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RAW COTTON COMMISSION

Annual Report
and
Statement of Accounts
for the year ended
31st July, 1948

*Presented to Parliament in pursuance of Section 8 of the Cotton
(Centralised Buying) Act, 1947*

*Ordered by The House of Commons to be printed
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RAW COTTON COMMISSION
LIVERPOOL

April 22nd, 1949.

SIR,

I have the honour to send you herewith the first Annual Report and Statement of Accounts of the Raw Cotton Commission. They cover the period from January 1st, 1948, to July 31st, 1948, the end of the Commission's financial year.

The report is submitted in accordance with the provisions of Section 8 of the Cotton (Centralised Buying) Act, 1947, and the accounts are submitted in accordance with Section 20 of that Act. A copy of the Auditors' Report is also enclosed.

I have the honour to be, Sir,

Your obedient Servant,

H. O. R. HINDLEY,

Chairman.

The Rt. Hon. J. Harold Wilson, O.B.E., P.C., M.P.,
President of the Board of Trade,
Millbank,
London, S.W.1.

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THE COMMISSION'S ACCOUNTS

RAW COTTON COMMISSION

ANNUAL REPORT FOR 1947-1948

CHAPTER I

THE CONSTITUTION AND FUNCTIONS OF THE
COMMISSION

1. This is the first annual report of the Commission, covering the period from its establishment to the end of its first financial year on 31st July, 1948. Certain developments after that date have been described in footnotes to preserve continuity.

2. The Members of the Raw Cotton Commission were appointed by the President of the Board of Trade on 26th November, 1947. They were:—

- Mr. H. O. R. Hindley, Chairman.
- Mr. J. T. Porritt, Independent Member.
- Mr. A. J. Byrne, Part-time Member.
- Mr. J. Etherington, Part-time Member.
- Mr. W. A. M. Hesketh, Part-time Member.
- Sir Ralph Lacey, Part-time Member.
- Mr. A. Roberts, Part-time Member.
- Mr. C. Schofield, Part-time Member.
- Mr. A. V. Symons, Part-time Member.

3. The Commission was constituted under the Cotton (Centralised Buying) Act, 1947. The Act provides that the Commission “be charged with the duty of buying, importing into the United Kingdom and holding and distributing therein, all raw cotton required for the purposes of the cotton industry . . .” The Commission is also empowered to buy cotton for re-export. Under Section 7 (1) of the Act, the Board of Trade may, after consultation with the Commission, give directions of a general character in relation to matters appearing to the Board to affect the national interest. Otherwise the Commission is solely responsible for supplying the raw cotton requirements of the industry in the United Kingdom.

4. The President of the Board of Trade announced on 25th November, 1947, that the appointed day on which the Commission would begin to operate would be 1st January, 1948.

CHAPTER II

THE BACKGROUND, 1939-1947

THE COTTON CONTROL AND THE LIVERPOOL MARKET

5. The Cotton Control was established by the Ministry of Supply in September, 1939, and in February, 1940, a raw cotton section was formed. At that time raw cotton supplies were still reaching the United Kingdom through ordinary commercial channels, and the Liverpool spot and futures markets were operating. One or two strategic purchases had been made on Government account, notably a barter agreement under which 600,000 bales of American cotton were to be exchanged for a stipulated amount of rubber. In June, 1940, with the collapse of France and the Low Countries, many cotton cargoes were diverted to the United Kingdom, and, at the same time, a system of import licensing was introduced.

6. During the winter of 1940-41, about 5,000 tons of cotton were lost at sea, and enemy air raids on Merseyside caused the destruction of over 33,000 tons. The Regional Port Directors accordingly imposed a ban on the storage of cotton in the Port Areas, and the storage section of the Control, which had been established to deal with barter cotton and with the diverted cargoes referred to above, assumed the responsibility for arranging alternative storage facilities.

7. Meanwhile, the effects of shipping difficulties and exchange restrictions had necessitated the imposition of maximum and minimum prices on the futures market, which was eventually closed on 31st March, 1941. At the same time, under Cotton Industry Order No. 19, all cotton held in the United Kingdom, except by consumers, was requisitioned, and the Control became the sole importer. The actual operations of buying and distribution were conducted on an agency basis by The Cotton Importers and Distributors Ltd., a company formed especially for this purpose. The contract with the company was terminated on 31st March, 1942, when the Control undertook these functions on its own account.

BULK PURCHASES

8. During 1942 and 1943, bulk purchases were negotiated wherever substantial exportable surpluses existed and advantageous exchange and price factors could be established. Over 100,000 tons of Brazilian cotton were bought in bulk and an office was opened in Sao Paulo in 1941. 50,000 tons of cotton were bought from Egypt in 1942, a further large bulk purchase followed, and the Control opened an office in Alexandria in 1943. A contract was made with the Government of Uganda, whereby the Control underwrote the whole cotton crop for the period of the war against Japan and one year after it. Similar arrangements were made with the Governments of Tanganyika and the Sudan. American cotton was also obtained in bulk until the termination of Lend-Lease, when it was decided that the Control should make its purchases through the Liverpool and Manchester agents of American shippers.

9. The Cotton Control had originally been established in Manchester. In March, 1942, all raw cotton departments, excepting Storage, Waste and Linters, and Finance, were removed to Liverpool. In the autumn of 1944,

supplies of raw cotton to the liberated parts of France and Belgium were arranged from stocks in the United Kingdom. In March, 1946, the Government announced its intention to set up a statutory body with a monopoly of the importation and distribution of raw cotton. The Cotton Control was transferred with other raw material controls from the Ministry of Supply to the Board of Trade on 1st April, 1946, and ceased operations in raw cotton on 31st December, 1947.

10. During the war, stocks were sometimes unbalanced as a result of shipping difficulties, and reached their lowest level of 178,000 tons at the end of 1941. By the end of 1945, largely as a result of the advantageous bulk purchases referred to above, stocks had been built up to a peak of 411,000 tons. When the Commission took over from the Control on 1st January, 1948, stocks had declined to about 330,000 tons, including those held by spinners, against a consumption in 1947 of 364,000 tons.

CHAPTER III

ORGANISATION

THE TRANSITION STAGE

11. The circumstances in which the Cotton Control had operated successfully no longer existed in 1948. During the war, the bulk of production was for the armed forces and utility goods, and emphasis was placed more on the quantity of production than on its quality. In practically all growths, bulk sales on description were made to spinners, because the necessity to remove cotton from the dangerous port areas as speedily as possible did not permit sampling and selection on arrival. However, American cotton bought under Lend-Lease came from the accumulated stock of the Commodity Credit Corporation, and had all been classified by the United States Department of Agriculture, and, from 1943, Egyptian cotton was classified in Alexandria before shipment. Having regard to the general lowering of quality standards in the industry, these methods served their purpose in war-time conditions.

12. But the pre-war reputation and prosperity of the Lancashire cotton industry had, to a large extent, been built up on a sound basis of quality products, backed by shrewd and skilful buying and selection. With the end of the war, the reversion from bulk purchases under Lend-Lease to normal transactions with individual shippers, and the generally increasing demand for quality, new methods were required. The release of storage space in Liverpool and Manchester made it possible for all cotton to be sampled on arrival, and re-classed if necessary, thus establishing a much closer approximation to grade and staple for cotton sold on description.

13. To meet these changed conditions the raw cotton section of the Control was expanded rapidly during 1946 and 1947. Classers and samplemen were engaged, and a "Growth Manager" was appointed for each major growth of cotton. These officials were responsible not only for buying,

sampling, classing, and claims against shippers, but also for sales, distribution, and the estimation of requirements. On 1st January, 1948, virtually the whole of the staff of the raw cotton section of the Control, which had increased from 70 at the end of 1945 to 237 at the end of 1947, was transferred to the Commission.

PROBLEMS FACING THE COMMISSION

14. On taking over, the Commission decided, as an interim measure, to continue with the arrangement of a branch for each major growth of cotton under a "Growth Manager", and incorporated these into a Raw Cotton Department under an Acting General Manager. The most serious and immediate organisational problem arose in the finance, accounting, and establishment branches, which had been closely integrated with the corresponding departments in the headquarters of the Board of Trade, and which now, deprived of this support and control, required shoring up. Pending the appointment of a third independent member, Mr. A. J. Byrne, a part-time member, undertook the onerous duties of Financial Adviser to the Commission without any additional remuneration, and has rendered extremely valuable services in this capacity. A Secretary to the Commission was appointed and charged with responsibility for general administration, staff and services, and statistics and intelligence, in addition to his secretarial duties. In order to speed up work, the Commission appointed from among its members a Finance Committee, a Sales Committee, and a Staff Committee, to which executive powers were delegated.

15. Consideration was then given to the best form of organisation for the raw cotton departments. It was early recognised that the acting General Manager and the "Growth Managers" were shouldering unreasonable burdens in the rapidly changing conditions of trade. This form of organisation had developed naturally from the traditional organisation of cotton merchanting houses, mostly comparatively small units, in which the principals maintained a close and intimate contact both with their suppliers and with their customers. The scale of the Commission's operations, however, made it impossible for a "Growth Manager" to maintain these contacts over a much wider field. In most cases, there was no easy way to break down a single growth of cotton into separate sections, and such a course, had it been practicable, would have aggravated the difficulties of achieving flexibility in the substitution of one growth for another.

RE-ORGANISATION

16. The Commission decided that the best solution would be a division of the raw cotton department into separate buying and selling departments. Before introducing what might have appeared to the trade as a revolutionary innovation, a well-known firm of Industrial Consultants was invited to prepare a report on the most suitable form of organisation to be adopted.⁽¹⁾

(1) This firm's valuable report, making detailed recommendations on the distribution of duties and channels of authority and responsibility, was submitted to the Commission after the end of the financial year, and was accepted with only minor modifications. Effect has now been given to these recommendations, and the work of the Commission has been re-organised into three main departments. Each of these—Buying, Sales, Finance and Administration—will be under the control of a senior executive, leaving the independent members free to devote their attention to questions of major policy.

CHAPTER IV

BUYING

BUYING METHODS

17. By the end of 1947, the Cotton Control had established a variety of different methods of buying raw cotton. As stated above, an office had been opened in Alexandria, through which all Egyptian cotton was bought on the spot and classed before shipment. A similar arrangement was in effect in Brazil, while in Peru all supplies were bought through a well-known British firm acting as sole agents for the Control. Cotton from India and Pakistan was bought from shippers in Bombay and Karachi through their Liverpool and Manchester agents, and similar arrangements for American cotton were introduced after the cessation of Lend-Lease. Bulk purchases were generally effected from the governments of the Sudan and the cotton-producing Colonies.

18. These methods were at first continued, but the Sao Paulo office, although both efficient and economical, presented considerable administrative and staffing problems. The Commission's agents in Lima, Messrs. Wm. & Jno. Lockett Ltd., had rendered services of the utmost value, and had achieved all or more than was asked of them, but the Commission felt that an arrangement of this kind was incompatible with its duty as a public body. Following a visit by the Chairman to South America, the Commission decided in principle to buy its Brazilian and Peruvian cotton through shippers' agents in the United Kingdom.⁽²⁾

19. Consideration was also given to the maintenance of the office in Alexandria. The problem in this case is one of buying about 40 per cent. of the total crop without causing upheavals in an uncommonly sensitive market. Despite suggestions to the contrary, there is no doubt that a skilled buyer in Alexandria, dealing direct with individual shippers, is in a much better position to cover up his operations than the Commission would be if it were buying through a number of agents in this country.⁽³⁾

WORLD CONDITIONS OF TRADE

20. It would seem hardly necessary to point out that the general conditions of world trade have aggravated the difficulties of supplying the cotton industry with its raw materials, but the Commission has been widely and unjustly blamed for shortcomings wholly outside its control. The sensitive fluctuations of demand in relation to price cannot easily be adjusted to the availability of foreign currencies, and from time to time the national necessity to obtain other scarce raw materials from certain countries has limited the quantity of cotton which the Commission has been permitted to buy. In other cotton-growing countries, small crops have created a shortage for domestic use and have led to severe export restrictions. Similarly, the world shortage of dollars has caused increasing competition for non-dollar growths, which may be expected to become even more intense in the future.

⁽²⁾ The Sao Paulo office was closed and the Peruvian agency agreement terminated at the end of 1948.

⁽³⁾ In any event, unsettled conditions in the Middle East, with concomitant obstructions such as the censorship of cables and letters, rendered it impracticable to make any change for the time being.

21. The division of the world into hard and soft currency areas is reflected in the relative prices of different growths of cotton. During the period covered by this report, prices in all cotton-growing countries rose to a higher level than had been reached at any time in the previous twenty years. But as a result of the general shortage of dollars throughout the world, the prices of Egyptian and other non-dollar growths have risen out of all proportion to their relative spinning values with American cotton when measured in terms of sterling. This wholly artificial factor provides the most serious single obstacle to the flexible adjustment of supply and demand in the United Kingdom.

EGYPT

22. At the beginning of the season the price of Egyptian cotton was largely artificial and fluctuated wildly as the season progressed. It is necessary to go back as far as 1946 to arrive at the true causes of the position. In 1946 in preparation for the 1946/47 season, growers, influenced by the heavy yield per acre and the quality of the cotton produced, planted enormous acreages of Karnak cotton against strong advice from the Lancashire cotton trade. When the Karnak crop came to be marketed, prices actually fell below those ruling for the shorter staple Ashmouni cottons which are intrinsically much less valuable. The Egyptian Government intervened to stabilise prices and, in guaranteeing a minimum price, soon possessed themselves of practically the entire 1945/46 crop of Karnak. At the same time they issued instructions drastically restricting Karnak acreage, and announced that they would not sell any Government holdings unless the cotton was unobtainable in the free market.

23. The Karnak crop of 1947 only reached 1,292,000 cantars against a crop in 1946 of 3,499,000. Exports during those seasons dropped from 3,470,000 to 2,992,000. The total supply of Karnak outside Government-held stocks amounted to only 2,087,000 Crs., and the balance of 905,000 Crs. was made up by the Egyptian Government unloading some of its own stocks. All these factors between them almost created a famine position in this growth, which was aggravated in July, 1948, by the decision of the Egyptian Government to sell its own stocks only against payments in hard currencies. Karnak was accordingly offered at discounts of 35 to 40 per cent. under ruling Alexandria Spot prices, for payment in dollars, or Belgian or Swiss francs.

24. This position coincided with the resuscitation of the Continental textile spinning trade after the war, and the rapidity with which this recovery took place was unexpected. Italy, in particular, enjoyed a textile boom and made enormous demands on Egypt for raw cotton. Other countries came in, and prices were forced up to the highest levels reached since the post-war boom of 1920/21. Various Government missions approached the Egyptian Government regarding large bulk purchases, and, as these negotiations either succeeded or failed, the market reacted accordingly. During 1948 it was obvious from the beginning of the season that, in certain desirable styles of Egyptian cotton, the supply would not meet the demand, and this position was aggravated by a large bulk sale by the Egyptian Government to Russia. To avoid an actual break-down in supplies of the better qualities of Karnak, the Commission found it necessary to make purchases out of the Russian holdings which were being offered freely on the Continent through the satellite countries. The Egyptian Government have for the past year been demanding hard currencies for their own stocks

of cotton. This attitude has been maintained despite the strongest protests, and the Commission has consequently been unable to make purchases from Egyptian Government stocks.

25. The short staple Egyptian varieties were the only sterling substitute for American cottons which could be bought in weight by the medium and coarser end of the Continental spinning trade. France, India, Italy, Spain, Czechoslovakia, and several other countries bought large quantities of these cottons in substitution for American, and thus contributed to the violent rise in price of all Egyptian cotton.

ESTABLISHMENT OF NEW EGYPTIAN COTTON STANDARDS

26. For some time past the Control and later the Commission have been concerned with a slow but persistent deterioration in the quality of cotton shipped from Egypt against official Alexandria grade standards. In order to arrest this tendency, the Commission has made up standard types of its own on which to buy in Alexandria. The Commission's intention is to maintain these standards at a constant grade level and, should ensuing crops fail to provide staple equal to the standards, revised staple standards could be established without affecting the grade.

27. By establishing these types and offering to sell against them, the Commission has afforded to spinners the opportunity to see and pull physical types of cotton against which they can make their purchases. Sets of these sealed types will be in the possession of the Liverpool and Manchester Cotton Associations, and if the spinner is dissatisfied he may arbitrate his deliveries against them.

28. The Commission considers that these types cover a full range of qualities which can be bought in Egypt to-day, but, in exceptional cases and only for certain specialities which may not be included in the range of types, arrangements will be made, if possible, for such cotton to be purchased and shipped on overland samples sent from Egypt. Since the standards have been made up and in operation, applications have been received by many continental countries and other foreign buyers for the purchase either of complete sets of standards or for individual type standards in which they are interested. It is hoped that these Raw Cotton Commission types may in time come to be looked upon as international Egyptian cotton standards.

SUDAN

29. In October, 1947, the Control had been fortunate in being able to make a bulk purchase of Sudan cotton amounting to approximately 150,000 bales at very reasonable prices. After the sensational rise in Egyptian prices, the Sudan Government approached the Commission with a view to increasing the original price. It was eventually agreed that the Commission should take the balance of the Sudan crop, approximately 50,000 bales, at a price which, averaged with the first 150,000 bales, would show a better remuneration to the cultivator. This additional supply was urgently required to ease the position in corresponding Egyptian types. As part of this transaction, the Commission obtained an option on 60 per cent. of the 1948-49 Sudan crop, or a minimum of 150,000 bales. In view of the very keen competition for sterling cottons to-day, and of the strong pressure being brought to bear on all Governments to auction their crops, this option has proved a very valuable concession.

UNITED STATES OF AMERICA

30. Throughout the season the technique of buying American cotton was adjusted to meet the requirements of the United States Economic Co-operation Administration. While the European Recovery Programme was being debated in Congress, United Kingdom requirements of American cotton were estimated at about 570,000 bales. The European Recovery Programme Bill became law in the early part of April, but it was not until 21st May that E.C.A. announced that no further supplies would be eligible for E.C.A. funds unless prior authority for purchase had been obtained. At that time, the Commission had bought nearly 150,000 bales, all of which were eligible. With the full approval of the Treasury and the Board of Trade, the Commission continued to buy cotton to the extent of a further 286,000 bales.(*)

BRAZIL

31. In February, 1948, a British Mission went to Brazil to negotiate a trade agreement, and cotton buying was suspended for some time. The agreement, which was signed on 21st May, provided for the interchange between the two countries of goods and raw materials up to a specified sterling value. Cotton figured as the largest single Brazilian export, at £12 million or approximately 60,000 tons. Although the Brazilian cotton trade looked upon this agreement as an undertaking by the British Government to buy twelve million pounds' worth of Brazilian cotton within a comparatively short space of time, the futures market in Sao Paulo did not react as much as might have been expected. The Commission made it clear to Brazilian shippers that shipments to other countries would not be allowed against sterling payments. As a result, the increase in prices eased off to some extent and the market, which otherwise would probably have gone much higher, became steadier.

32. All this time it had become more and more evident that the Brazilian crop was going to be abnormally small. As the year progressed other countries entered into agreements for barter in their own currencies, and the price of cotton rose steadily. In consequence, the Commission's selling prices for Brazilian cotton, which must necessarily be based on the spinning value relative to American, show a substantial loss.

PERU

33. In October, 1947, the Board of Trade warned the Cotton Control that trade with Peru was becoming difficult, and that in view of forthcoming negotiations, it might become necessary to delay purchases. Shortly afterwards a definite ban was placed on the purchase of Peruvian cotton until the outcome of these negotiations should be known. In January, 1948, active business was being done in new crop, and the Commission became apprehensive that, if a decision were to be held up until March, all the new crop cotton would have been sold. It was felt that, if further purchases were to be impossible, it would be better to know the worst and to plan accordingly. In February, authority was given to purchase Peruvian cotton up to £200,000, but the trade mission, so far from completing an agreement

(*) These later purchases were ruled ineligible by E.C.A. in the autumn, and after consultations in Washington it was agreed that contracts entered into after 21st May should be re-negotiated. It was, however, impossible to re-negotiate contracts on cotton already shipped, amounting to about 85,000 bales, payment for which was made outside the E.R.P. programme.

with Peru in March, was detained by difficulties in Brazil until the latter part of May. Throughout this period the Commission's anxiety increased, and representations were made to the Board of Trade and to the Treasury, pointing out the danger of failure to obtain any cotton at all if purchases were any longer delayed. Authority was given in March for purchases up to an additional £250,000, and further small amounts were made available from time to time. On 15th April, authority was received to spend £2 million in Peru, over and above the previous sums mentioned, which by that time amounted to about £500,000, and on 29th May further purchases to the extent of £2,200,000 were authorised.

34. Meanwhile the market had advanced, and the £4,700,000 authorised was only sufficient to buy about 17,000 tons, against a minimum requirement of 20,000 tons after allowing for a certain amount of substitution. As a result of these unavoidable delays, the Commission found that about two-thirds of the crop had already been sold for export and local consumption. Producers and merchants held on to their stocks, in anticipation of higher prices, and the Commission's agents found it increasingly difficult to buy what little cotton remained, without allowing prices to get out of control. In the end, a total of about 18,500 tons was bought, of which only a proportion was in qualities which the Commission considered wholly suitable for the particularly important branch of the trade catering for hosiery (knitwear) requirements which relies largely on Peruvian cotton.

INDIA AND PAKISTAN

35. During the 1947-48 season the Raw Cotton Commission purchased about 130,000 bales of Indian cotton divided more or less equally between India and Pakistan. As a result of partition, marketing of the Indian cotton crops has been a difficult proposition for the two new Dominion Governments. The mass migration of Hindus to India and of Moslems to Pakistan has not only had a serious effect on the labour position at the ginning factories in the interior, but has also affected technical personnel employed by the exporting firms. In spite of all this, shipments have, on the whole, been satisfactory, and the bulk of the purchases has been delivered.⁽⁵⁾

WEST INDIES (SEA ISLAND COTTON)

36. During the war an agreement was made for the entire cotton production of the West Indies to come to the United Kingdom, where it was handled by the Ministry of Aircraft Production and used almost exclusively for the manufacture of balloons, parachutes and dinghies. Since the end of the war a rather indefinite "gentleman's agreement" has existed, assuring the island growers of a market in the United Kingdom. The cotton now goes into lace and the highest quality poplins, principally for export to hard currency countries. Since 1946, the West Indian Sea Island Cotton Association in the United Kingdom has acted as a negotiating intermediary on behalf of the cotton growers in the islands. The negotiating committee of the Association has no power to enter into firm contracts, but makes

⁽⁵⁾ The Indian Government has placed a ban on the export of all cotton of $\frac{1}{8}$ " staple and over, including Oomra which is the growth most necessary to Lancashire, and for which there is no true substitute. The Commission was fortunately able to obtain limited supplies of this growth in exchange for Sudan cotton urgently required by India. The Pakistan Government has introduced a system of export licences, and the Commission found it necessary to send a special mission to Karachi towards the end of 1948.

recommendations to the growers as to the price they should accept. Having reached agreement on price with the negotiating committee, the Commission must then obtain confirmation through the Colonial Office. In the hope of simplifying this procedure, the Commission invited Mr. Ian Oliver, of Messrs. Thomas Oliver & Sons (Bollington) Ltd., to visit the islands, and to report on marketing, costs of production, the effect of price on the acreage planted, and transport, storage, and shipping facilities.

37. As a result of Mr. Oliver's report, it has been suggested that the negotiating committee of the West Indian Sea Island Cotton Association should represent the Islands' Cotton Associations for the purpose of negotiating contracts. However, the committee does not appear to have the necessary legal powers, and it has been suggested to the Governors of the Colonies concerned that they should consider the establishment of a Cotton Marketing Board for the islands as a group. Developments will no doubt take some time, and another year may elapse before representatives from all the islands can be got together for a general meeting.

ARBITRATION

38. Cotton arbitration was undertaken by the appropriate committees of the Liverpool and Manchester Cotton Associations. In particular, extremely valuable services were rendered by the members of the Egyptian Appeals Committee in the establishment of the Egyptian Standards referred to in paragraph 27 above. The Commission has made subvention payments for these services at the annual rate of £10,000 to the Liverpool Cotton Association and £2,500 to the Manchester Cotton Association.

39. In view of the small volume of business remaining in private hands, it seems certain that the number of persons able and willing to carry on this work is bound to decrease rapidly with the passage of time. On a long term view, the maintenance of arbitration facilities in the United Kingdom is a problem of grave concern to the Commission, and one for which no solution has yet been found.

CHAPTER V

SALES AND DISTRIBUTION

SERVICE TO THE SPINNER

40. In paragraphs 11 and 12 above, reference has been made to the rapid change in trading conditions after the end of the War. During the War, spinners had generally been content to make the best use of whatever cotton the Control was able to provide. The Commission, however, recognises that, within the limitations imposed by factors outside its own control, it has an over-riding duty to meet the requirements of the spinner in every particular. If a spinner is unable to obtain from the Commission the exact cotton he needs, no excuse is valid unless it can be shown either that such cotton cannot be bought, or that the Commission has been prevented from buying it by some external agency. This objective, so easy

to define, will not be easy to achieve, but the Commission will continue to make every effort towards providing this service to the industry.

NEW SALES CONTRACTS

41. During 1947, the Control had examined the possibility of introducing new selling contracts, giving spinners the opportunity to sample and select their exact requirements at the time of purchasing. This reform could not be undertaken for all growths immediately, because of the shortage of covered storage and the lack of suitable sampling rooms. Many pre-war salerooms in Liverpool and Manchester had been taken over by Government departments and by firms outside the cotton trade, and the necessary space could not be made available. However, towards the end of 1946, buyers of Egyptian cottons were offered a choice of three contracts. Under the first, cotton bought on description against the Commission's standard type could be obtained at a discount of five penny points below the published selling price. The second contract offered the buyer the right to inspect samples drawn from 10 per cent. of the actual cotton offered, establishing these samples as the basis of the selling type, without either premium or discount on the list price. Finally, by paying ten points premium, the buyer could sample all the bales before delivery, with the right either to exchange bales falling below his requirement or to demand a fresh tender.

42. Much work required to be done before these facilities could be extended to other growths. The Commission felt that by consultation with the Federation of Master Cotton Spinners' Associations it might be found possible to overcome the obstacles presented by exchange restrictions, shortage and uncertainty of shipping, and lack of suitable storage accommodation. Revised drafts of the new spot sales contracts were accordingly submitted to the Federation in July, 1948. There remained the difficulty of providing sufficient saleroom accommodation, having regard to the essential requirement of light suitable for the selection of cotton.

43. The protracted negotiations which followed had not been completed by the end of the financial year under review. The main difficulty arose from a clause in the draft contract giving the Commission the right to cancel the contract should the Commission be prevented from fulfilment through causes outside its control. The spinners, having regard to increasing foreign competition, and seeking assured continuity of supply, desired a binding agreement which would guarantee delivery of the exact cotton called for by the agreement. The Commission, on the other hand, obviously could not give such an undertaking with any reasonable certainty of fulfilment in every case under present conditions.⁽⁶⁾

QUALITY

44. In view of the criticisms which have been and continue to be made on the score of inferior quality, it was expected that extensive use would be made by spinners of the contract affording 100 per cent. sampling facilities. In the event, the use of this contract has been negligible, and the bulk of spinners are content to continue buying their cotton on description or by 10 per cent. sampling. There are many satisfied customers who are content to leave the selection of their cotton to the Commission's classers, a body of men with life-long experience in the service of cotton merchants. The

⁽⁶⁾ The Federation ultimately agreed to accept a cancellation clause, giving the Commission the right to cancel the contract after making three trial tenders. On this basis, the new contracts, covering all growths of cotton, were introduced on 1st October, 1948.

Commission's classing-rooms are run on methods approved by cotton merchants of experience from all over the world.

45. Certain difficulties having been experienced in connection with "character" of the cotton available, particularly in relation to American cottons which are still necessarily bought on description. In fact, a considerable proportion of American cotton was always bought on description by importers before the war. Valid arguments can be made for buying all cotton on individual samples, but this reform is impracticable at the present time owing to the impossibility of providing sufficient accommodation with suitable light for classing the many thousands of samples which would be involved.

DEFERRED DELIVERY CONTRACTS

46. The Commission has always recognised the desirability of introducing "deferred delivery" and "on call" contracts, which would give spinners some assurance of continuity of supply and enable them to take advantage of new crop discounts, while providing the Commission with a surer basis for estimating future requirements. But it would clearly be disastrous to lull spinners into a sense of false security by entering into such contracts without first being reasonably certain that they could be fulfilled. The Commission had not been able to accumulate a visible supply in every growth which would be sufficient to justify the introduction of these facilities. Even the few relatively unimportant styles where adequate supplies were available, or could be procured with certainty, had to be regarded as reserve or substitute stocks for the major growths where the position was less satisfactory.(7)

RELATIONS WITH THE FEDERATION OF MASTER COTTON SPINNERS' ASSOCIATIONS

47. Cordial relations have been established and maintained with the Federation of Master Cotton Spinners' Associations. By adopting the method of joint consultation, the Commission has been assisted in solving many of its problems, and wishes to record its appreciation of the constructive spirit of co-operation shown by the President, Mr. H. S. Butterworth, and his colleagues, and of the practical assistance given by the Director, Mr. C. Henniker-Heaton.

CHAPTER VI

SELLING PRICES

RESPONSIBILITY OF THE COMMISSION

48. The Act provides that the selling prices of raw cotton shall be such as may seem to the Commission best calculated to further the public interest in all respects. It is further enacted that these prices shall be as low as possible consistently with balancing the revenues and expenditures of the Commission on an average of good and bad years. These two provisions may, of course, prove to be mutually inconsistent in certain circumstances.

(7) Deferred delivery facilities form part of the new cover scheme which has been agreed in principle with the Federation. (See Chapter VII.)

49. Section 6 (3) of the Act empowers the Board of Trade to reserve to the independent members control of such functions of the Commission as the Board may determine from time to time. Under this Section, Statutory Regulation No. 2518 (6) of 25th November, 1947, excluded the part-time members from the determination of selling prices. Thus, although the part-time members have frequently been consulted in the formulation of selling price policy, the sole responsibility for fixing selling prices has rested on the Chairman and the other independent member.

FORMULATION OF POLICY

50. During the War, the Cotton Control was backed by very large stocks which had been accumulated for strategic reasons. Spinners' profit margins were controlled and export trade was negligible, so that the Control was in a position to balance profits on one growth against losses on another, thus maintaining a balanced relation between selling prices and spinning values. Throughout this period the general level of world prices showed, apart from seasonal and other fluctuations, a gradual upward trend. In these circumstances, it was possible to maintain stable prices for long periods, and in fact only seven price changes were made between 31st March, 1941, when the cotton market was closed, and 31st December, 1947. Of these changes, two decreases were effected specifically to off-set increases in cotton industry wages.

51. These conditions no longer applied when the Commission took over. Exports had been revived and expanded, and foreign competition had again become an important factor. It was no longer possible to subsidise losses on one growth from profits on another, because if the selling price of any growth were markedly above the world price, exporters in that section of the trade would be at a crippling disadvantage with their foreign competitors. For the same reason, losses incurred by the Commission during a period of falling world prices could only be balanced by profits made during a period of rising prices.

52. It was accordingly decided that the only practicable policy was to fix selling prices approximately in line with the replacement price ruling from time to time in the world's markets. In practice this broad policy has been modified in its detailed application. In addition to the overriding duty to further the public interest in all respects, regard has been paid to relative spinning values, and, where the Commission has been skilful or fortunate enough to buy at prices below world levels, the resultant profits have been used to stabilise prices as far as possible.

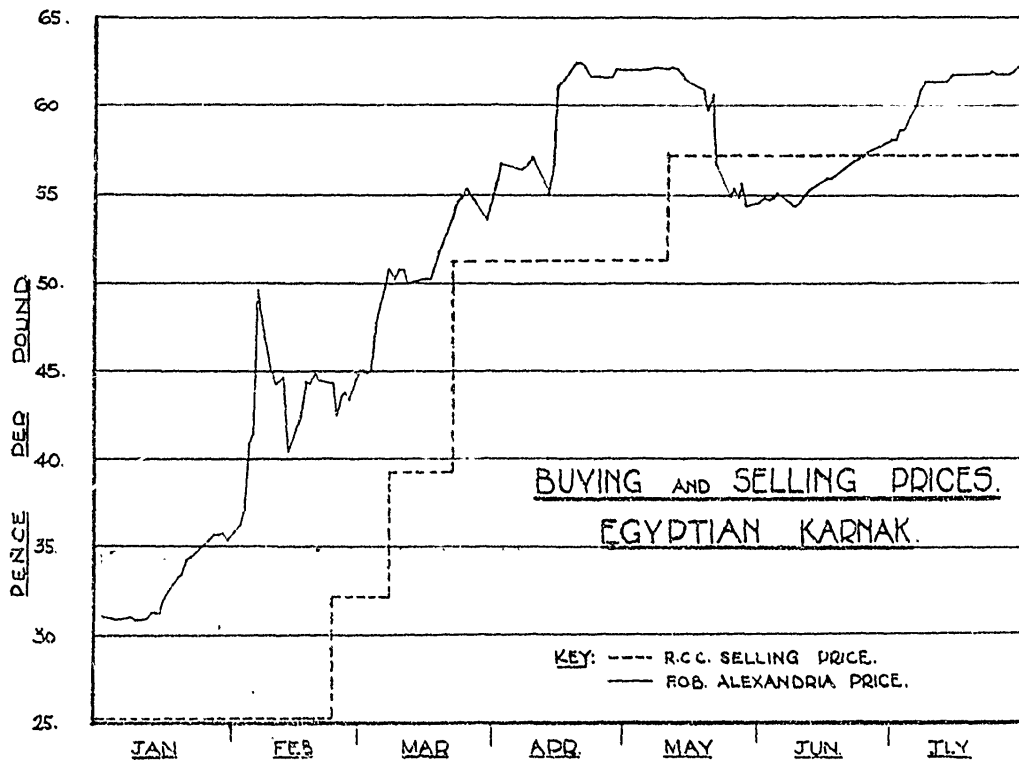
PRICE CHANGES

53. During the autumn of 1947, world prices, particularly in Egypt, rose substantially above the Control's selling prices. It was recognised that an increase in selling prices was necessary, but action was deferred pending the establishment of the Commission. When the Commission took over on 1st January, 1948, prices in Egypt were rising rapidly, and the selling price of Karnak, for example, represented a loss of 7.70d. per pound as against the replacement price. At that time a change in the selling price of raw cotton affected a large number of costing calculations governed by Board of Trade regulations. The necessary amendments were put in

hand, but it was not until 23rd February, 1948, that the way was clear for an increase.

54. It was then thought that trade would be less adversely affected by a series of increases, than by an immediate increase of as much as a shilling a pound. The price of Karnak was accordingly raised by sevenpence a pound, and a fortnight later a similar increase was imposed. The Alexandria market continued to appreciate in a spectacular way, and by 22nd March, 1948, it became necessary to raise the price of Karnak by no less than a shilling a pound over-night.

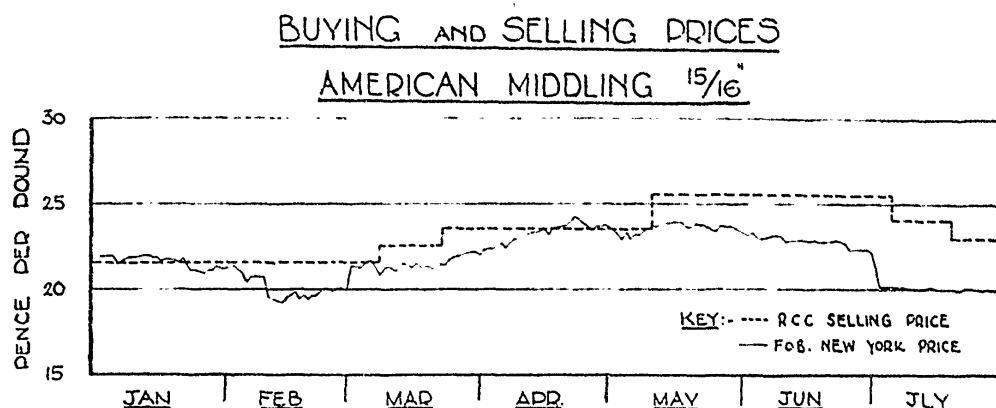
55. The diagram below shows the average Alexandria quotations for Karnak compared with the Commission's selling prices:—



It should be noted that the Alexandria prices are F.O.B., and that transport, storage and carrying charges have to be added to obtain a fair comparison with the selling price in the United Kingdom. It will be seen that only four changes in selling price were made during this period when market prices were fluctuating very violently. There is no indication that increases in the Commission's selling price strengthened the Alexandria market. Except for a short period in May and June, 1948, spinners in this country were able to buy their Karnak at prices substantially below those ruling in the Alexandria market.

56. Movements in the price of American cotton have been much less erratic. A very large crop, coupled with a world-wide shortage of dollars, has prevented prices from rising, while the United States Government loan price of 31.75 cents a pound has prevented them from falling. The diagram below, comparing the average New York F.O.B. price with the Commission's

selling price in the United Kingdom for Middling $\frac{15}{16}$ " shows that only five changes were necessary to keep these prices in line.



In this case also, transport, storage, and carrying charges must be added to the F.O.B. price to obtain an absolute comparison.

57. Selling prices for other growths have been adjusted from time to time having regard to their spinning value in relation to either Egyptian or American cotton. But the pressure of rising prices for non-dollar cottons, notably in Brazil, has forced the Commission, in the general public interest, to sell these growths at a loss. Profits in other directions have been sufficient to balance these losses, but it would be unwise to rely on being able to continue this process indefinitely.

58. A list of the changes in United Kingdom selling prices between 1st January and 31st July, 1948, will be found in Appendix A.

CHAPTER VII

THE COVER SCHEME

COVER FACILITIES BEFORE 1948

59. Before the war, the Liverpool Cotton Futures Market provided a hedge for importers and although spinners did not ordinarily trade in futures themselves, they were protected by the fact that importers could always sell at current prices without risk. In fact, all interested parties had some protection against losses caused by fluctuations in the price of raw cotton. Cover was obtainable principally in three main descriptions, American, Egyptian long staple and Egyptian short staple. The American contract was the most active, but business could at all times be done in the three contracts, through the medium of traders who were always prepared to make a price. The market was not confined to United Kingdom operators,

and considerable business was done for account of clients in all the main producing and consuming countries.

60. When private trading in cotton became impracticable, under war conditions, the futures market was closed and the Cotton Control found itself faced with the problem of replacing the hedging facilities previously available. The supply position from 1940 to 1944 was uncertain. Arrivals of cotton were irregular, and facilities for supply and distribution inadequate. The Control was only able to supply "hand to mouth" quantities of some varieties in keen demand, while quite large quantities of varieties less urgently required had to be cleared from the docks to places of relative safety as soon as possible. Acceptance of yarn orders by spinners was limited by the allocations made to them by the Cotton Control. In spite of this the Control, in order to ensure a free flow of production, wished spinners to take delivery of cotton up to the full buying limits allowed to them. This meant that spinners were at risk on larger quantities of cotton than they would voluntarily have taken, and on a range of qualities perhaps not what they would themselves have selected. Arrangements were accordingly made to relieve spinners of this risk. No account was taken of differential values, all varieties being altered in price by the same amount, which was calculated by applying a weighted average based on the consumption of all growths by the industry as a whole. Cotton users declared their stock and sales position to the Control weekly, and according to their nett long or short position (calculated to the nearest thousand pounds weight) were paid or received differences on the occasion of each price change. However, during the war years price changes were infrequent. Since it was impossible for spinners to foresee when a price change would be made and the Control was able to safeguard the position further by limiting transactions with spinners shortly before a price change, it was possible to accept their weekly cover position returns as being accurate and there was no inspection of books at the mills.

61. Post-war conditions demanded some alterations in this rather primitive cover scheme. The most important change made was the introduction of differential price changes in May, 1946. Instead of altering the price of all varieties in the Control's stock by the same amount, separate prices were quoted for each of the main growths of cotton and a "cover symbol" allotted to each growth. The new arrangements were explained to spinners, and the advantages of changing over to the revised cover scheme indicated. Spinners had the option of remaining covered under the old arrangements, and a few of them, because of the special character of their business, elected not to change. A small number of spinners remained outside the cover scheme altogether, themselves assuming the risk of fluctuations in raw cotton prices. Those who came into the new scheme were able to cover themselves against price changes in all growths, as against the three growths formerly quoted in the futures market.

COVER PROBLEMS FACING THE COMMISSION

62. Section 10 of the Cotton (Centralised Buying) Act, 1947, provides that "The Commission may operate (either in continuance, with or without modification, of the scheme in that behalf operated by the Board (of Trade) at the passing of this Act in the case of cotton spinners or under fresh arrangements) a scheme for giving protection against risks arising from fluctuations in the prices of raw cotton to persons carrying on any class of business in the United Kingdom that involves the incurring of such risks".

63. In view of the short period between the establishment of the Commission and the appointed day, it was decided to continue the cover scheme which had been operated by the Control, although it was obvious that changes would have to be made. Converters and manufacturers, viewing the high level of prices with misgivings, appealed to the Commission for protection against price fluctuations, and an undertaking was given to provide them with cover as soon as practicable arrangements could be worked out and agreed. But the existing scheme, which had been specifically designed to protect spinners, was, by its nature, unsuitable for extension to other sections of the trade.

64. Moreover, it very soon became apparent that, even in its application to spinners, the old cover scheme was unsuitable to the conditions in which the Commission had to operate. The scheme, being based on spinners' weekly returns, made it impracticable to change prices at other than weekly intervals, and the adoption of the new selling price policy (see para. 52 above) brought out other grave defects. Firstly, the scheme was too cumbersome in its administrative aspects if price changes were to be more frequent. Secondly, it was possible for spinners either, by watching the movements of prices in foreign markets, to adjust their business so as to profit from a similar change in U.K. selling prices, or to delay their cover return until after a price change had been announced ; or even, if their cover returns were completely accurate, to pass on the advantage of their anticipations to their customers by selling earlier or later as the case might be. Thirdly, the enormous increases which the Commission was compelled to make in Egyptian prices caused acute embarrassment to many spinners in the fine end of the trade who had to produce very large amounts of money at short notice to cover their long position.

65. The first of these defects is inherent in any scheme based on periodical returns. The third was dealt with by providing financial accommodation whenever it was warranted by special circumstances. On 8th May, with the object of checking abuses, the Commission gave the requisite six months' notice to terminate the scheme, and proposed to the Federation of Master Cotton Spinners' Associations that, after 8th November, cover differences should be payable or receivable on the last cover return posted before the announcement of a price change. This proposal met with vigorous opposition from the Federation. Although it was admitted that unit mills would have no difficulty in meeting the Commission's requirement, it was contended that it was physically impossible for the combines to complete and post their cover returns between the close of business at the end of the week and the announcement of a price change on a Monday morning. As the Federation was unwilling to agree to the combines receiving special treatment, the Commission was reluctantly compelled to continue the old arrangements until negotiations for a completely new type of scheme could be concluded.

66. The total amounts paid and received under the cover scheme in respect of each price change between 1st January and 31st July, 1948, are shown in Appendix B. The size of these payments gives an indication of the importance of cover facilities to the trade.⁽⁸⁾

⁽⁸⁾ Negotiations are now well advanced towards the introduction of a cover scheme for spinners which will provide for the introduction of " On Call " and " Deferred Delivery " contracts, eliminate the necessity for large payments at every price change, and permit the announcement of price changes on any day of the week. Cover arrangements to meet the requirements of doublers, manufacturers and converters, are also under discussion with the Cotton Yarn Doublers Association, the Cotton Spinners and Manufacturers Association, and the Cotton and Rayon Merchants Association respectively.

CHAPTER VIII

STAFF, ACCOMMODATION AND STORAGE

STAFF

67. On 1st January, 1948, the Commission took over 237 members of the Control staff, of whom 176 were based on Liverpool and 61 on Manchester. These figures exclude three British employees in Egypt and two in Brazil. On 1st February, when the Commission assumed the Cotton Waste and Cotton Linters agency for the Board of Trade (see Chapter XII below) a further 33 employees were transferred, making a total of 275 office and technical staff. As mentioned in para. 13 above, the staff of the Control had been considerably expanded during 1947 to meet the requirements of post-war conditions, and this trend continued under the Commission. On 31st July, 1948, the office and technical staff numbered 343, including five Europeans in Egypt, three in Brazil, and 37 in the Waste and Linters Branch.

68. In addition, the Commission took over from the Control 48 industrial workers employed on storage sites. In April, eleven open storage sites, which had previously been operated by contractors, were taken under the management of the Commission, increasing the number of industrial workers to 205. The total at 31st July was 228.

SALARIES AND WAGES

69. With the exception of a few senior officials, the staff of the Control had been graded and paid on Civil Service scales as applied to Controls generally. These scales were not considered suitable for the type of work being done for the Commission. New salary scales were immediately worked out and introduced. Weekly paid staff, mostly female clerks, typists and calculating machine operators, who had been paid on the country-wide rates of the Civil Service, were also put on new scales comparable with those paid by business houses in Liverpool and Manchester.

TRAINING

70. Owing to the dislocation caused by the war, almost nine years had elapsed since there had been any flow of young entrants into the raw cotton trade. Most of the younger men had joined the armed forces, some had lost their lives on active service, and many of those who returned sought employment in other fields on demobilisation. The average age of the Commission's technical staff was about 46, and it was clear that, unless remedial action were taken promptly, the volume of technical experience available was bound to decline fairly rapidly, to the grave disadvantage of the cotton industry as a whole.

71. The Commission accordingly decided to establish two training schemes. The first, designed to produce future executives, offered a starting salary of £350 a year to men of 20 to 25 years of age with University degrees or other qualifications. For the earlier intakes, the age limit has been temporarily raised to 30 for ex-service men, with salaries up to £500 a year in special circumstances. The course, lasting four years, comprises both technical and administrative training, including a period overseas.

72. The second scheme was designed to train future classers and salesmen. Normal age at entry would be 16 to 18, but, as a temporary provision,

ex-service men who had previously been employed in raw cotton firms were encouraged to enter up to the age of 25. Starting salaries ranged from £150 at age 16 to £300 at age 20. The course, which is similar to that for executive trainees, but with more emphasis on technical training, lasts three years.

73. These training schemes were introduced with the full approval and promised co-operation of the Liverpool and Manchester Cotton Associations. Over 700 applications were received, and the initial intake was fixed at 5 executive trainees and 11 apprentices. Further intakes will be made at half-yearly intervals.

SUPERANNUATION

74. Section 5 (10) of the Cotton (Centralised Buying) Act, 1947, provides that any staff pensions or gratuities shall be paid or provided for in such manner as may be determined by the Commission with the approval of the Board of Trade. The Commission explored the possibility of introducing a pension scheme similar to those established by bodies such as the Cotton Board and the Yarn 'Spinners' Association, but the details had not been settled and approved during the period under review.⁽⁹⁾

STAFF REPRESENTATION

75. During the Control period, Whitley machinery had been established but had not been in regular use. The Commission established a Staff Council in March, 1948, to advise on matters of welfare, office machinery and organisation, conditions of service, education and training, and superannuation, and to supervise the work of social committees and the administration of benevolent funds. The Chairman of the Council is appointed by the Commission, and the Vice-Chairman by the staff.

76. A fair proportion of the salaried staff taken over from the Control were members of the Society of Civil Servants, while the majority of the weekly-paid staff belonged to the Civil Service Clerical Association. The Commission was asked to recognise these bodies as the official negotiating representatives of the staff, although doubts were expressed on the grounds that conditions of employment with the Commission would not necessarily be the same as in the Civil Service. However, the constitutions of both associations had been, or were about to be amended to cater for what they called "fringe bodies", and recognition was accorded by the Commission.

77. The Transport and General Workers' Union has been recognised by the Commission as the official union of the industrial staff, about 90 per cent. of whom were members at 31st July, 1948. Standard rates of pay, and hours and conditions of work, have been negotiated with the Union.

OFFICE AND SALEROOM ACCOMMODATION

78. War damage and other factors have resulted in a serious shortage of office space in Liverpool. Each new facility, such as selection by type, offered to spinners by the Commission requires additional space out

⁽⁹⁾ A scheme, approved by the Board of Trade, allowing for half back-service with the Control and the Commission has been introduced with effect from 1st March, 1949.

of all proportion to the corresponding increase in staff. Cotton classing requires accommodation with a northerly aspect and distinctive windows, and the Commission has had great difficulty in finding adequate classing space. The bulk of the staff are housed in the Cotton Exchange Building, and the owners, the Liverpool Cotton Association, have been most helpful in attempting to meet the Commission's requirements. But much of the space in this building is still occupied under requisition by sections of the War Office, the Ministry of Labour, the Ministry of Transport, and other Government departments which do not need cotton light. The Ministry of Works has shown sympathy with the Commission's difficulties, but has been unable to give much practical help. The standard of office accommodation which the Commission has been able to provide also leaves much to be desired.

79. Similar difficulties exist in Manchester, where there is an even more acute shortage of sale-room space. For geographical reasons it is probable that at least half the Commission's sales would be handled in Manchester if adequate room were available. The north side of the Royal Exchange, destroyed by enemy action, is being rebuilt. The Commission has put in a provisional indent for one floor, but this may not be available for about two years. In the meantime, the best possible use has to be made of such accommodation as may be available.

COTTON STORAGE

80. Only about half the pre-war warehouse accommodation in Liverpool is now available for cotton storage, and the position is nearly as bad in Manchester. The shortage has been supplemented by the use of old mills, weaving sheds, and other buildings throughout Lancashire, but even so it became necessary during the war to store cotton on open sites. This latter arrangement is very unsatisfactory, but the Commission has not yet found it possible to eliminate the use of open sites, although every effort has been made to reduce it as shown in the following table:—

	January 1, 1948		July 31, 1948	
	Number of Storepoints	Bales in Store	Number of Storepoints	Bales in Store
Liverpool—Covered Stores ...	135	405,121	137	463,585
Manchester, and Up-country—				
Covered Stores	47	253,360	47	260,424
Open Sites	24	476,205	23	281,562
TOTAL ...	206	1,134,686	207	1,005,571

81. In June, 1948, the Commission purchased extensive premises at Gorton, near Manchester. In addition to cotton storage, the premises are used for picking, mending, and reconditioning damaged bales, and for office accommodation.

CHAPTER IX

FINANCE

FINANCIAL STRUCTURE

82. On 1st January, 1948, the Commission took over the assets and liabilities of the Cotton Control in so far as they related to raw cotton. The net value of these assets, less liabilities, amounting to £56,982,022 has been treated as advanced by the Board of Trade to the Commission under Section 14 (1) (a) and (b) of the Act. The basis of valuation of the assets thus transferred was :—

- (a) as regards stocks of and uncompleted purchase contracts for raw cotton, the world prices ruling on 1st January, 1948, as nearly as they could be ascertained.
- (b) as regards other assets, the value determined by independent valuers appointed by the Board of Trade.

83. Under Section 14 of the Cotton (Centralised Buying) Act, 1947, the Board of Trade, with Treasury approval, have treated £30,000,000 as an initial advance on Capital Account, and £26,982,022 as an initial advance on Revenue Account (see Appendix C). This distinction has no special significance in relation to the nature of the assets and liabilities transferred, and has been drawn mainly for the purposes of interest chargeable under Section 17 (which is greater on the Capital than on the Revenue portion of the advances), and for the creation of a Sinking Fund under which the initial advance on Capital Account is to be repaid over 50 years by equal half-yearly payments combining capital and interest. The initial advance on Revenue Account is repayable out of the Commission's surplus cash balances from time to time.

84. A subsequent advance of £153,000 has been made on Capital Account under Section 15 of the Act. This sum is repayable by means of a sinking fund over a period of ten years.

85. In respect of advances on Revenue Account, the Commission operates a continuous account with the Board of Trade, paying over day-to-day surplus cash balances and drawing back to make up cash balances as required. This arrangement follows from Sections 15 and 18 of the Act. During the seven months to 31st July, 1948, payments by the Commission out of day-to-day surplus cash balances were sufficient to extinguish the initial advance of nearly £27 millions on Revenue Account, but day-to-day requirements of the Commission resulted in "periodical" advances on Revenue Account of more than £29 millions. The net effect of these transactions was to increase the Commission's indebtedness on Revenue Account during the seven months by £2,689,354.

RESERVE FUND

86. In addition to the assets and liabilities taken over on 1st January, 1948, for which a corresponding debt to the Board of Trade was created, the Commission was entitled to receive a sum, determined in accordance with Section 19 of the Act, to be carried to the credit of a Reserve Fund. This sum, which amounted to £30,895,390 was represented at 31st July, 1948, by a debt due from the Board of Trade to the Commission.⁽¹⁰⁾

⁽¹⁰⁾ Since that date the greater part of the sum has been paid over to the Commission and invested, in consultation with the Bank of England, in quoted Government Securities and Treasury Bills.

BORROWING POWERS

87. In addition to the above resources, the Commission has power to borrow, under Sections 15 and 16 of the Act,

(a) *From the Board of Trade :*

	<i>£ millions</i>	
On revenue Account, up to £75 millions in excess of the initial Revenue Advance of £26,982,022, a total of £101,982,022, or say	102.0	
Utilised up to 31st July, 1948	29.7	72.3
On Capital Account, in addition to the initial Capital Advance	10.0	
Utilised up to 31st July, 1948, £153,000, or say ...	.2	9.8
(b) <i>By way of overdraft or otherwise, with the consent of the Board of Trade, up to</i>		10.0
Total unexercised borrowing powers at 31st July, 1948		£92.1

INTEREST ON ADVANCES AND REPAYMENT OF CAPITAL ADVANCES

88. The advances from the Board of Trade on capital account bear interest at 3 per cent. In accordance with the Act, both the interest and the capital portion of annuities are to be charged against the Commission's trading. Interest on the revenue account advances is at the rate of $\frac{1}{2}$ per cent. per annum, paid quarterly.

BANKING ARRANGEMENTS

89. The Commission's main banking account is held with the Bank of England, Liverpool. Into this account spinners pay, by direct transmission through their own banks, the amounts of all invoices for raw cotton as they fall due. This system was operated successfully by the Bank for the Cotton Control for five years, and has been continued by the Commission. Payments are due ten days after delivery of cotton, and a high degree of punctuality is maintained. Collections average from £8 to £10 million monthly. Payments of this nature form the greatest part of the Commission's receipts. Amounts recoverable from spinners under the cover scheme are paid by cheque in the ordinary way.

90. Drawings on the account are effected :—

- (1) by cheques in payment for certain varieties of cotton ; amounts due to spinners under the cover scheme ; freight, transport, storage and other services ; salaries and administration expenses.
- (2) by demands on the Bank from commercial banks, for reimbursement of amounts paid by them under letters of credit which the Commission has opened for the financing of cotton purchases overseas. These demands may be met either at the Bank in Liverpool or in London as the commercial banks may require when the letter of credit is opened.

By an arrangement between the Bank of England, the Board of Trade, and the Commission, the balance on the banking account is kept at as low a figure as possible, generally between £250,000 and £750,000. When the balance reaches or surpasses the latter figure the Bank remits to the Board of Trade, Raw Cotton Commission Deposit Account, at the Bank of England, London, a sum of £500,000 or a multiple thereof, thereby reducing the amount owing on the Board of Trade revenue advances. When the balance falls below £250,000 the Bank, on behalf of the Commission, calls on the Board of Trade for advances on revenue account up to such amount as may from time to time be required. These adjustments take place at the close of business daily, and as a consequence the Commission never carries balances in its bank account beyond its immediate requirements.

91. The Commission also maintains accounts of limited amounts at two of the clearing banks, and accounts abroad which were utilised for the purchase of cotton by overseas branches of the Commission. For the opening of letters of credit available in the foreign countries from which cotton is imported, the Commission makes use of British banks, preferably those with their own offices in the foreign countries concerned. The business is conducted on the lines usually followed by commercial importing concerns.

AUDIT

92. Under Section 20 of the Act, the Board of Trade has appointed Messrs. McClelland Ker & Co., Chartered Accountants, London, as Auditors to the Commission. The appointment is an annual one.

93. During the year, the Commission has been building up an internal audit section with the intention of anticipating the work of the external Auditors and relieving them to some extent of detailed audit checking. The head of this section reports direct to the Chairman of the Commission and to the Finance Committee. His reports are sent to the Commission's Auditors who consult with him as to the programme of work to be carried out. The main banking transactions and movements on the stock accounts are examined in great detail. In general, tests are made throughout the whole wide field of the Commission's transactions.

94. The accounts of the branch office in Alexandria are audited by Messrs. Price, Waterhouse, Peat & Co., Chartered Accountants, Alexandria. The accounts of the branch office in Sao Paulo were audited by Messrs. Deloitte, Plender, Griffiths & Co., Sao Paulo.

CHAPTER X

RESEARCH AND DEVELOPMENT

POWERS OF THE COMMISSION

95. Section 9 of the Cotton (Centralised Buying) Act, 1947, empowers the Commission to promote research into almost all aspects of the use of raw cotton, either directly or by giving financial or other assistance to outside bodies.

RELATIONS WITH THE BRITISH COTTON INDUSTRY
RESEARCH ASSOCIATION, SHIRLEY INSTITUTE,
MANCHESTER

96. Close relations have been established with the Shirley Institute, the scientific organisation of the cotton industry. The Commission appointed an officer to maintain liaison between the two organisations, and made a grant of £2,500 to the funds of the Institute for the purpose of furthering scientific and research work in cotton. There has been a constant flow of samples to provide material for scientific laboratory tests, and there has been an exchange of reports and information to the advantage of both organisations and of benefit to the industry as a whole. Many samples taken from shipments of cotton have been subjected to tests, and the Institute reports have furnished data of great value to the Commission's buyers, classers, and salesmen. In addition to technical reports on the measurable characteristics of cotton, the Institute's Bulletin and technical literature are made available to the members and staff of the Commission.

97. The cotton samples tested at the Institute in this period fall into four main categories :—

- (i) Routine tests to compare current crops with previous crops.
- (ii) Tests on new varieties.
- (iii) Tests to assess or confirm seasonal variation.
- (iv) Comparative tests on different varieties.

These technical test reports provide information additional to that gained from seeing and handling the cotton. When spinners wish to investigate and consider the properties of varieties with which they are not familiar, or when considerations of price have made it necessary for them to introduce substitutes, examination of samples is often followed by a scrutiny of information and data originating from the Institute, and contained in test reports on samples provided by the Commission. The Institute Reports provide a reliable means of estimating the relative spinning quality of different cottons, in so far as this characteristic is susceptible to measurement. In addition to the test reports provided for the Commission, the Institute periodically includes reports on tests in the Bulletin issued to Institute members and subscribers. This channel of information to the trade frequently causes enquiries to be made, both to the Commission and to the Institute, which often result in a further exchange of information between the two organisations.

OTHER ACTIVITIES

98. Close relations have been maintained with the Plant Breeding Section of the Egyptian Ministry of Agriculture. The Commission offered to make a grant to the Empire Cotton Growing Corporation, a body which carries out research into the introduction of new varieties in the cotton-growing colonies. The Corporation preferred, however, to rely on financial assistance from the Cotton Board.

CHAPTER XI

COTTON WASTE AND COTTON LINTERS

AGENCY FOR THE BOARD OF TRADE

99. With effect from 1st February, 1948, the Board of Trade appointed the Commission to act as agents for the Board for the period from 1st February, 1948, to 31st December, 1948, and for such further period and on such terms as might be subsequently agreed, in relation to the buying of cotton waste and cotton linters, the importing, holding and distribution thereof, also the treatment thereof so as to render the goods saleable. This appointment was made under Section 11 (a) of the Cotton (Centralised Buying) Act, 1947, on the following terms:—

- (1) The Board shall provide the Commission with such monies as the Commission may require to finance the buying and importation of cotton linters and cotton waste under these arrangements.
- (2) The Board shall reimburse the Commission the reasonable cost of salaries and office accommodation of the staff of the Cotton Waste Section of the Commission, and of officers of the Finance Section of the Commission who are wholly engaged on accounting duties under these arrangements.
- (3) The Board shall pay to the Commission a sum calculated at the rate of £10,000 (ten thousand pounds) per annum as remuneration for the part time services of members and senior officers of the Commission and in respect of all overhead expenses of the Commission under these arrangements.
- (4) The Commission shall keep separate books in which shall be entered all transactions in respect of cotton linters and cotton waste carried out by the Commission under these arrangements, and shall afford to the Comptroller and Auditor General, or his representatives, access to such books, documents and records, and shall give him or them such explanations as may be necessary for the performance of his statutory functions in relation to such transactions.

APPRAISALS

100. The 194 types of cotton waste referred to in the Control of the Cotton Industry (No. 93) Order are kept available to all bona fide persons who wish to match their cotton waste with the official standards. A panel of twelve cotton waste experts attends in parties of six each alternate Friday to appraise the value of cotton waste samples submitted by cotton spinners, cotton waste merchants, and others. After the samples have been appraised, the official Appraisal Certificate is issued, giving authority for the particular grade of waste to be sold at the price stated for the period given on the certificate. The Appraisal Panel do not receive any fee or expenses and their valuable services are given voluntarily.

APPENDIX A

CHANGES IN UNITED KINGDOM SELLING PRICES OF RAW COTTON BETWEEN JANUARY 1st AND JULY 31st, 1948

(Pence a pound)

Variety	Price at Jan. 1st 1948	Price Changes on:—					Price at July 31st 1948
		March 8th	March 22nd	May 10th	July 5th	July 19th	
American	21.50	+ 1.00	-- 1.00	+ 2.00	- 1.50	- 1.00	23.00
Brazilian (Sao Paulo) (a)	20.65	+ 1.00	+ 1.25	-- 2.00	- 1.50	- .90	22.50
West African	21.20	+ 1.00	+ 1.00	- 2.00	- 1.50	- 1.00	22.70
East African (BSG)	21.00	+ 1.25	+ 1.50	+ 2.00	- 1.50	- 1.00	23.25
Argentine	21.45	+ 1.00	-- 1.00	- 2.00	- 1.50	- 1.00	22.95
Russian	22.30	+ 1.00	+ 1.00	- 2.00	- 1.50	- 1.00	23.80
East Indian (Short Staple)	16.80	+ .75	+ .90	- 1.50	- 1.75	—	18.20
East Indian (American Seed)	17.90	+ 1.00	+ 1.00	+ 2.00	- 1.50	—	20.40
Sundry American (b)	21.50	-- 1.00	+ 1.00	- 2.00	- 1.50	- 1.00	23.00

NOTES: (a) Including North Brazilian (Serido) up to June 21st when a separate quotation was introduced.

(b) Including Sudan (Rain Grown American Seed), Nyasaland, Grenada, Iraqui, Paraguayan, North Brazilian (Sertao and Mattas), and Peruvian (American type).

APPENDIX A—(continued)

CHANGES IN UNITED KINGDOM SELLING PRICES OF RAW COTTON
BETWEEN JANUARY 1st AND JULY 31st, 1948

(Pence a pound)

Variety	Price at Jan 1st 1948	Price Changes on:—						Price at July 31st 1948
		Feb. 23rd	March 8th	March 22nd	May 10th	May 31st	June 21st		July 5th
Egyptian—Zagora ...	22·40	4·50	7·00	11·00	1·00	9·00	—	34·90
Egyptian—Ashmouni ...	22·25	4·50	7·00	11·00	—	5·00	—	39·75
Egyptian—Giza 7, 23, 30 (c) ...	23·60	7·00	7·00	11·00	4·00	—	7·85	44·75
Egyptian—Malaki, Amoun ...	29·50	7·00	7·00	12·00	6·00	—	—	61·50
Egyptian—Karnak (d) ...	25·25	7·00	7·00	12·00	6·00	—	—	57·25
Peruvian—Tanguis... ..	22·40	3·00	4·00	—	2·00	—	5·00	36·40
Sudan—GS	24·50	7·00	7·00	12·00	6·00	—	—	56·50
Sudan—Tokar	23·00	8·00	7·00	11·00	6·00	—	—	55·00
Sudan—L. Upper	22·25	6·00	7·00	11·00	2·00	—	2·40 (e)	51·20
Sudan—L. Lower	22·25	6·00	7·00	11·00	2·00	—	1·25	42·50
Sudan—Zeidab	23·25	3·00	4·00	—	2·00	—	—	32·25
East African—BP 52	21·25	4·00	7·00	7·50	—	—	2·00	37·75
West Indian Sea Island	34·25	7·75	7·00	7·00	4·00	—	—	60·00

NOTES: (c) Including Menoufi up to June 21st, when a separate quotation was introduced.

(d) Including Peruvian (Pima).

(e) Sudan L styles were divided into Upper and Lower on June 21st, when Uppers were increased by 2·40d., and Lowsers decreased by 1·25d.

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APPENDIX B
COVER SCHEME

RECEIPTS AND PAYMENTS ON PRICE CHANGES JANUARY—JULY, 1948

Net Amounts Receivable by the Commission on each price change				Net Amounts Payable to Spinners on each price change				Net Balance	
Date of Price Change	Original Settlement	Adjustments	Total Receivable	Original Settlement	Adjustments	Differential Claims	Total Payable	Receivable	Payable
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
21 February ...	893,830 18 7	27,287 9 2	921,118 7 9	302,575 0 0	8,165 12 6	665 8 4	311,406 0 10	609,712 6 11	
8 March ...	776,384 7 10	41,404 10 10	817,788 18 8	620,476 0 10	9,469 15 0	421 5 0	630,367 0 10	187,421 17 10	
22 March ...	844,760 11 9	63,611 0 10	908,371 12 7	1,458,205 12 6	20,448 15 0	1 13 4	1,478,656 0 10		570,284 8 3
10 May ...	410,543 7 0	38,225 0 0	448,768 7 0	733,732 1 8	9,971 13 4		743,703 15 0		294,935 8 0
31 May ...	262,462 10 0	5,658 6 8	268,120 16 8	35,227 2 5	5,666 13 4		40,893 15 9	227,227 0 11	
5 July ...	456,177 1 8	2,277 7 11	458,454 9 7	163,317 0 9	6,942 10 0	9,433 15 0	179,693 5 9	278,761 3 10	
19 July ...	259,545 8 4	1,497 10 0	261,042 18 4	39,611 7 7	1,240 16 8		40,852 4 3	220,190 14 1	
	3,903,704 5 2	179,961 5 5	4,083,665 10 7	3,353,144 5 9	61,905 15 10	10,522 1 8	3,425,572 3 3	1,523,313 3 7 865,219 16 3	865,219 16 3
								£658,093 7 4	

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APPENDIX C

DIRECTIONS BY THE BOARD OF TRADE

(1) FINANCIAL ARRANGEMENTS

Board of Trade
Raw Materials Department,
Millbank,
London, S.W.1.
February 12th, 1948

Determinations made and Directions issued to the Raw Cotton Commission by the Board of Trade under Sections 14, 17 and 18 of the Cotton (Centralised Buying) Act, 1947.

1. The Board of Trade, with the approval of the Treasury, have determined that of the property of the Board vesting in the Commission pursuant to Section 13 (1) (a) of the Act, the value of that part which is excluded from the operation of Section 14 (1) (a) and has to be treated as an advance for the purposes of meeting outgoings properly chargeable to capital account shall be such sum as, together with the value of the property vesting in the Commission pursuant to Section 13 (1) (b) of the Act, amounts to £30 million. The total initial advance for the said purpose is therefore £30 million.

2. The Board, with the approval of the Treasury and pursuant to Sections 17 and 18 (2) of the Act, direct that the said sum of £30 million shall be repaid to the Board over a period of 50 years from the date of the advance, namely January 1st 1948, together with interest at the rate of 3 per cent. per annum, by means of equal half-yearly payments of £581,117 2s. 9d. payable on the 30th June and the 31st December in each year commencing the 30th June 1948 and concluding on the 31st December 1997 as detailed in the Schedule attached.(a)

3. The Board, with the approval of the Treasury and pursuant to Section 17 of the Act, direct that interest on advances made to the Commission for the purpose of meeting outgoings properly chargeable to revenue account shall be at the rate of $\frac{1}{2}$ per cent. per annum. This rate will remain in force until there is a substantial change in the Treasury bill rate. Interest will be calculated on the advances outstanding from day to day and a statement of the account due in respect of each quarter will be rendered to the Commission immediately after the close of that quarter. Payment is to be made to the Board by the Commission within seven days of receipt of this statement.

4. The Board, with the approval of the Treasury and pursuant to Section 18 of the Act,
- (a) fix £2 million as the maximum cash balance to be held by the Commission at the end of any month excluding any cash standing to the credit of the Commission's reserve fund and also excluding any foreign currency acquired by the Commission for the purpose of making cotton purchases;
 - (b) direct that if at the end of any month the cash balance (as so defined) exceeds £2 million the excess shall be paid to the Board within seven days after the end of the month in question.

5. The Board, with the approval of the Treasury, direct that all payments to be made to the Board under the three preceding Directions shall be made to the Head Office of the Bank of England for the credit of the Paymaster General's cash account (Board of Trade, Raw Cotton Commission Deposit Account), full particulars of each payment being notified direct to the Board at the time of payment.

(Signed) R. F. BRETHERTON,
An Under Secretary of the Board of Trade.

(a) The schedule showing the sub-division of each instalment into interest and capital has not been reproduced.

(2) FORM OF THE ACCOUNTS

Board of Trade
Raw Materials Department,
Millbank,
London, S.W.1.
November 29th, 1948.

Direction of the Board of Trade under Section 20
of the Cotton (Centralised Buying) Act, 1947

The Board of Trade in pursuance of Section 20 of the Cotton (Centralised Buying) Act, 1947, hereby direct that the Raw Cotton Commission shall keep proper accounts and other records in relation thereto in the form in which they were kept during the 10 months preceding the 31st October, 1948, subject to,

- (1) such of the modifications, set out in the recommendations contained in Appendices I, III and IV of a report dated the 18th October, 1948, a copy of which is attached hereto(*b*), submitted by Messrs. McClelland Ker & Co. to the Board of Trade, as relate to the form of such accounts and other records,
- (2) such other modifications as may be agreed in writing from time to time by the Raw Cotton Commission and Messrs. McClelland Ker & Co. as relate to the form of such accounts and other records.

(Signed) F. T. MAY,
An Assistant Secretary of the Board of Trade.

(*b*) The report refers in detail to the accounting books and records to be kept by the Commission, and has not been reproduced.

ACCOUNTS
FOR THE PERIOD FROM JANUARY 1st TO
JULY 31st, 1948

Introduction

Balance Sheet as at July 31st, 1948

Profit and Loss Account

Auditors' Report

Supplementary Schedules:—

1. Trade and Other Debtors
2. Payments in Advance
3. Stocks of Raw Cotton
4. Trade and Other Creditors
5. Provisions and Accrued Expenses
6. Fixed Assets

Advances by the Board of Trade.

RAW COTTON COMMISSION

ACCOUNTS FOR THE PERIOD FROM JANUARY 1st
TO JULY 31st, 1948

1. GENERAL

Section 20 of the Cotton (Centralised Buying) Act, 1947, provides that the Commission's annual statement of accounts shall be prepared in such form as the Board of Trade, with the approval of the Treasury, may direct, being a form which shall conform with the best commercial standards. The accounts have been prepared in consultation with the Board and with the Commission's auditors, and are designed to provide full information about the Commission's financial affairs.

2. BALANCE SHEET

The Commission's financial position at July 31st, 1948, may be summarised as follows:—

Current Assets	£	64,067,643
Less Current Liabilities		4,091,756
		<hr/>
	NET CURRENT ASSETS	59,975,887
<i>Add</i>		
Fixed Assets, less depreciation		258,848
		<hr/>
		60,234,735
<i>Add</i>		
Amount owing by the Board of Trade on account of Reserve Fund ...		30,895,390
		<hr/>
	TOTAL NET ASSETS	91,130,125
<i>Deduct</i> Board of Trade advances		59,693,259
		<hr/>
	NET SURPLUS	31,436,866
Made up as follows:		
	£	
Reserve Fund	30,895,390	
Sinking Fund for redemption of Board of Trade advance on Capital Account	153,298	
Profit and Loss Account: Balance at credit thereof ...	388,178	
		<hr/>
		£31,436,866

3. STOCKS OF RAW COTTON AND FORWARD PURCHASE CONTRACTS

Stocks of raw cotton in the United Kingdom at July 31st, 1948, amounted to over 1,000,000 bales, distributed at warehouses and storage points in the Manchester and Liverpool districts. In valuing these stocks for the purpose of the accounts, normal commercial practice has been followed. The total value of each growth of cotton has been arrived at by valuing each bale of cotton at cost and at replacement value, and adopting the lower of these values in total. Cotton afloat and overseas amounted to over 150,000 bales, and has been valued on the same principle.

The Commission's contracts for cotton to be delivered in the months following July 31st amounted to about £26½ million. These contracts have been re-valued on the basis of cost or replacement value as already described, and provision has been made in the accounts for losses shown in any growth by this method of valuation. These losses amount to £797,445. On the other hand, amounts by which replacement values have exceeded cost, totalling £228,844, have been ignored in the accounts.

4. TRADING RESULTS

The Commission's trading accounts may be summarised as follows:—

Trading profit on sales of raw cotton... ..	£	1,111,760
Net amount receivable under the Spinners' Price Cover Scheme		658,093
Miscellaneous Income		1,540
		<hr/>
	GROSS PROFIT	1,771,393
	£	
<i>Deduct:</i> Administration Expenses	111,179	
Interest on Advances	618,738	
		<hr/>
		729,917
		<hr/>
	NET PROFIT FOR THE PERIOD	£1,041,476

The net profit of £1,041,476 has been arrived at after providing for all the appropriate trading and administration expenses and after allowing for losses on stocks and forward contracts by comparison with replacement values current at July 31st, 1948. The total value of sales of cotton was £61,569,854. Administration expenses amounted to £111,179, or .18 of one per cent. of the total sales.

5. APPROPRIATIONS

Appropriations have been made from profit as follows:—

	£
Provision for Income and Profits Tax on the profits for the seven months	500,000
Transfer to Sinking Fund for redemption of Board of Trade Advance on Capital Account	153,298
Carried forward to next year	388,178
	£1,041,476

The Commission's liability for Income and Profits Taxes for the years 1947/48 and 1948/49 will not be known for some time, but the provision of £500,000 for this purpose has been made on professional advice.

The transfer to Sinking Fund for redemption of Board of Trade Advance on Capital Account is represented by,

Amount redeemed at June 30th, 1948, in accordance with the redemption plan	£ 131,117
Amount appropriated for the month of July, 1948	22,181
	£153,298

THE RAW COTTON COMMISSION
(Established under the Cotton (Centralised Buying) Act, 1947)

BALANCE SHEET AS AT 31st JULY, 1948

		£	£
I	CURRENT ASSETS		
	Cash and Bank Balances in the U.K. and Abroad	592,685	
	Trade and other Debtors (Schedule 1)	4,300,560	
	Claims against Fire and Marine Insurers	468,726	
	Payments in Advance (Schedule 2)	267,724	
	Stocks of Raw Cotton in the U.K., Abroad and Afloat (Schedule 3) Valued by the Commission at the lower of cost or replacement values	58,437,948	
	Total Current Assets		64,067,643
II	CURRENT LIABILITIES		
	Trade and other Creditors (Schedule 4)	2,128,396	
	Provisions and Accrued Expenses (Schedule 5)	1,463,360	
	Provisions for Taxation on profits earned to date	500,000	
	Total Current Liabilities		4,091,756
III	NET CURRENT ASSETS		59,975,887
IV	AMOUNT DUE TO THE COMMISSION BY THE BOARD OF TRADE under Section 19 of the Cotton (Centralised Buying) Act, 1947 (Reserve Fund)		30,895,390
V	FIXED ASSETS (Schedule 6)		
	At values as determined by the Board of Trade with additions at cost less depreciation		
	Warehouse accommodation	153,000	
	Equipment at Storage Sites	92,740	
	Office Furniture and Equipment—		
	United Kingdom	10,093	
	Abroad	625	
	Motor Cars	2,390	
	Total Fixed Assets		258,848
VI	NET OPERATIONAL ASSETS		91,130,125

REPRESENTED BY:—

VII ADVANCES BY THE BOARD OF TRADE (Schedule 7)

On Capital Account	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	30,021,883
On Revenue Account	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	29,671,376
																	59,693,259

VIII SURPLUS AND RESERVES

<i>Reserve Fund</i> established under Section 19 of the Cotton (Centralised Buying) Act, 1947																	
Amount transferred by the Board of Trade	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	30,895,390
<i>Sinking Fund</i> for redemption of Board of Trade advance on Capital Account																	
Amount appropriated during the period	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	153,298
<i>Profit and Loss Appropriation Account</i>																	
Balance of unappropriated profit	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	388,178
																	31,436,866
																	£91,130,125

- 39 Notes: 1. Balances held in foreign currencies at 31st July 1948 have been converted into sterling at the official rates ruling on that date.
2. At 31st July 1948 the Commission had entered into commitments on capital account of approximately £12,000.

(Signed) H. O. R. Hindley—Chairman.

(Signed) John T. Porritt—Member.

IX ADMINISTRATION EXPENSES

Emoluments of Members of the Commission—

	£
Salaries	7,085
Members' Expense Allowances...	500

 7,585

Staff Salaries, Wages and National Insurance	74,798
Travelling Expenses	8,191
Motor Car Expenses	545
Rent of Offices	6,140
Stationery, Postage, Telephone and Office Expenses	8,468
Insurance	879
Audit Fees and Expenses at home and abroad	3,875
Other Professional Fees	729
Contributions to Cotton Research	2,505
Depreciation of Motor Cars and Office Equipment	2,464

 116,179

 5,000

Deduct Agency Fee—Board of Trade, Cotton Waste and Linters Agency

X INTEREST ON ADVANCES FROM BOARD OF TRADE	111,179	
	618,738	
		729,917
XI NET PROFIT ON OPERATIONS CARRIED TO PROFIT & LOSS APPROPRIATION ACCOUNT		£1,041,476

THE RAW COTTON COMMISSION

(Established under the Cotton (Centralised Buying) Act, 1947)

PROFIT AND LOSS APPROPRIATION ACCOUNT FOR THE SEVEN
MONTHS ENDED 31ST JULY, 1948

I	NET PROFIT ON OPERATIONS for the period	...	...	...	£	1,041,476
	<i>Deduct—</i>					
II	PROVISIONS FOR INCOME TAX AND PROFITS TAX on Profits earned to date	...	...	...	500,000	
III	TRANSFER TO SINKING FUND for redemption of Board of Trade advance on Capital Account	...	...	...	153,298	
						<u>653,298</u>
IV	BALANCE OF UNAPPROPRIATED PROFITS PER BALANCE SHEET	...				<u>£388,178</u>

THE RAW COTTON COMMISSION

AUDITORS' REPORT

Report to the Raw Cotton Commission by Messrs. McClelland Ker & Co., the Auditors appointed by the Board of Trade in accordance with Section 20(2) of the Cotton (Centralised Buying) Act, 1947.

We have audited the books and accounts of the Raw Cotton Commission for the seven months ended 31st July 1948 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Commission so far as appears from our examination of those books, and proper audited returns adequate for the purposes of our audit have been received from branches not visited by us.

The foregoing Balance Sheet, Trading and Profit & Loss Account and Profit & Loss Appropriation Account which, together with the annexed Schedules to the Balance Sheet, are in agreement with the books of account and returns, give, in our opinion and to the best of our information and according to the explanations given us, a true and fair view of the state of the affairs of the Commission as at 31st July 1948 and of the profit for the seven months ended on that date.

MCCLELLAND, KER & Co.,
Chartered Accountants.

31-32, King Street,
London, E.C.2.

THE RAW COTTON COMMISSION

Schedules to the Balance Sheet as at 31st July, 1948

TRADE AND OTHER DEBTORS AT 31st JULY, 1948

SCHEDULE 1

	£	£
1. AMOUNTS OWING BY SPINNERS		
For Raw Cotton Sales	3,195,263	
Balances due under Price Cover Scheme	1,047,646	
Interest thereon	727	
	4,243,636	4,243,636
2. AMOUNT OWING FOR SEED—NIGERIAN COTTON		17,857
3. CLAIMS ON SHIPPERS AND SHIPPING COMPANIES		25,195
4. OTHER DEBTORS		
Board of Trade, Cotton Waste and Linters Agency ...	6,911	
Egyptian Co-ordinating Committee	5,254	
Sundry Balances Abroad—	£	
Brazil	634	
Egypt	873	
	1,507	
5. LOANS TO COMMISSION STAFF for House Purchase		13,672 200
Total as per Balance Sheet		£4,300,560

PAYMENTS IN ADVANCE AT 31st JULY, 1948

	£
SCHEDULE 2	
1. INSURANCE PREMIUMS	148,540
2. STORAGE, HANDLING AND FORWARDING CHARGES	27,614
3. ARBITRATION FEES PAID TO LIVERPOOL AND MANCHESTER COTTON ASSOCIATIONS...	2,083
4. PAYMENTS ON ACCOUNT OF COTTON PURCHASES—	£
Deposits and Expenses abroad	70,788
Agencies	18,577
	89,365
5. MISCELLANEOUS PAYMENTS IN ADVANCE	122
Total as per Balance Sheet	£267,724

THE RAW COTTON COMMISSION

Schedules to the Balance Sheet as at 31st July, 1948

STOCKS OF RAW COTTON AT 31ST JULY, 1948

SCHEDULE 3

											£
Situated in the United Kingdom	...	...	...	...	...	...	...	...	...	...	52,432,623
Afloat	...	...	...	...	...	...	...	...	...	...	3,659,803
Abroad	...	...	...	...	...	...	...	...	...	...	2,345,522
Total as per Balance Sheet										...	<u>£58,437,948</u>

The above stocks have been valued by the Commission at the lower of cost or replacement values. For this purpose "cost" has been taken at:—

<i>Situation</i>	<i>Definition of "cost"</i>
United Kingdom	Purchase cost and expenses of shipping and delivery into warehouse.
Afloat	Purchase cost, freight and marine insurance.
Abroad	Purchase cost and, where appropriate, the cost of delivery to site.

and replacement values have been ascertained by substituting for the words "purchase cost" in the above definitions the prices at which the cotton could have been purchased abroad on 31st July, 1948.

TRADE AND OTHER CREDITORS AS AT 31ST JULY, 1948

SCHEDULE 4

											£
1. CREDITORS FOR RAW COTTON PURCHASED, AND FREIGHT AND EXPENSES THEREON	...	...	...	...	...	...	...	...	...	...	1,821,643
2. STORAGE, HANDLING AND FORWARDING CHARGES	...	...	...	...	...	...	...	...	...	...	30,127
3. AGENCY EXPENSES	...	...	...	...	...	...	...	...	...	...	19,500
4. SPINNERS FOR BALANCES DUE UNDER PRICE COVER SCHEME	...	...	...	...	...	...	...	...	...	...	249,165
5. OTHER CREDITORS:—											£
Income Tax P.A.Y.E.	...	...	...	...	...	...	...	...	...	...	568
Claims by Spinners	...	...	...	...	...	...	...	...	...	...	3,430
Miscellaneous creditors for expenses	...	...	...	...	...	...	...	...	...	...	3,963
										<u>7,961</u>	
Total as per Balance Sheet										...	<u>£2,128,396</u>

THE RAW COTTON COMMISSION

Schedules to the Balance Sheet as at 31st July, 1948

PROVISIONS AND ACCRUED EXPENSES AS AT 31st JULY, 1948

SCHEDULE 5

1. PROVISIONS TAKEN OVER FROM THE BOARD OF TRADE:	£	£
Ministry of Works charges	38,258	
Audit Fees	2,000	
Provision for contingencies	20,741	
	<hr/>	60,999
2. MINISTRY OF WORKS for Accommodation and Services since 1st January, 1948—as estimated by the Commission		12,950
3. ACCRUED EXPENSES:		
Freight, Carriage and Storage	233,575	
Interest on Board of Trade Advances	92,670	
Miscellaneous Accruals	14,914	
	<hr/>	341,159
4. PROVISION IN RESPECT OF CROP PURCHASED AT AN OVERALL FLAT RATE PER LB., NOT FULLY DELIVERED AT 31ST JULY, 1948		
Value in excess of the flat rate which has been attributed to the higher grades of cotton delivered to date, to be applied in reduction of the flat rate value of the lower grades yet to come		250,807
		<hr/>
		665,915
5. FORWARD PURCHASE CONTRACTS:		
Excess of liabilities under contracts over replacement values at 31st July, 1948		797,445
		<hr/>
Total as per Balance Sheet ...		<u>£1,463,360</u>

THE RAW COTTON COMMISSION
Schedules to the Balance Sheet as at 31st July, 1948
FIXED ASSETS

SCHEDULE 6

	Total	In the United Kingdom				Offices Abroad
		Warehouse Accommodation	Equipment at Storage Sites	Office Furniture and Equipment	Motor Cars	
	£	£	£	£	£	£
47 1. FIXED ASSETS TAKEN OVER ON 1ST JANUARY 1948 at values as determined by the Board of Trade in accordance with Section 14 of the Cotton (Centralised Buying) Act, 1947	123,315	—	113,686	8,245	—	1,384
<i>Deduct</i> :—Disposals during the period—Take-over value of assets realised	967	—	548	—	—	419
	122,348	—	113,138	8,245	—	965
2. FIXED ASSETS PURCHASED BY THE COMMISSION—at cost ...	159,362	153,000	—	2,967	3,384	11
3. TOTAL FIXED ASSETS BELONGING TO THE COMMISSION AT 31ST JULY, 1948, AT COST OR TAKE-OVER VALUES ...	281,710	153,000	113,138	11,212	3,384	976
4. <i>Less</i> :—DEPRECIATION PROVIDED THEREON— Amount written off during the period	22,862	—	20,398	1,119	994	351
Totals as per Balance Sheet	258,848	153,000	92,740	10,093	2,390	625

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THE RAW COTTON COMMISSION
Schedules to the Balance Sheet as at 31st July, 1948
ADVANCES BY THE BOARD OF TRADE

SCHEDULE 7

	£	£	£
1. CAPITAL ADVANCES, repayable by means of Sinking Funds :			
<i>Initial Advance</i> , as determined by the Board of Trade under Section 14 of the Cotton (Centralised Buying) Act, 1947	30,000,000		
<i>less</i> amount repaid during the period	131,117		
		29,868,883	
<i>Periodical Advance</i> , under Section 15 of the Act for the purchase of warehouse accommodation		153,000	
			30,021,883
Total Capital Advances			
2. REVENUE ADVANCES :			
<i>Initial Advance</i> , as determined by the Board of Trade under Section 14 of the Act	26,982,022		
<i>less</i> amounts repaid during the period	26,982,022		
<i>Periodical Advances</i> under Section 15 the Act	30,352,000		
<i>less</i> amounts repaid during the period	680,624		
		29,671,376	
Total Revenue Advances			29,671,376
Total Advances outstanding at 31st July, 1948, as per Balance Sheet			<u>£59,693,259</u>