of jute manufactures exported from Bangladesh in contrast to the frequent disruptions from India such as owing to labour unrest at the Calcutta port, the more direct contact of Bangladesh exporters with end-users, and the provision of better credit facilities in the form of lower interest rates and longer terms to overseas importers are often stated to have contributed to the export advantage of Bangladesh specially in the developed, non-tender purchase countries. The desire on the part of importers to diversify away from their traditional source of supply to a new source may have also played a role in this context.

Altogether, the most plausible conclusion about the competition between India and Bangladesh regarding exports of jute textiles is that it has veered around both price and non-price factors. However, the price factor is generally considered important for markets in both industrialised countries and the tender-purchase countries of the Middle East and Africa. Elements underlying price differences between exporting countries are many, viz, costs, productivity, internal demand, etc., but most of these have a joint effect on competitiveness, price being an index of the net effect of their interaction. Generally prices tend to move closely with costs, export prices being no exception, although it is possible for prices to rise in response to growing pressure of internal demand. The major cost of jute manufacture is that of raw fibre and in respect of this, the Indian jute industry has had a disadvantage compared with its counterpart in Bangladesh. Productivity of capital equipment in the Bangladesh jute mills is also higher than in India, their machinery composition being relatively more modern and of more recent origin. From some recent data on the relative cost structure of the production of jute manufactures as provided in Table-3.4 it is seen that in respect of hessian of Bangladesh appeared to enjoy no distinct cost advantage over India in 1975-76 and lost its advantage in 1978-79 only to regain it in 1982-83. In the case of sacking, Bangladesh had notable cost advantage in 1975-76, in 1978-79 neither country seemed definitely to enjoy any comparative advantage, but in 1982-83 Bangladesh's cost advantage was clearly established. As regards carpet backing, Bangladesh enjoyed lower costs in all the above three years.

Table :- 3.4 :

Comparative costs of Jute goods production
in India and Bangladesh (U S Dollars per Tonne)

	India			Bangladesh		
	1975-76	78-79	82-83	75-76	78-79	82-83
Hessian	490	628	755	474	685	560
sacking	367	476	587	292	491	385
Carpet backing	593	763	925	523	760	617

Source : FAO, Committee on Commodity problems, "Feasibility of establishing Indicative prices for Jute products", CCP : J V 84/6, Rome, 1984, P-10.

The central feature of the world jute economy is that two of the world's poor countries have been competing desperately in a global market for jute goods which has shrunk significantly in recent times. And with a secular tendency for the consumption of jute manufactures in importing countries to decline, there may be a natural presumption that India could not have expanded its export of jute textiles because of the adverse course of overseas demand which is to say that the competitiveness of India's jute textiles exports were powerfully influenced by external, as opposed to internal or domestic, factors over which the country had no control. In the following section impact of external developments is discussed to seek another explanation of the performance of Indian exports of jute products in recent years.

A.2 : Impact of external Developments :

The factors which negatively influence the world import demand for jute and jute goods over the past two decades or

so and thereby impeded Indian exports are mainly four :

(i) technological developments (e.g., emergence of papersacks, and bulk handling of commodities) and changes in consumer preference (e.g., retail packaging of groceries) ; (ii) the development of jute processing industries in several importing countries ; (iii) the challenge from synthetic substitutes and (iv) recessionary conditions in the industrialised world. And a general phenomenon in the jute market is that the weight per metre of the combined fabrics has been decreasing. Carpet backing cloth is becoming lighter, the share of sacking in total exports is decreasing and also, hessian and sacking each are made of lighter weaves as time goes by. This process in itself means that less tonnes of jute goods are required to fulfil the same demand, viz, packaging or wrapping a certain commodity.

World demand for jute goods which had continued to grow at about four per cent per annum from the mid-1950s to the mid-1960s began to stagnate in the second half of the 1960s and actually declined in total volume during both 1970 and 1971. And world net imports of jute goods according to FAO figures declined by about 15 per cent over the decade of the 1970s, the rate of decline being particularly marked in the case of the US which was largely responsible for the global fall in demand. The rate of decline was also quite pronounced in the case of Canada and the U.K., while in the socialist countries, e.g, Czechoslovakia and Hungary too, imports for consumption registered reductions over the period. In the development world as a whole, the fall in imports was as much as about 25 per cent. In the developing world there was a marginal increase in import demand confined only to the Asian countries of the Near and the Far East. Without a substantial growth in demand concentrated into two of the producing countries - India and China - overall world demand for jute and jute products would have actually recorded a sharp fall.

One of the significant forces retarding the growth of world imports for jute consumption during the decade of the 1970s was the setting up or expansion of import-substituting

jute industry in several countries. There was a tendency in many developing countries like Nepal, Burma, Iraq, Sudan, Egypt, Brazil, and China to encourage local manufacturing of sacking based on indigenous and imported fibres in view of the expanding out-put of farm products and consequent packaging demand. On the other hand, in developed countries importing jute manufactures, a powerful inhibiting factor for such imports was the persistent stagflationary tendency which affected the demand for jute products in both floor covering (construction and automobile) and packaging industries. And this was exacerbated by the powerful competition offered by synthetics - the most pervasive and crucial development that jeopardised the market for jute and jute goods.

The competition between jute goods and their synthetic rivals started in the mid-1960s. It became a major factor in the late sixties and not only expanded to all major end-use markets of jute (packaging, industrial applications, and carpet backing) in developed countries, e.g, North America, Australia and Japan, but spilled over the socialist and the developing countries. The export duty imposed in 1966 on jute goods, gave an impetus to substitution by synthetics which became comparatively cheaper. In the 1970s, the two oil price hikes did not make these uncompetitive for several reasons. ~~They~~ Synthetics use low-priced natural gas as feedstock. They are manufactured as cheap by-products of giant petro-chemical corporation who follow a system of aggregate selling prices and whose economics of scale help to absorb cost escalations. Large investments for research and development help to maintain a competitive edge over jute. Lastly, synthetics are available in plenty off-the-shelf in the consuming centres, whereas shipment of jute products takes pre-planning, holding of inventories and is time consuming. According to a recent study, a 100 per cent increase in crude oil prices leads to only 4 per cent increase in the price of polypropylene. With the commercial production of polyolefin tape, jute goods consumers found a complete substitute for jute in the two major uses - bags and carpet backing. Although jute backing was

very widely used during the 1960s as primary backings, synthetics have almost captured the entire primary backing market. At present the share of jute secondary backing is on the decline, which is likely to affect India's exports of this item.

The shift to synthetics was spurred by supply uncertainties of required quality due to civil disruptions and long lines of supply of jute goods, and even more importantly by relative prices of jute and synthetic products. With a heavy ~~imp~~ imbalance between the prices of jute goods and those of their synthetic substitutes the burden of adjustment has been on jute goods. An idea can be had from Table 3.5 about ^(at P/78) the relative price situation for jute manufactures ~~xxxxxx~~ and synthetics over the period 1967 to 1984. The table clearly brings out that throughout the period the price ratios of jute hessian and comparable polypropylene have been adverse to the former. As regards jute primary carpet backing, the price ratios were favourable to polypropylene barring only the years 1976 and 1977. In the case of secondary carpet backing, however, the relative competitive status of jute and polypropylene products has varied from year to year since 1973 with the competitive position of the former being generally much better than in the case of hessian. In particular, the prices of the lighter carpet backing cloth have ruled substantially lower than those of synthetic substitutes.

Scarcely less serious is the problem that prices of jute goods have been subject to much greater year-to-year instability than their synthetic counterparts. The inter-year price instability in the case of jute goods hastened the shift of demand to their synthetic substitutes which were available more readily and at more stable prices. Some technical characteristics of competing products have also accounted for the market penetration of the synthetic substitutes of jute goods, reinforced by market structure, product development, market research, as well as promotion.

Table : 3.5

Estimated Average Prices and price Ratios of Jute and competing Synthetic Products in the U.S. (New York)
(Cents per yard and percentages)

	P_1	J_1	P_1 as % of J_1	P_2	J_2	P_2 as % of J_2
1967	10.20	14.20	71.8	76.00	82.00	92.7
1969	10.70	15.10	70.9	72.00	89.00	80.9
1971	12.50	18.10	69.0	66.00	76.00	86.8
1973	13.20	19.40	68.0	72.00	83.00	86.7
1975	14.80	20.30	72.9	72.00	87.00	82.8
1977	17.50	20.10	87.1	76.00	73.00	104.1
1979	19.80	27.10	73.1	81.00	108.00	75.0
1981	22.50	25.10	89.6	90.00	102.00	88.2
1983	22.80	26.10	87.7	80.00	95.00	84.2
1984	23.00	29.70	77.4	92.00	130.00	70.8

Symbols : P_1 - Price of Polypropylene cloth
 J_1 - Price of hessian cloth
 P_2 - Price of Polypropylene primary carpet backing.
 J_2 - Price of jute primary Carpet backing

Source : Burger, K & H Smith (1985), "Jute growing, processing and Trade - A Modelling Analysis".
 EPW, Dec 13, 1986, P-2195.

The synthetic - fabric industry has considerably enjoyed the advantage of steady supplies of its raw material (resin) at relatively low and stable prices which fell over the years of the last decade. And, & evidently, the impact of the rises in the prices of oil did not give producers of

jute goods any significant competitive advantage over the synthetics manufactures. The relationship between the prices of crude oil and gas on the one hand and those of jute goods is rather complex. Before the increase in the price of oil, raw material costs amounted to only one-sixth of the cost of producing polypropylene resin while the cost of resin itself accounted for only about one-fourth of the cost of producing the finished products. In short, the oil content of synthetic substitutes was very small so that the increase in oil prices could be expected to lead to an increase in the cost of synthetic fabrics by only about 10 per cent. In recent years the cost of propylene resin are estimated to be about 30 per cent of the manufacturing costs of a square yard of ~~25x30x30~~ woven primary carpet backing and about 25 per cent of bags, and it is estimated that a 100 per cent increase in the price of crude oil would have an impact of only 15 to 18 per cent on the cost of resin and of about 5 per cent on the cost of woven ~~poly~~ polypropylene fabric, other things remaining the same.

Jute manufactures also suffered from soaring freight costs and the decline in the external value of the dollar. Moreover, short-run improvements in the competitive position of jute fibre were not always reflected in the case of jute goods vis-à-vis their synthetic rivals because of autonomous rises in prices of imported jute manufactures. And it is notable that the substitution between jute goods and synthetics in many cases turned out to be irreversible. Technological improvements also progressively reduced polypropylene resin costs (and prices) over the 1970s. The market structure of the polypropylene industry has been essentially oligopolistic, with the concentration of production in a few giant transnationals like AMOCO and EXXON, although the tendency has been towards monopolistic competition with more and more firms entering the production field. The production of polypropylene resin is highly capital-intensive and the large scale of operation and capacity expansion of

the TNCs have been major factors underlying the relatively low prices of polypropylene and its products both in the US and the Western Europe. The production capacity of those units is quite flexible and could be quickly adjusted to shifts in market demand. Moreover, cross subsidisation (accepting lower profit margins in one operation to ^{be} supported by profits from other operations) to oust competing products and unfair ~~tax~~ transfer pricing have been a common practice of these multi-product firms. The petro chemical giants also incurred massive investments not only for research and development to equal and surpass the inherent quality of natural fibres and to reduce progressively their production costs, but also for market research and marketing technology, e.g, product differentiation and advertising. Another structural feature of the polypropylene market which substantially contributed to its stability and aided in lowering production costs is plant location. Monomer plants were set up near the raw material source, and polymer and fibre plants functioned near textile plants which in turn were set up near the final consuming industries.

Altogether, the jute industry has faced enormous odds in its competition with the synthetic rivals, and the world jute and jute goods markets have suffered major and sustained contraction on this ground. The market for hessians upto 50 inch width, and particularly the heavy ones, has been virtually captured by synthetics. For hessians over 50 inch width the demand is for non-packaging purposes, e.g, industrial use and automobile tufting ; This area has been relatively less invaded by synthetics. In the 'other jute goods' category, cotton bagging cloth is the most important item of export and this has been facing stiff competition from cheaper and lighter variety of synthetics in the US market. The usual nine lb variety is no longer acceptable, as the synthetic equivalent is much lighter and cleaner. In the wall covering ~~is~~ trade too, jute fabrics were scoring badly (until very recently) against competing synthetics

fabrics because of colour, fastness and washability. In general, speciality fabrics for decorative uses have suffered mainly on grounds of quality. As regards carpet backing, synthetics first appeared in the US in 1964 and during the late 1960s woven polypropylene fabrics gained wide acceptance as a primary backing material. Its growth over the last decade was at a steady and rather striking rate. Woven polypropylene fabric now accounts for the major portion of the tufting industries requirements. In respect of secondary carpet backing, the competitive position of jute was thought to be quite secure until over the last ten years or so, it deteriorated as a result of the market penetration of polypropylene backing fabrics in the US. In the Western Europe, effective competition between jute and synthetics started somewhat later than in the US, although synthetics were first developed in the UK. The demand for jute in that region began to slump significantly since the late 1960s because of the strong inroads of polyolefin fabrics in almost all the major end-uses of jute. And although reasonably satisfactory and elaborate statistical information is not available, it is evident that jute utilisation has suffered materially in the span of merely a decade and a half in ~~the~~ other developed countries like Canada, Japan and Australia because of synthetics inroads.

A.3 : Problems of Market Access and Shipping

The problems created by tariff escalation and high effective rate of protection for the jute economy have been very largely removed by the scrapping of tariff and non-tariff barriers to jute-goods exports to the leading importing countries (barring the proverbially protective Japan) from the beginning of 1984. However, shipping problems (which are allied to the problems of competitiveness and the external factors affecting Indian exports of jute products) remain important. Jute manufactures being basically oceanic cargoes, most of the major markets are connected by the scheduled vessels operated by the conference lines,

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and the quality of service provided by these lines as well as the freight charged by them on jute goods have become important factors in the export of those products. There were several occasions when movement of jute goods suffered because of the lack or inadequacy of regular shipping services to a number of regions. On the other hand, the national shipping lines often found their services unremunerative because of lack of patronage of Indian exporters. Jute cargo is treated as a liner cargo and is, therefore, shipped along with sundry cargo. Because of the rate pooling system, freight rates levied by the conference lines have usually been higher than the tramp or charter rates. Consequent upon frequent increases in the international prices of petroleum and the occasional shortages of oil, freight rates charged by conference lines for almost all destinations went up ~~as~~ steeply. Moreover, some of the major freight hikes had not much realistic relation with costs of ocean transport. Freight costs became higher still with the addition to the basic rates of various surcharges, e.g., bunker (fuel) surcharges, port congestion surcharges, currency adjustment factors, stevedore surcharges, Suez surcharges, etc. In fact, ~~bunker~~^{bunker} surcharges have now become a permanent element in the freight rates of various liner conferences.

Transportation problems - including high handling costs at the port and exorbitant increase in ocean freights - have been serious factors impeding the growth of jute exports. The freight element constitutes about 25 per cent of the f.o.b. value of jute goods. In fact, the freight in cotton-bagging is 60 to 90 per cent of the value of the goods which is one possible reason for India losing the U.S. Market to Bangladesh. Imports from India accounted for only 41 per cent of the total US imports of this item in 1980 as against over 69 per cent in 1977. Bangladesh, on the other hand, has increased its share to 63 per cent from 30 per cent over this period. From the following table it will be evident that in

many cases, freight rates have increased by more than 20 per cent within a decade :-

Table - 3.6

Destination wise freight charges on jute goods exported from Calcutta since 1970 (Rs/tonne).

	July 1970	Sept. 1975	Dec. 1978	Dec. 1980	% increase 1980/1970
Hessian					
East Coast (USA)	552	1081	1282	1727	212
West Coast (USA)	412	913	1006	1564	279
Canada	501	854	1035	1657	230
USSR	260	2326	368	497	291
East Europe	306	690	1126	1083	250
Australia	315	743	834	887	180
Far East	276	582	652	768	180
Affrica	157	457	662	928	490
Latin America Continent	227	506	1001	2774	1122
	306	689	1135	1106	26
Carpet Backing					
East Coast (USA)	681	1264	1483	1905	180
West Coast (USA)	520	1043	1159	1678	220
Canada	471	1040	1147	1705	261
Australia	407	1002	1219	1108	172
New Zealand	485	-	1701	1706	251
Japan	614	764	1167	1375	123
Continent & others	558	1110	1493	1805	223

Note : Exchange rate fixed for comparison at
 Rs. 100/- = US \$ 11, £ 6.5475, Canadian \$ 10.90

Source : IJMA, Jute Industry in India, published by
 Economic & Scientific Research Association, P-41.

Excessive increases in freight rates were mainly due to the oligopolistic nature of the shipping trade. Only recently, there has been some increase in competition in the liner trades and effective freight rates have therefore ceased to rise rapidly. Obviously, high freight rates considerably affected the landed price and the demand for Indian jute goods in several importing countries and helped strengthen the position of jute's synthetic substitutes.

II. Supply Constraints :

Over the period 1970-71 to 1984-85, production of jute goods in India did not evince any statistical significant tendency and was characterised by fairly pronounced inter-year variations. (Table-3.7, at page - 85). The various supply constraints like production of raw jute, power supply, credit availability and labour problems are discussed below ;

(a) Production and availability of raw jute :

The main raw material for jute manufactures is raw jute and mesta. India and Bangladesh are the two main raw jute producing countries in the world, accounting for nearly 70 per cent of the world production. At the time of partition, the main jute producing areas have gone to the eastern wing of Pakistan (presently Bangladesh), thus putting a severe bottleneck in the supply of raw jute to the Indian mills. Efforts, therefore, had to be made to step up the internal production both by extensive and intensive methods of cultivation. India still continues to be the largest producer of raw jute closely followed by Bangladesh. Chances of imports are very limited as apart from Bangladesh very few neighbouring countries like Nepal and Thailand produce, small quantities

of raw jute. Over the years, Bangladesh also became a major manufacturer of jute goods, thus putting further constraints for importing the fibre.

Table : 3.7

Annual Category-wise Production of Jute goods in India,
1970-71 to 1992-93 (Thousand tonnes).

Year April-March	Hessian	Carpet backing	Sacking
1970-71	346.2	134.6	481.3
1971-72	347.4	230.2	561.3
1972-73	350.0	182.5	525.8
1973-74	312.4	171.5	441.2
1974-75	342.4	124.4	448.7
1975-76	321.3	157.6	700.2
1976-77	329.6	112.8	616.1
1977-78	361.1	136.5	528.7
1978-79	279.2	112.9	511.0
1979-80	365.9	144.5	654.8
1980-81	402.0	67.0	732.0
1981-82	348.9	84.1	725.1
1982-83	323.4	56.2	782.9
1983-84	227.5	30.4	658.1
1984-85	325.5	46.6	805.6
1992-93	317.9	31.3	659.3

Source : (i) JMDC, Basic Data on Jute, 1978 ; and Indian Jute, Vol-II, No.-4.

EPW, Dec.13,1986, P-2188.

(ii) Annual Summary of Jute & Gunny Statistics, 1992-93, IJMA.

Table 3.8 gives the production and availability of raw jute and mesta for selected years in India.

Table - 3.8 :

Raw Jute and Mesta (July - June)
('000 bales of 180 Kgs. each).

Year	Production	Imports	Exports	Consumption	Closing stocks.
1950-51	3309	2598	1	5851	1021
1955-56	5394	1482	-	5916	1471
1960-61	5263	416	-	6451	869
1965-66	5778	1210	101	7863	1169
1970-71	6193	-	48	6450	1062
1973-74	7676	82	197	6442	3300
1974-75	5834	119	399	6520	1789
1976-77	7099	37	17	7070	634
1977-78	7154	-	18	7055	509
1992-93	7000	25	-	8150	1576

Source : (i) Reserve Bank of India Occasional Papers, P-49.
June, 1986
(ii) Annual Summary of Jute and Gunny Statistics,
1992-93, IJMA.

An examination of Table-3.8 reveals that there are wide fluctuations in production. It increased substantially over the level obtaining in the year 1950-51. The highest production so far was achieved in the year 1973-74 with 7676,000 bales but the next two years saw a dismal performance. The production in 1976-77 picked up again and reached 71 lakh bales. In 1977-78, the production improved slightly over the previous year's level.

The existing capacity of the Jute mills in India is about 13.2 lakh tonnes per annum. A study of the Jute Manufacturers estimated that for producing one lakh tonnes of jute goods, the industry requires about 6 lakh bales of raw jute. At this rate, to achieve the full capacity the industry's requirement of jute will be around 78 lakh bales. And in no year, this level of

production was achieved. Table 3.8 also gives the consumption of raw jute which reflects the production trends as well. One thing which obviously can be observed is that in almost all years the consumption is more than the production. This is a clear indication that we have to step up production of raw jute as a long term measure and import adequate quantities as a short term measure.

Raw jute scarcities had a notable impact on output of jute textiles in several years such as, 1970-71, 1972-73, 1974-75, 1982-83, and 1983-84. The shortages of raw jute apparently led to many unwarranted developments. The prices have gone up substantially. The smaller mills were put at a disadvantageous position as compared to bigger mills. The Government took a number of steps to arrest this unhealthy trend in the raw jute market. The Jute Corporation of India was established as a wholly owned private limited company of the Government of India on April 2, 1971. Its main functions are (i) export and import of raw jute (ii) internal marketing of jute and (iii) undertaking export promotion measures for jute goods. It is intended to play a dynamic role assuring a timely price support to the jute grower and adequate supplies at reasonable prices to the industry. Since February, 1973, the Government channelised the export of raw jute through the Corporation. It is also expected to build a buffer

stock of raw jute through internal procurement and if necessary, by imports. It may, however, be mentioned that the Jute Corporation of India is working against heavy odds and the desired impact is perhaps not felt.

In order to achieve the targeted production of 14 lakh tonnes of jute goods during the sixth plan the industry requires about 84 lakh bales of raw jute. For achieving this target, the Jute Development Council pointed out that the present acreage under jute and mesta should be increased to eight and four lakh hectares respectively. This apart, the yield per hectare of raw jute should also be raised through the application of better inputs and fertilizers.

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(b) Power Supply : - Due to frequent interruptions in power supply the jute goods production suffered a lot. Frequent load shedding damage the equipment. The main concentration of jute industry is in West Bengal where the power supply was far from satisfactory. The problem of power shortage (particularly in West Bengal) assumed serious proportions from the early 1970s, and had a perceptible impact on the output of jute manufactures in several years, viz. 1970-71 to 1971-72, 1973-74 to 1974-75, and 1978-79. In very recent years many of the mills have turned to 'Captive' power generation. The situation should be radically improved if the targeted production is to be achieved.

(c) Credit Availability :- The outstanding Commercial bank credit to the jute industry for selected years is given in Table - 3.9.

Table : 3.9

Commercial Bank Credit to Jute Industry.

Year (ending June)	Amount Outstanding (Rs. in crores)
1951 - 52	19.7
1952-53	10.1
1955 - 56	19.4
1960 - 61	32.1
1965 - 66	62.5
1968 - 69	97.3
1970 - 71	97.4
1974 - 75	113.7
1975 - 76	87.0
1976 - 77	116.7
1977 - 78 (a)	109.1

(a) Provisional

Source : R B I Occasional Papers p.51
June, 1986

Broadly speaking, over the years the bank credit steadily increased even though there were fluctuations in the total production. A simple comparison with total production or total inputs consumed shows that the upward trend in bank credit is higher. This, therefore, on the face of it does not show any inadequacy

of bank credit. However, in order to assess the adequacy or otherwise of the bank credit to Jute Textile Industry a more indepth study is required. The optimum level of credit requirements could then be worked out.

(d) Labour Problems :- The Jute textile industry is highly labour intensive, employing more than two lakh workers. The labour problem in this industry has become a sort of vicious circle. Labour unrest had a depressing effect on production in a number of years, specially the jute - mill workers' strike in Dec.1970, the 33 - day strike in January - February 1974, the 50-days strike in January - February 1979, and the 84-day strike in January - April 1984 - the longest in the history of the industry.

The wage component constitutes about 30 percent of sales which is highest in any industry in India. This ~~obviously~~ obviously has special significance to the costs of production. Labour demands for higher wages resulting in strikes and interruptions in production substantially erodes profitability. The productivity of labour is very low in Jute Textile Industry as compared to other textiles like cotton and wool. In fact many mills are running in losses thus becoming sick and a few were forced to close down. Steps should be taken to increase the productivity and also to run the mills without

interruptions in production. Modernisations of mills would also help in increasing the productivity.

III. Financial Performance :

Depressed prices and escalating input costs have eroded the financial performance of the jute industry. This was especially so in 1981-82, when despite the closure of more than 15 mills - some for over six months - prices did not register any significant improvement. This is attributable to sluggish demand, both in the export market as also in the domestic market. The consequent erosion in working capital forced the industry to resort to distress sales in order to meet its over-head and essential costs and statutory liabilities.

The inadequate rise in the prices of jute manufactures vis - a - vis other commodities has led to an erosion of the terms of trade for West Bengal where majority of the jute mills are located. As the following table indicates, the increase in the index of wholesale prices of Jute, Hemp and Mesta textiles has been only 70 percent as against a much higher increase in the index for other products many of which like foodgrains, cement and sugar etc, require jute as packaging material. Most of these commodities are produced outside West Bengal and imported by it.

Table - 3.10

Wholesale Price Index of Selected Commodities

(1970-71 = 100)

	1971-72	1980-81	% Rise
All Commodities	105.6	257.3	143.6
Food grains	103.4	216.7	109.5
Cement, Lime & Plaster	105.4	232.6	120.6
Oil seeds	89.9	230.7	156.6
Sugar Khandsari & Gur	141.2	376.9	166.9
Fertilizer	100.6	242.7	141.2
Jute, Hemp & Mesta Textiles	114.4	194.9	70.4

Source : Jute Industry in India, P - 46

Economic and Scientific Resurch Association, 1982
Calcutta

Labour and raw material costs account for 70 to 80 percent of the total value of production of jute goods. The industry has virtually no control over the price of both these elements of cost. In the case of raw jute, the industry has to pay a statutory minimum price and even a higher price in years of scarcity. Labour costs have also been rising and the annual bonus payment - which reportedly amounted to Rs. 15 crores in 1981 at 8.33 percent - is an additional burden which cripples the industry particularly when it is not doing well. The share of raw materials and labour costs in total value

of production is given below :

Components of costs of production (as percentage of
total value of production)

	<u>Raw materials</u>	<u>Labour cost</u>	<u>other factors</u>
1965-66	63.91	16.79	19.30
1980-81	43.11	28.46	28.43

Source : Jute Industry in India, P- 48

There are several factors which have imposed an additional financial burden on the industry. Although it has become more or less self - sufficient in captive power, the cost of running a generator is 4 to 5 times more than obtaining power from the state grid, because of costly diesel oil. According to an IJMA estimate, the impact of power cut and additional cost in April 1982 was Rs. 653 per tonne for carpet backing, Rs. 505 per tonne for hessian and Rs. 305 for sacking.

High rates of indirect taxes and duties levied by both the Central and State Governments on various elements of cost lead to a rise in the final cost of production. Over the last five years, in the case of exports, in-direct taxes/duties imposed on various elements of cost as a percentage of net f.o.b. realisation have risen from an average of 3.63 percent to 4.49 percent. On internal sales, an excise of Rs.660 per tonne has to be paid leading to a combined fiscal

burden of over 20 percent of the current price to the consumer.

According to available consolidated financial position of jute mills from the studies made by the Reserve Bank of India and Business Standard, the industry incurred negative returns between the year 1973-74 and 1978-79. In 1977-78 and 1978-79 alone, these mills together had to draw down Rs. 19 crores from accumulated reserves and surplus. However, the industry did particularly well during 1979-80 after which there has been a worsening of its financial performance. The 18 month period beginning ^{from} October, 1980, was recently described as "the worst ever in the history of the jute industry" by the Chairman of IJMA. (Speech by the Chairman at the Annual General Meeting of IJMA, 10th July 1982).

Low profitability of the jute industry is not a recent problem. Within the past 10-15 years, the industry has registered the lowest profitability in the textile sector. Between 1965-66 and 1978-79, the simple average of net returns on sales and net worth has been the highest in the case of silk and rayon textiles, followed by cotton textiles and lastly by jute textiles. Profitability ratios of different industries are represented in Table - 3.11.

Table - 3.11
Profitability Ratios
(1970-71 to 1978-79)

	1970-71	1973-74	1977-78	1978-79	Simple Average
Profit before tax as a % of Sales *					
a) Jute Textiles	1.4	- 1.5	- 3.2	-1.5	-1.2
b) Cotton Textiles	2.8	7.9	0.8	4.1	3.9
c) Silk & Rayon Textiles	16.7	16.99	5.5	8.3	11.8
d) All Industries	7.3	7.7	5.6	6.3	6.7

* Net of rebates, discounts, excise duty and cess.

Source : Jute Industries In India, P- 51

The current ratio (i.e., the ratio of current assets to current liabilities has declined from 1.08 in 1972-73 to 0.81 in 1978-79 for which information is available from R B I Studies. The ratio came down to ~~ixim~~ 1.00 in 1973-74, indicating that the industry had practically no working capital and its dependence on borrowings for working capital could, therefore, be regarded as virtually total. It may be mentioned that between 1973-74 and 1978-79, 60 to 70 percent of the short term bank borrowings of the jute industry were tied up in inventories. This, together with deteriorating current - ratio, indicates the stringency of working capital being faced by the industry.

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To improve the financial viability of the industry in the long-run, the need to tackle the raw material and labour costs, which constitute upto 70 to 80 percent of the value of production, is imperative. To enable the industry to cover its costs and earn a reasonable return (say 10 percent) on total sales in the domestic and export market, a minimum fair price should be ensured on sales in the internal market. In order to revitalise the jute industry adequate finance should be made available at reasonable cost. The rate of excise on jute goods has increased significantly over the years. However, the major contribution of the jute industry to the exchequer is by way of foreign exchange earnings and excise duties net hardly one-fifth of that amount. Therefore, while a reduction or even abolition of the excise duty will not deprive the exchequer of a large amount, it would favourably influence consumer ^{ne} preference and reduce the use of second hand bags. Ultimately, it has to be ensured, that the high cost of packaging in jute bags, does not compel the users to look for alternative packing materials, or modes of transportation and handling of bulk commodities.

The survival of the jute industry hinges on the steady supply of raw jute and expansion of the domestic market. For this, the following are important:

remunerative price to farmers, reasonable price to consumers and adequate return to the industry. The constraint on ^{raw} jute prices deriving from the viability of the jute industry has indeed become so important as to call for a reinforced emphasis on the programme pertaining to the improvement in the yield and quality of the fibre. Apart from the competition in the export market, in respect of domestic demand too, the competition from synthetics cannot be wished away in a longer term context. The problem has, of course, to be attacked on both the fronts ; the diversification in the production of jute goods currently taking the form of a switchover from heavier to lighter constructions, and the strengthening of the competitive capacity of jute goods through inter alia a reduction in the price of the fibre. But in order that jute may be able to hold its own in its competition with paddy for productive resources, this price objective has to be achieved, if it is not to prove self defeating via an increase in the yield and a reduction in the unit cost of the fibre. We may, therefore, look into the situation of cultivation of jute.

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