38179	1938 CO 533/495 KENYA	38179

Kenya & Uganda Railway & Harbours

Railway Rates on Cotton.

Previous

11054/31.

98

Subsequent

297	23/11
309	
C Preston	23/11
Economic Dept	28/11
Mr Eastwood	28
Mr Clauson	29/11
297	30/11
Mr Preston	1/12
Mr Dawe	1/12
Tel Section	2/12
R ~~277~~ 297	
R 296	8/12
R 297	9/12
Mr MacDougall	
R 98	
R 09	

FILE A.

2

C.S.D.
Transport
(K.U.R.)
Cotton

1. H.Cr. Conf. ——————— 14/11/38
Encl. copies of memorandum prepared by Uganda Govt in support of case for a substantial decrease in railway and harbour charges on cotton and explains views on extent to which relief can reasonably be given

2. H.Cr. Conf. ——————— 17/11/38
Encloses Conf despatch of 14/11/38 to be substituted for No 1. Enclosures to No 1 will not be altered

This cannot be considered in relation to K.U.R. finances till the 1939 draft Estimates have been recd (see para 14 of No 1)

~~Meanwhile, we shd be grateful for your~~ views from the economic point of view. The prognosis for Uganda cotton prices is gloomy!

[signature] 23/11

The position is very briefly as follows:-

The Uganda Government (see Memorandum behind (1)) have made representations for a reduction in freight rates for cotton on the Kenya and Uganda Railways. In his despatch the High Commissioner for Transport supports these representations in principle. There are two main requests in the Memorandum:-

(1) A request for a certain permanent reduction on grounds of justice - quite apart from the needs of the Uganda cotton industry (see paragraphs 4 and 5 of despatch, paragraph 22 of Memorandum and Table IV).

(2)

(2) A request for an additional temporary reduction in view of the present low price of cotton in the world's markets. It is stated (see paragraph 8 of despatch) that present world prices mean an average return to the Uganda cotton producers of only 8.25 cents a lb., and the view is expressed that an average return of 10 cents a lb. is the minimum which can be described as satisfactory. If the average falls below 10 cents for any length of time the ~~producing~~ purchasing power of the producer is severely restricted and the prosperity of the Protectorate gravely reduced. Thus the Uganda Government is faced with the problem of how to get the average up to 10 cents and keep it there. One method of attempting this is to reduce the burden of taxation which the Uganda cotton industry has to bear. This is in fact being done. In paragraph 24 of their Interim Report (copy enclosed behind (1)) the Uganda Cotton Commission recommend that the cotton export duty should be reduced to 1 cent per lb., and this recommendation (see paragraph 10 of despatch) is being carried into effect. Another method is to effect economies by improving the organisation of the industry. In this connection the Memorandum points out:-

(a) that a great deal has been done in this direction in the past (see Part III of Memorandum);

(b) that more may be possible but that further

further

further measures must await the final report of the Uganda Cotton Commission.

It is felt that immediate relief is required in addition to the lowering of export duty, and hence the request for a temporary reduction in rail freights over and above the permanent reduction which is considered desirable on grounds of equity.

The High Commissioner for Transport is favourably disposed towards both the main requests of the Uganda Government, and the measures by which he proposes to meet them are outlined in paragraphs 11 and 12 of the despatch. It will be observed that the temporary relief is to include considerable concessions in port charges as well as reduction of rail freights. Roughly speaking the total cost of the concessions will amount to about £120,000 per annum, of which half will be accounted for by permanent and half by temporary reductions.

I take it that the Economic Department is concerned mainly with the second request (the first is a plea on the grounds of justice, and is not made specifically in connection with economic conditions) and only with some aspects of that - i.e. not so much with the question "Can the Kenya and Uganda Railways afford these temporary concessions?", which is primarily a matter of K.U.R. finances, as with the question "Are these concessions justified on economic grounds?"

The answer to this question must I think be in the affirmative. It might not be in the affirmative in the following circumstances:-

(1) If the present low price of cotton in the world

world

world market were purely temporary. If there were a definite prospect of the price recovering far enough next year for the Uganda producer to get his 10 cents a lb. without measures of assistance, then I think it could reasonably be argued that the present falling off would not be of long enough duration to cause a real reduction in the prosperity and that these temporary concessions would not be necessary. But that is clearly not the case. Part II of the Memorandum is devoted to "the world situation and its bearing on Uganda production", and the argument developed is that the world production is increasing faster than world consumption, and that in these circumstances no substantial rise in the world price of cotton in general, or Uganda cotton in particular, can be expected for a long time to come. I am not sure whether the figures in Tables I and III attached to the Memorandum fully bear out this argument, but the fact remains that prices cannot be expected to recover soon enough to make the concessions under discussion unnecessary. Tables I and III seem to show that 1937/38 was a thoroughly abnormal year. In the period from 1924/25 to 1936/37 world production and world consumption more or less kept pace with each other, but in 1937/38 there was (a) a slight decrease in consumption, (b) a colossal increase in production owing mainly to the fact that America had a record crop in spite of restrictive measures. Part II of the Memorandum draws particular attention to the increase in cotton production in Brazil in recent years, but I do not think that this has had much effect on the situation, or will have for a good time to come. In the first place Brazil is still a comparatively small producer, and in the second place Table III shows that world consumption has increased fast enough during the relevant period to absorb Brazil's increased output without difficulty. Thus I do not think that the trouble is necessarily so permanent as the Memorandum makes out; nevertheless there can be no doubt that the abnormality of the 1937/38 season was sufficiently great to upset prices for a considerable period. The Monthly Record (31st August, 1938) of the Manchester Chamber of Commerce has the following relevant passage:-

I am afraid I disagree here. Brazil is a factor of major importance. G.L.R.

"The United States Department of Agriculture issued its first report of the season on the cotton crop on the 8th of August. The yield was estimated at 11,988,000 bales against 18,946,000 bales last year. The condition of the crop on 1st August was put at 78% compared with a ten year average of 70.2%, and the average per acre over the whole cotton growing area was estimated at 217.9 lbs. against a forecast of 223.3 lbs. at this time last year, and an actual yield last season of 266.9 lbs.

The prospective crop exceeds by some 750,000 bales the world's consumption of American cotton last season. There is of course a very large carry over of last year's crop as well, and supplies of American cotton are very likely to remain superabundant."

Thus

Thus it looks as if the American crop this year will with any luck be a fairly normal one, and I do not think that a faster rate of production increase than of consumption increase can be said to be a permanent feature of the situation. Nevertheless it will clearly take the world a long time to work off the effects of the American bumper crop last year.

(2) If it were clearly established that improvements of internal organisation in the Uganda industry could by themselves have the desired effect. But full consideration of this question must await the final report of the Uganda Cotton Commission. After all the whole position with regard to these temporary concessions is to be reviewed in a year's time (end of paragraph 12 of the despatch). If it is then found that the Uganda producer can get his 10 cents a lb. without these temporary concessions, then presumably the temporary concessions will be withdrawn.

It was suggested above that the question whether the K.U.R. can afford these concessions must be considered first and foremost in relation to K.U.R. finances. Nevertheless the effect of the concessions on K.U.R. finances obviously has an important economic bearing. It might be argued for instance that these concessions (I am still speaking only of the temporary ones) will result in a burden being placed on other users of the railways, i.e. on passengers or producers of other export crops or both, who will thus be called upon to subsidise the cotton industry. This position might be considered to be undesirable, especially as the cotton crop concerns Uganda almost exclusively, and as those who would be called upon to subsidise the crop would be largely resident in Kenya. With regard to this possible objection the following points occur to me:-

(i) This argument would have considerable force if the Uganda cotton industry were thoroughly inefficient and if there were room for great economies in internal organisation. But no one can accuse the Uganda authorities of having been lax in this respect in the past. What has been achieved since 1929, when the Carter Commission published its report, has been nothing less than a revolution in the organisation of the industry. Moreover, the Uganda Government is fully prepared to do everything it can to assist the industry, and there can be no doubt that the recommendations of the Commission with regard to further possible economies (e.g. in Kyalo transport - see paragraphs 14 and 15 of the Interim Report) will be given every possible consideration.

(ii) The cotton industry has borne more than its fair share of freights in the past and can thus be said to have subsidised less prosperous industries, and it is only right that it should receive similar assistance when it stands in need of it.

(iii) The question "Can the K.U.R. afford to give these concessions?", can be countered by the question "Can it afford not to give them?" If the price of cotton

It sought therefore to raise the world price by restricting its own production — which amounts to roughly half the total existing world trade. The policy ~~[illegible]~~ (until frustrated this year by the bounty of nature) had some measure of success but naturally while they restricted everybody else increased production — cf. the Stevenson rubber scheme. The Americans are now getting tired of this & are beginning to think in terms of low world prices & subsidies to their own producers, rather than in terms of higher world prices.

Future American policy is always incalculable but they have ~~the~~ complete power by that policy to keep prices

low if they want to. They may well want to. They have not quite such complete power to make them high — nature may step in.

3. Increasing production outside America will tend to keep prices down. I agree with Mr [illegible] in thinking ~~[illegible]~~ that this is overemphasized in the memo — except that it does make the Americans cold & so affect their policy.

4. The state of consumption is the fourth big factor. This is difficult to prophesy but at least one should be safe in saying that the tendencies to reduce consumption — war in the Far East, ~~[illegible]~~, autarky & the increased use of substitutes, competition from rayon etc — are sufficient to offset any increase from ~~[illegible]~~ an upward swing of the pendulum of world

trade. The net result is that the world's price of cotton looks like staying round about where it is ~~for~~ though it is now 5.25d per lb. & at times in the last year has been down to about 4.50d.

In addition Uganda cotton is subject to the special risks detailed in the memo.

One cannot therefore quarrel with the general thesis that the price of Uganda cotton is not likely to rise materially above present levels. This is the advice which we have constantly given over the last year or so.

[signature]

28.xi.38

So far as the prospects of the industry are concerned I agree a little more with the Uganda memo. than the preceding minutes, in that I do not think that the Brazilian "menace" is overestimated. With low coffee prices, which are likely to continue for an indefinite period, I should expect Brazilian cotton production ~~—~~ to go on increasing unless prices fall away a good deal more.

The recent improvement in the sterling price of cotton is more a reflection of the depreciation of sterling than a strengthening of the market. It is not far out to say that when sterling was $4.85 to the £, cotton was 4.85d per lb. The fall to $4.65 to the £ makes a rise to, say 5.05d ~~which almost automatically~~ assuming, as I think we can that this is a commodity of which the price is settled by America.

I also agree that cotton has been unmercifully bled by the duty in the past for the sake of the Kenya producer (& indeed more particularly the European producer) & that it is its turn to get a slice of the melon.

It is a little fallacious to argue that the duty's loss on a 420,000 bale crop is greater than its loss on a 340,000 bale crop. The rate, as reduced, still leaves a fair margin of profit, so the bigger the crop the bigger the profit.

The only point on which I am not entirely at one with the Uganda Govt. is that 10c. per lb of seed cotton is an absolutely pivotal price. It may be, but my own belief is that the producer ~~on~~ going on producing below that figure & indeed might tend to increase his production to maintain his income. That is the usual experience elsewhere, & though the point must come somewhere where low prices will discourage production, I doubt if the point is anything like as high as 10c.

However that is a matter of opinion on [illegible] going to [illegible]."

I strongly support the proposal for a reduction of rates [illegible] to be consulted, but the matter may be [illegible] [illegible] [illegible]

[illegible signature]
29.11.38

3 H.C. Tel 18 [illegible]
Requests decision if possible by 5th December when [illegible] begins in [illegible] district

38179/16

From the draft K.U.R. Estimates, now received, it appears that the total cost of these reductions is being met from two sources:-

(a) The permanent reduction (estimated at approximately £86,000) is being found from ordinary revenue; i.e. the anticipated surplus at the end of the year will be reduced by that amount.

(b) The cost of the temporary reductions (which may total £40,000 in all) is being found from a newly created Rates Stabilisation and Relief Fund to which £200,000 is being placed from previously accrued but hitherto unallocated surplus balances. The Renewals Fund and the General Reserve Fund of £655,000 remain untouched.

I discussed these proposals with Mr. Hale and Mr. Inch at the Treasury this afternoon and they agreed that they had no alternative but to acquiesce.

There remains the difficult point to which the High Commissioner refers in para. 15 - the assimilation of rates on the Tanganyika railway system. In Mr. Boyd's view, with whom I have discussed this, the situation will be met by incorporating in the telegram of approval the sentence which appears in the accompanying draft.

1.12.38

Mr. Walker assures me that the proposals [illegible] (as reflected in the Estimates) are in order from the accounting point of view.

Sir Frank Stockdale is in entire agreement.

[illegible signature]
1/12.

At once

A.P.
1.12

4 To H.C. for Transport K.U.R. Tel No 2 ① + ③ amd 1/ x 11/38

5 H.C. 3pm ——— 17/1/38
Encls Memorandum on Railway Rates on Cotton (Registration directed on 38179 9/38

6 To Treasury — [illegible] [illegible] — [illegible] —12—38

B.U. No reply received to No 6.

J Jackson. P98.
10/2

~~[illegible]~~
We need not bother Treas for a formal ack of (6) — in view of the last para they no doubt are not proposing to send one.

[illegible initials]

[illegible signature]

C.O.

31879/32/38 Kenya.

Mr. Freeston. 7/12

Mr.

Mr.

Mr. A. J. Dawe.

Sir H. Moore.

Sir G. Tomlinson.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

Downing Street.

6 December, 1938.

DRAFT.

THE SECRETARY,

TREASURY.

Tel. to H.Cr. 10th May.
(16) on 38179/16/37.

Desp. from H.Cr. 17th Nov.
(2) on 38179/32/38)

Tel. fr. H.Cr. 30th Nov.
(3) on 38179/32/38.

To H.Cr. Tel. 1st Dec.
(4) on 38179/32/38.

Desp. Fr. H.Cr. 17th Nov.
(3) on 38179/15/38.

To H.Cr. 1st Dec.
(4) on 38179/15/38.

FURTHER ACTION.

Extra copy of this letter for files 38179/15/38 38179/16/38. 7/12

Sir,

With reference to the correspondence terminating with (15) on 31879/16/37 Mr. Hale's semi-official letter of the 5th May, 1938, I am etc. to enclose, to be laid before the Lords Commissioners of the Treasury, copies of two despatches from the High Commissioner for Transport, Kenya-Uganda, seeking approval for the early introduction of certain alterations in freight rates and harbour charges in force on the Kenya-Uganda Railways and Harbours. Copies are also ~~[illegible]~~ appended of connected ~~[illegible]~~ telegraphic correspondence with the H.C.

2. In his confidential despatch of the 14th November, the High

Commissioner

Commissioner reviews the position and prospects of the cotton industry in Uganda, endorses the view that substantial relief must be granted if a serious recession in ~~output~~ production is to be avoided, and recommends that reductions in railway and harbour charges on cotton should be made to a possible maximum during 1939 of £150,000.

3. From a perusal of the 1939 draft Estimates of the Kenya-Uganda Railways and Harbours Administration, advance copies of which have subsequently been received in this Department, it appears that the cost of this assistance (together with that proposed to be granted to the coffee industry - see paragraph 7 below) is proposed to be met from current revenue during 1939.

4. The resultant deficits, amounting to £17,738 on railway net revenue account, and £22,129 on the similar account of the harbours are to be defrayed from a Rates Stabilisation and ~~Railway~~ Relief Fund to be created at the beginning of

1939

C. O.

Mr.
Mr.
Mr.
Mr. A. J. Dawe.
Sir H. Moore.
Sir G. Tomlinson.
Sir J. Shuckburgh.
Permt. U.S. of S.
Parly. U.S. of S.
Secretary of State.

DRAFT.

FURTHER ACTION.

1939 by the allocation of £200,000 from hitherto unhypothecated surplus balances. No encroachment is contemplated either on the Renewals Fund or on the General Reserve Fund of the Administration which ~~will~~ it is proposed should remain throughout the year at its present figure of £655,000.

5. Concurrently with the reduction in transport costs, the Government of Uganda, with the Secretary of State's approval, has decided to reduce the export tax on cotton from two cents to one cent per pound, and it is anticipated that certain internal economies in the industry can be effected when the Report of the Uganda Cotton Commission, now sitting in London, has been received.

6. The Secretary of State is satisfied that these concessions to an industry which provides 81.8 per cent in value of Uganda's exports are

economically

economically sound and necessary, and he has been gratified to be semi-officially assured that in the circumstances Their Lordships will not withhold their consent to the High Commissioner's proposals.

7. In the despatch No. 142 of the 17th November, Sir Robert Brooke-Popham recommends a number of minor rate adjustments of which only one calls for comment, viz. ~~namely~~, the continuance during the first six months of 1939 of the reduced charges on coffee for export. The cost to the Administration, estimated at £63,750, is tobe met in the same way as the expenses of relief to the cotton industry described in paragraph 4 above.

8. Following upon semi-official communication with your Department a telegram of the 1st December, of which a copy is enclosed, was sent to the High Commissioner approving his proposals.

I am, etc.
(Signed) L. B. FREESTON

Enclosure to 3pm from High Commissioner for Transport ... 17/11/38.

Registration directed on 38176/10.38 Kenya.

MEMORANDUM FOR RAILWAY ADVISORY COUNCIL AND HARBOUR ADVISORY BOARD.

(NOTE:- This memorandum is in substitution of the memorandum dated 20th September, 1938 circulated to Railway Advisory Council).

RATES FOR EXPORT COTTON.

With reference to Minute No. 2125 of Council's Meeting of the 24th and 25th August, 1938, it has now been possible for the Administration to examine the case put forward by the Government of Uganda for :-

(1) An immediate reduction of the Cotton rates to 8 Cents per ton per mile as a permanent measure (paragraph 30 of Uganda Government's memorandum) on the grounds (see paragraph 25 of memorandum) of :-

(a) Average reduction in the Administration's costs and receipts per ton mile;

(b) The industry's claim to benefit by the tapering rates applicable in the case of Class 10 traffic; and

(c) The fact that cotton traffic is easy to load and handle, is spread over a large part of the year and affords good loads.

(2) A further reduction of 2 Cents per ton per mile be made for one year, the temporary reduction to be reconsidered in 1939 in the light of the general conditions then obtaining and or the measure of assistance actually afforded by Government and by the industry itself (see paragraphs 26 and 30 of Government's memorandum).

2. The haulage cost figures employed in paragraph 21 of the memorandum, viz: 9.175 Cents in 1927 and 7.350 Cents in 1937 are average ton mile costs figures, and cannot properly be applied in determining rates reductions. Moreover, as pointed out on page 11 of the Administration's Annual Report for 1937, the average cost per public goods ton mile, calculated on the basis that public goods traffic must bear all costs not covered by receipts from other sources, was in 1937 Cents 9.047 per ton mile.

3. The essential statistics in regard to the cotton crop (lint) based on 1937 traffic are :-

UGANDA, KENYA AND TANGANYIKA COTTON.

Tons carried	65,326
Ton miles	51,934,070
Average haul	795 miles (Actual)
Revenue	£ 269,084
Average rate per ton	Sh. 82.35
Average rate per ton mile	Cents 10.36

4. In regard to the contention that the cotton traffic is easy to load and to handle, it is necessary to remind Council that this crop, which has to be moved an average of 795 miles, involves a large amount of empty wagon movement. The average empty truck movement during the peak month of this year was 25.69 per cent. The percentage necessary to move the cotton crop would be much higher.

5/ ...

Enclosure to 36n from High Commissione for Transport [illegible] /A.3. 5

[illegible] 1/38. 12

Registration directed on 38.76/10.38 Kenya.

MEMORANDUM FOR RAILWAY ADVISORY COUNCIL AND HARBOUR ADVISORY BOARD.

(NOTE: This memorandum is in substitution of the memorandum dated 20th September, 1938 circulated to Railway Advisory Council).

RATES FOR EXPORT COTTON.

With reference to Minute No. 2125 of Council's Meeting of the 24th and 25th August, 1938, it has now been possible for the Administration to examine the case put forward by the Government of Uganda for :-

(1) An immediate reduction of the Cotton rates to 8 Cents per ton per mile as a permanent measure (paragraph 30 of Uganda Government's memorandum) on the grounds (see paragraph 25 of memorandum) of :-

(a) Average reduction in the Administration's costs and receipts per ton mile;

(b) The industry's claim to benefit by the tapering rates applicable in the case of Class 10 traffic; and

(c) The fact that cotton traffic is easy to load and handle, is spread over a large part of the year and affords good loads.

(2) A further reduction of 2 Cents per ton per mile be made for one year, the temporary reduction to be reconsidered in 1939 in the light of the general conditions then obtaining and of the measure of assistance actually afforded by Government and by the industry itself (see paragraphs 26 and 30 of Government's memorandum).

2. The haulage cost figures employed in paragraph 21 of the memorandum, viz: 9.175 Cents in 1927 and 7.350 Cents in 1937 are average ton mile costs figures, and cannot properly be applied in determining rates reductions. Moreover, as pointed out on page 11 of the Administration's Annual Report for 1937, the average cost per public goods ton mile, calculated on the basis that public goods traffic must bear all costs not covered by receipts from other sources, was in 1937 Cents 9.047 per ton mile.

3. The essential statistics in regard to the cotton crop (lint) based on 1937 traffic are :-

UGANDA, KENYA AND TANGANYIKA COTTON.

Tons carried	65,326
Ton miles	51,934,070
Average haul	795 miles (Actual)
Revenue	£ 269,084
Average rate per ton	Sh. 82.35
Average rate per ton mile	Cents 10.36

4. In regard to the contention that the cotton traffic is easy to load and to handle, it is necessary to remind Council that this crop, which has to be moved an average of 795 miles, involves a large amount of empty wagon movement. The average empty truck movement during the peak month of this year was 25.69 per cent. The percentage necessary to move the cotton crop would be much higher.

/5. ....

5. It is fully realised that some assistance to the Cotton industry must be granted and that towards this assistance the Administration and other interests concerned must contribute each a fair share.

6. On that distinct understanding, it is recommended :-

	340,000 Bales. £	420,000 Bales. £
(a) That the Cotton Export rate be reduced for a period of 3 years to Class 10.		
The estimated cost of this on a Uganda crop of 340,000 and 420,000 bales is	57,000	70,400
(b) That as a temporary measure while the price for July American middling futures (as determined under the Uganda Cotton Export Duty Ordinance) is below 4.50 pence per lb., a special rebate of 10 per cent. be allowed off Class 10 rate.		
The estimated cost of this on a Uganda crop of 340,000 and 420,000 bales is	20,400	25,200
(c) That (subject to consideration of the matter by the Harbour Advisory Board) a temporary rebate in respect of the Port charges be granted equivalent to Sh. 5/00 per 2,240 lbs.		
The estimated cost of this on a Uganda crop of 340,000 and 420,000 bales is	15,500	19,100
Total for a Uganda crop of 340,000 and 420,000 bales	£92,900	£114,700

To which has to be added the cost of corresponding Assistance on all other Export Cotton (Kenya and Tanganyika) amounting to:-

	£		
(a) Reduction to Class 10	2,400		
(b) 10 per cent. Rebate	1,500		
(c) Rebate of Sh. 5/00 per 2,240 lbs. on Port charges	1,400	5,300	5,300
Grand Total		£98,200	£120,000

So...

So far as Uganda cotton is concerned, the following figures give the effect of the Administration's proposals :-

The present average rate per ton is	Sh. 84/32
Class 10 average rate per ton is	" 65/88
Representing a reduction per ton of	Sh. 18/44
The 10 per cent. rebate proposed is equal per ton to	Sh. 6/59
The proposed Port rebate represents per ton	" 5/00
Making the total relief for Uganda cotton proposed by the Railways and Harbours equal per ton to	Sh. 30/03

Which represents an average reduction of Cents 1.34 per lb. of lint.

7. It is the considered opinion of the Administration that these proposals represent, so far as the Railway and Port are concerned, the maximum assistance that can be given to the Cotton industry. The proposals may necessitate certain necessary expenditure having to be postponed by the Administration, and are put forward on the understanding that such additional assistance as is necessary to enable an average price of 10 Cents per lb. of seed cotton to be paid to the growers, will be afforded by the Uganda Government, and other interested parties.

In this connection, it is suggested consideration be given to :-

(a) The abolition of, or a reduction in the Cotton Tax;

(b) The granting of a rebate in the duty on petrol required for the cotton industry, as is done by the Government of Kenya for kerosene for the agricultural industry;

(c) A reduction in ocean freights on export cotton and of Agency charges at the Port of Mombasa; and

(d) Economies within the industry;

8. It is proposed that the reduction to Class 10 rate be budgetted for in the Annual Estimates, but that the temporary rebates referred to in paragraph 6(b) and (c) be financed from the 1938 Unallocated balance.

No. A.4/59.

General Manager's Office,
Nairobi.

6th October, 1938.

Memorandum on the proposals of the Uganda Government for a reduction in railway freight on cotton.

I General. 1. The Government of Uganda has formed the opinion that the future of the cotton industry in Uganda will be seriously jeopardised if the prices paid to growers cannot be assured at a higher level than that obtaining in the 1937-38 season and, in examining the measures possible to this end, has reached the conclusion that it is essential that a reduction should be made in the railway freight on cotton. To enable Railway Council to give the fullest consideration to the proposals arising from this conclusion it is necessary to review the situation in detail and an attempt is made in this memorandum to examine all relevant factors.

II World situation and its bearing on Uganda production.

2. In Tables I to III details are given of world production in recent years (showing separately the returns from the major producing countries), of world consumption, and of prices for American Middling cotton (which determines broadly the price of all other types). Cotton prices are notoriously sensitive to influences apart from those of supply and demand and predictions are liable to be unaccountably upset, but there are important tendencies revealed in these Tables which lend strong support to the view that the prices obtained in the period 1933-34 to 1936-37 must not be expected again for some years and that the 1937-38 price is likely to remain approximately the ruling price.

3. Since the break in cotton prices in 1929-30 the American Government have tried to restore prices by active intervention which has included production restriction. With the notable exception of the 1937-38 season which is expected to result in a record crop of 18,300,000 bales, the result has been to maintain an average American production slightly below

the 1924-29 level. This reduction is more than covered by the increase in production in other countries with the result that production has outstripped consumption. The normal carry over of world stocks is estimated at from 9 to 11 million bales, but in America alone the carry over in February this year was over 15 million bales or 5 millions more than it was a year ago. Stocks are likely to remain at a level for some years to come and while this continues the price of American Middling is not likely to rise much above present levels.

4. On the production side it is probable that the trouble in the Far East will substantially reduce the output from China, though at the same time it will undoubtedly reduce the demand for cotton from China and Japan (the largest consumer after the United States).

5. The most striking cotton development in recent years has been in Brazil. This development has taken place in the main in the coffee areas and is a direct result of the difficulties in the coffee situation there. The net result is that some 2½ million bales have been added in the short space of 5 years to the annual production; this is an increase of an order likely to have a permanent effect on world prices. It is to be expected that production in this country will still further increase in the future.

6. In addition to the general tendencies arising the American and world situation there is the more particular bearing of developments in the Sudan and in India. In the Sudan a rain-belt type of cotton is being grown which competes directly with Uganda cotton. Production there is increasing and the acreage under cotton is likely still further to be increased.

7. India is the main market for Uganda cotton and took 68% of the exports last season. The Indian crop has not greatly/

greatly increased since 1930 but with the completion of the Lloyd Barrage it is certain that production will increase. Indian cotton breeding stations were visited by the Director of Agriculture, Uganda, early this year and at every one of them an attempt is being made to develop a type of cotton that could be used to replace the Uganda type. While there is no immediate prospect of success in this direction definite progress has been made and the possibility cannot be ignored. There is furthermore the consideration that on every pound of lint imported into India a duty of ½ anna is imposed.

8. It may also be noted here that one result of the exce[illegible] carry over in America was that in January, 1938, 80,000 bales of Californian cotton were off-loaded on the Bombay market a[illegible] purchased by mills that normally use Uganda cotton.

9. There are thus several new factors which show that Uganda cotton will have to contend with severe competition. Not only are the ruling prices for American middling likely to remain low, but there is the prospect that the competition facing the Uganda type of cotton will make it necessary to accept a reduction in the premium over and above American middling prices which this type of cotton now commands.

III <u>Measures taken in recent years to improve the economic basis the Uganda cotton industry.</u>

10. The Uganda cotton industry suffered considerably an[illegible] progressively after the war from internal difficulties due mainly to excessive competition amongst ginners. This led, a[illegible] beginning of the 1929 depression, to the appointment of the Carter Commission which carried out a detailed investigation into costs and prices. A number of important improvements resulted which were effected by an extensive re-organisation of marketing arrangements. Competition was controlled by the prohibition of the erection of new ginneries and still more by the introduction of a zoning system which enabled ginners to work together in associated pools and to effect important economies in marketi[illegible]. At the same time a price fixing Committee was set up which had

authority

authority to fix minimum prices to producers. This Committee was established with the object of ensuring fair prices to producers and of passing on directly to them the benefits of the economies made in marketing arrangements. This object has been achieved. On days when the local price of lint has happened to be the same in the 1933-34 and 1937-38 seasons the price to growers was higher in the latter season by from 1 to 1½ cents per lb. of seed cotton or in terms of lint from 3½ to 5 cents. It is true, of course, that part of this increase is due to economies arising from increased ginning output (the 1933-34 crop was less than 300,000 bales as against 420,000 this season). The measure of economies within the industry can be further demonstrated by a comparison of charges. In the supplement to the Carter Commission Report of 1929 details of expenses of buying, transport to the ginnery, ginning, management and overheads are assessed for different areas on a basis of an output of 1,380 bales per ginnery. These expenses varied from 23.44 to 22.14 cents per lb. of lint. For the 1937-38 season the basic charge for the same expenses as employed in the price fixing formula varied from 12 cents per lb. of lint where the output was under 800 bales to 8 cents where the output was 3,500 bales or over.

In the aggregate the improved prices noted above represent on this season's crop an additional amount to producers of between £290,000 and £420,000, and on the price of lint to-day (40 cents) it represents an addition of over 11% in the price to growers.

11. On the cultivation side propaganda to secure better ploughing, better planting dates, more accurate spacing and more careful cultivation is carried on unremittingly by the staff of the Agricultural Department. The field staff has expanded steadily from 14 Agricultural Officers in 1929 to 21 in 1938, and the African field staff has increased considerably during the same period. Cotton production continues to rise steadily and has in fact doubled since 1929; the limit is not yet in sight.

IV/

IV. Necessity for securing higher prices to producers.

12. Sections II and III demonstrate the arguments in support of the contention that the Uganda cotton industry must expect and prepare for a period of lean prices and increasing competition, and that important measures, attended with definite success, have been taken to place the industry on a sound basis. Before proceeding to discuss possible avenues for securing a further reduction in costs in Uganda, it is desirable to examine the case for improving prices to producers.

13. Cotton is the mainstay of the economic fabric of Uganda, and is, at the same time, one of the main props of the Railway structure. A good season brings considerable prosperity not merely to Uganda but also to the Railway. It increases the spending power of the native and that power is exercised to the full. A good cotton year is accompanied by increased sales of imported articles such as cotton piece goods and bicycles. When cotton prices are low there is little real prosperity in Uganda, and the indicator of this prosperity is the spending capacity of the native. Last year the cotton producer received £2,900,000 from a crop of 330,000 bales for which the average price was 13.22 c. This year the bumper crop of 420,000 bales at an average price of 8.25 cents will give approximately £2,200,000 for the producer, and his spending capacity is reduced accordingly.

14. The price to the producer must be high enough to enable him to pay his taxes and to have a margin to spend on his general requirements. If this cannot be secured to him there is the danger that he will not plant the next season. Where exactly this danger point is reached cannot be stated with precision. It is possible, in fact probable, that the point would have to be reached two seasons

in/

in succession before the effect on production became really serious. There are undoubtedly indications that the low prices paid this season are affecting the acreage being planted for the 1939 season. The fact that producers have in recent years acquired a taste for the luxuries with which their cotton production has furnished them suggests that they may not easily forgo these luxuries and may be content with a smaller return rather than give up planting. This argument may have a bearing, but more typical of the African producer is the attitude of mind "If I cannot get a certain return it is not worth the trouble of planting". This reaction to reduced prices recently arisen to the South of Lake Victoria, and similarly it has become evident with regard to the growing of coffee in Bugishu. The danger of reduction in planting is however not the main disability arising from depressed prices - certainly not on such prices as obtain this year. The chief disability is low spending capacity and its effect on general prosperity. There is little prosperity in Uganda when the average price of cotton to producers falls to 8 cents per lb. and it is considered that an average price of at least 10 cents must be secured if there is to be any substantial measure of prosperity from the industry, and an assured traffic of imported goods on the Railway.

15. A review of the prices paid this season in the several zones indicates the gravity of the situation:-

Zone.	Average price.	
Busoga	9	cents per lb.
Budama	8	" " "
Bugwere	8	" " "
Lango N.	7	" " "
Lango S.	7	" " "
Teso S.	7	" " "

Teso N.

Zone.	Average price.	
Teso N.	6.5	cents per lb.
" Segregated.	6.5	" " "
Mengo	9	" " "
Buruli	8.5	" " "
Masaka	8.5	" " "
Mubende	8.5	" " "
Bunyoro	7.5	" " "
Gulu	6.5	" " "
Chua N.	7.	" " "
" S.	7.	" " "
West Nile	7.	" " "

The "weighted" average has not yet been calculated but it will approximate to 8.25 cents. The comparable average estimated by Government to be the approximate prices paid to producers since 1927 are given below:-

Season	Average price.
1927-28	21.2 cents per lb. of seed cotton.
1928-29	18.
1929-30	15.05
1930-31	10.78
1931-32	10.73
1932-33	8.78
1933-34	10.14
1934-35	11.75
1935-36	9.51
1936-37	13.22
1937-38	8.25 (estimated roughly).

V <u>Measures being taken or proposed with the object of improving prices.</u>

16. The directions in which improved prices can be secured come within the following main heads:-

(a) Economies within the industry.

(b) Cotton tax.

(c) Motor transport costs.

(d)/

(d) Rail transport costs;

(e) Harbour and wharfage charges.

These main heads are examined separately below.

(a) The industry itself co-operates each year with Government in reviewing the price formula with the object of ensuring that all possible economies are reflected in prices. The particulars given in Section III of this memorandum show that economies are being made and that they are passed on to the growers. A Commission of Inquiry has recently been set up under the chairmanship of the Assistant to the Colonial Agricultural Adviser to review the situation and further possible economies may come to light in the course of the inquiry.

(b) An export tax has been imposed on cotton since 1919. It was first fixed at 4 cents of a Rupee per pound of lint and later converted to 6 cents of a shilling. On the fall of prices in 1926-27 a sliding scale was introduced with no tax if American middling fell to 6d or below at Liverpool, and rising to 6 cents with cotton at 15d. Later at the close of the boom period the no-tax point was set first at 4.5d and then at 5d. In 1933 the sliding scale was abolished and the tax set at 2 cents with no tax when American middling fell below 4.5d. No tax was in fact collected in the two most difficult years of the depression, 1930-31 and 1931-32. The tax has since remained at 2 cents with no tax below 4.5d, and is now under review again with a view to still further reduction. It may be found desirable to continue it in an amended form at least during the period in which substantial sums are likely to be expended in cotton areas for soil conservation work.

(c) One of the main items of cost arises from motor transport. First transporting raw cotton

to/

to the markets, thence to the ginneries and finally the bales of lint and bags of cotton seed from the ginneries to rail-head. No exact figures of all road transport costs are available, only the charges from the ginnery to rail head being known accurately. The costs are however at a rate of 45 to 60 cents a ton mile depending on distance (it is practically all one way traffic).

As regards the cost of getting raw cotton to the ginnery, the average of all charges is from 4 to 4½ cents per lb. of lint, and of this amount fully half is expended on road transport. It may be mentioned that in recent years in Buganda it has cost 1/- to buy and transport a bag of raw cotton (i.e. approximately [illegible] of lint) from the grower to the market. This is [illegible] per lb. of lint. To-day the charge is fractionally [illegible].

As regards the cost of transporting lint from the ginnery to rail-head, an example of the very heavy expenses is afforded from the actual costs in the N.Chua zone in 1937-38. These costs amounted to practically 2 cents per lb. of lint (actually 1.928 cents or .651 cents per lb. of raw cotton). It should be noted further that in this area the high cost of transport made it uneconomical to export cotton seed.

Of the items which go to make these costs in Uganda so high, those susceptible of adjustment are:-

(1) the petrol duty of 50 cents per gallon;

(2) the railway freight charges on lorries and on petrol.

As regards the first this Government has already expressed its opinion in favour of a reduction of duty but the reluctance of the other E.A. Governments to accept any reduction in revenue from this source has made it impossible for this Government to press for a

revision

revision. As regards the second any substantial revision such as would be necessary to assist cotton prices would it is thought involve the Railway in heavy financial sacrifices, only part of which [illegible] be passed on for the benefit of the cotton in[illegible].

For these reasons it appears to be more satisfactory at this juncture to give relief [illegible] cotton industry in some other way. At the same [illegible] it must be remembered that the cost of road tra[illegible] bears very heavily indeed upon the cotton industr[illegible] and it may be necessary at a later stage to ask [illegible] reduction in petrol freight charges as [illegible] assistance.

(d) Rail transport costs are discussed sepa[illegible] in Section VI.

(e) Such relief as may be possible by a [illegible] harbour and wharfage charges is necessarily [illegible] order as compared with the other possibilities [illegible] in this memorandum. A detailed examination has [illegible] yet been made, but [illegible] Uganda member of the Har[illegible] Advisory Council [illegible] whom copies of this memorandum will be circulated) will present a case and invite Council to co-operate by affording some measure [illegible] relief.

VI Rail freight charges on cotton lint.

17. The railway freight rate from Jinja to [illegible] is 3.72 cents per lb. of lint, from Lake Kioga [illegible] 4.8 cents, and from other places, proportio[illegible] sums according to distance.

Table IV brings together some of the relevant facts. Taking Jinja as a representative shipping point a rate was set in 1910 when in fact there was no cotton industry (see Table V). It was set at 1.7[illegible] rupees per 100 lbs. or in shillings 2/39 and as rupees were later conve[illegible] to E.A. shillings at the rate of 2 shillings = 1 rupe[illegible] the rate became automatically 3.58 cents per lb. of lint. ~~[illegible]~~ There was no further change until in 1926 it was increased to 3.72 cents and there has been no change since.

18. Column 2 of Table IV shews that there have been three well marked periods during the development of the Uganda cotton industry. The column shews the value of American middling cotton in Liverpool in £ per ton. The value of Uganda cotton at Mombasa would be greater by the amount of premium. This varies from £10 to £60 per ton increasing with high prices and decreasing with low. Reference to the cotton production graph (Table V) shews that the first period from 1910 to 1916 when the average value at Liverpool was £63.5 per ton was a nursery period marked by no substantial growth - in fact there was a decline towards the end of this period and it is now certain that the freight rate was substantially more than the industry could bear with cotton values at that level.

19. With the next season however cotton rose to almost unheard of levels and for this second period lasting from 1916-17 to 1929-30 the average price of American middling per ton in Liverpool was £125.4. During this period the industry was fully able to bear the railway freight rate of 3.58 raised in 1926-27 season to 3.72 cents per lb. of lint.

The third period from 1930-31 to date has been one of continuous difficulty, but by scaling down and for two years remitting the export tax, and by making the reorganization and effecting the very substantial economies recounted elsewhere in this memorandum it has been possible to expand.

20. Commencing with 1937-38 season however a fourth period has commenced and in view of the enormous

world/

26

world carry over of cotton and of the increased competition that is taking place from America and Brazil and in view of the serious Indian attempt to grow its own cotton for spinning to 45-50 counts it is certain that the industry cannot bear anything like the 3.72 cent rate and that the prices paid to growers will have to be improved substantially as compared with those paid this season.

21. Turning now to the actual rates, the increase from 10.64 cents to 11.5 cents shown in the 5th column of Table IV does not of course mean any altera in the basic rate (which has not changed for 10 years) but is merely due to the revision of Uganda mileages. It is important to note that during the last decade the improvement in Railway efficiency has resulted in a reduction in average hauling costs per ton mile (Column 6 of Table IV) from 9.175 cents to 7.35 cents, i.e. a reduction of 20% and in the same period average receipts have decreased from 14.3[illegible] cents to 11.269 cents, a reduction of 21%. The latter reflects mainly rates reductions and the former refl[illegible] costs reductions which in their turn also reflect increased traffic in which cotton has borne more than its share.

22. It is considered therefore that without any reference to what the industry can bear there is a clear and immediate case for a 20% reduction in the 1927 rate of 10.64 cents - i.e. a reduction to 8.51 cents. Confirmation of this contention is supplied by the figures of average costs per ton mile of public freight. This figure in 1937 on an average haul of 414 miles is 9.047 - and cotton is hauled at least 750 miles and is less difficult to handle than the average commodity.

23. It is suggested further that some additional concession should be made in view of the fact that cotton has not had the advantage of the taper principle. It is realised that the rates were fixed initially in full knowledge of the long haul, but the adjustment of the taper in the last few years so as increase the proportionate benefit afforded to long distance hauls points to the equity of a reduction on this account. In class 10 (the comparable class in which the taper is applied) the rate at 750 miles is 8.6 cents per ton mile and at 414 miles (the average haul) it is 9.47 cents. If it is accepted that cotton should not bear more than the average charge of 9.047 cents it is considered that at least a corresponding taper reduction above average haul as applied to Class 10 goods should be allowed. This would reduce the figure from 9.047 cents to 8.177 cents.

24. A further consideration is that cotton is not an average commodity since it is easy to load and handle, is spread over a large part of the year and on account of its density enables full use to be made of the railway bogeys. It is considered that this factor justifies a concession in the freight rate.

25. The contention is that the three factors discussed above justify a reduction to at least 8 cents and that such a reduction should be made irrespective of any other considerations.

There is still the general prosperity factor. A successful cotton season brings substantial increases to the Railway in freight receipts not only on imported goods purchased by the native but also on petrol and lorries used for transporting the crop. And if a reduction below 8 cents is necessary in order to secure a reasonably successful cotton season it is submitted that it is very much in the interests of the Railway/

Railway to make that reduction.

26. It has been stated in paragraph 14 above that the price to growers should not be allowed to fall below an average of 10 cents a lb. if the depressing effects of low prices are to be avoided. On this season's average of 8.25 cents, which as has been argued, is not likely to be subject to improvement an increase of 1.75 cents or 5.25 cents per lb. of lint is called for. If the Railway reduce the freight rate to 6 cents, and it is urged that a reduction of this order should be made, the rate appli to Jinja would be 43.56 shs. per ton, equivalent to increasing the price of lint by 1.945 cents. This it is suggested is not an unreasonable contribution to expect from the Railway towards the 5.25 cents per lb. of lint necessary to secure to the producer an increase of 1.75 cents per lb. of raw cotton, and thus ensure that prices are kept above the danger point.

27. The revenue effect of this proposal would be to reduce Railway earnings on a cotton crop of 420,000 bales from approximately £315,000 (750 miles at 84 shillings per ton) to approximately £164,000. This reduction of £151,000 is very considerable, but it is urged that an exceptional effort must be made by the Railway to assist to remedy what is undoubtedly a very grave situation. In considering the burden which this proposal would place on the Railway it must be remembered that the Railway has derived considerable profit from cotton since the present rate was fixed in 1927, and that this profit has come not merely from import traffic which follows a successful season but also from the actual transport of cotton. On the assumption that the rate when fixed in 1927 was fair and reasonable - an assumption which can hardly be rebutted - it has been submitted that the improvements and adjustments in

railway

railway operation which have taken place in the last 10 years make it impossible to justify the retention of the present rate. A reduction to 8 cents per ton [illegible] (representing on a 420,000 bale crop a sacrifice of £96,000) will place this rate at the level it should [illegible] be even if the industry were in a prosperous condition. It is the balance between £151,000 and £96,000, viz £55,000 which the Railway are asked to forgo in order to assist in remedying the difficulties of the industry.

28. Of this £55,000 it is considered that a very substantial amount can be regarded as profit on existing rates on import traffic created directly by cotton. It may be argued that if this aspect of profits on import traffic is to be given weight in respect of freight rates on cotton it must also be allowed in respect of other export commodities which undoubtedly cause import traffic too. But it must be remembered that there is an important consideration which does not apply in the same measure in other export items. That is the excessive motor transport costs. Railway charges on petrol and lorries are a very considerable item in Uganda, those on petrol alone representing approximately 9 cents of the 60 cents a ton mile motor transport costs. Unless some direct relief is possible in freight rates for petrol, some proportionate relief should be allowed in the cotton rate.

29. Finally the question arises if the Railway are to give assistance of this order what contribution will be made by Government and by the industry. For the present there is a definite proposal to reduce the cotton export tax from 2 cents to 1. Since the matter is still under consideration it is only at the proposal stage, but there is no likelihood that the reduction will be less than 1 cent. On a 420,000 bale crop this represents £84,000. The aggregate of the other economies

cannot

cannot be estimated at this stage with precision but the aim will be to secure an improvement in rates to the producer till the 10 cents average is reached and this on the basis of present crop and present prices represents approximately £440,000.

30. It is appreciated that from the Railway point of view there is the criticism that the Railway are being urged to afford relief which will involve a sacrifice of revenue of the order of £150,000, whereas the relief to be afforded by Government and by economies in the industry itself has not been stated with similar precision. This is necessarily so since the examinations now being made both as regards revision of the cotton tax and economies within the industry cannot be completed in time to give the Railway Council precise decisions before they themselves take a decision which will - and as it is urged must - be effective for the coming cotton season. In these circumstances this Government would consider it reasonable if part of the relief to be given by the Railway were granted as a temporary measure only. It is recommended therefore that a reduction to 8 cents a ton mile should be made forthwith as a permanent measure, and that a further temporary reduction of 2 cents a ton mile should be made for one year in the first place. This temporary reduction to be reconsidered in 1939 in the light of general conditions then obtaining and of the measure of assistance actually afforded by Government and by the industry itself.

VII <u>Summary.</u>

31. The representations in this memorandum may be summarised briefly as follows:-

The cotton industry in Uganda is faced with very serious difficulties owing to low prices.

Prices are determined broadly by the price of American middling cotton, and the world production and consumption/

consumption situation is such that no substantial improvement in prices can be expected for some years to come. In addition the Uganda type of cotton must expect increasing competition from comparable types in other countries.

Prices to growers in the 1937-38 season average 8.25 cents per lb. of raw cotton. To ensure the minimum measure of prosperity the price must not be allowed to fall below 10 cents, and, since no increase in ruling prices can be expected, relief must be afforded from within and without the industry to secure this minimum price.

The vital importance of cotton to Uganda's prosperity has caused continuous effort in past years to improve the economic basis of the industry. Substantial results have been obtained and though further economies must be made within the industry, the scope of these economies is restricted. They will be investigated by a Commission of Enquiry recently appointed by the Governor. Outside the industry direct assistance will be afforded by Government by revising the cotton export tax - the actual terms of the revision have still to be determined.

Transport costs are considerable and of these rail freights are the most important. Rail freight on items which go to make road transport costs (e.g. petrol and lorries) are a serious burden but any relief in this direction must have general application to all road transporters.

The case for relief from the Railway is therefore for the present confined to freight charges on cotton lint from Uganda to the Coast. The present rate has been in existence for 11 years and the rating relief given to other railway traffic in recent years together with economies in railway operation justify an immediate

and/

consumption situation is such that no substantial improvement in prices can be expected for some years to come. In addition the Uganda type of cotton must expect increasing competition from comparable types in other countries.

Prices to growers in the 1937-38 season average 8.25 cents per lb. of raw cotton. To ensure the minimum measure of prosperity the price must not be allowed to fall below 10 cents, and, since no increase in ruling prices can be expected, relief must be afforded from within and without the industry to secure this minimum price.

The vital importance of cotton to Uganda's prosperity has caused continuous effort in past years to improve the economic basis of the industry. Substantial results have been obtained and though further economies must be made within the industry, the scope of these economies is restricted. They will be investigated by a Commission of Enquiry recently appointed by the Governor. Outside the industry direct assistance will be afforded by Government by revising the cotton export tax - the actual terms of the revision have still to be determined.

Transport costs are considerable and of these rail freights are the most important. Rail freight on items which go to make road transport costs (e.g. petrol and lorries) are a serious burden but any relief in this direction must have general application to a[illegible]ad transporters.

The case for relief from the Railway is therefore for the present confined to freight charges on cotton lint from Uganda to the Coast. The present rate has been in existence for 11 years and the rating relief given to other railway traffic in recent years together with economies in railway operation justify an immediate

and/

and permanent reduction to 8 cents ton mile. A further temporary reduction to 6 cents a ton mile is urged as a measure of assistance in remedying the present very difficult position.

On the basis of the 1937-38 crop a reduction to 8 cents a ton mile represents a reduction in Railway revenue of approximately £96,000 a year. The further reduction to 6 cents represents an additional £55,000.

Table I.

COTTON PRODUCTION 1919-20 TO 1936-37
(thousands of bales of 500 lb.)

Crop Year	United States of America	India	Egypt	China	Russia	Brazil	British Empire other than India	Other	Total
1919-20	11,421	4,657	1,114	2,470	200	463	82	759	21,146
1920-21	13,440	2,880	1,206	1,829	66	430	131	765	20,747
1921-22	7,954	3,588	972	1,488	42	491	89	683	15,307
1922-23	9,762	4,058	1,243	2,249	52	538	131	711	18,744
1923-24	10,140	4,129	1,306	1,931	214	561	201	838	19,320
1924-25	13,628	4,870	1,455	2,104	458	649	281	974	24,419
1925-26	16,104	4,972	1,593	2,044	741	589	335	1,077	27,455
1926-27	17,977	4,019	1,727	1,707	785	490	287	1,218	28,210
1927-28	12,956	4,770	1,219	1,835	1,025	480	268	1,055	23,606
1928-29	14,478	4,626	1,602	2,441	1,174	528	372	1,209	26,430
1929-30	14,825	4,194	1,697	2,069	1,279	564	329	1,227	26,184
1930-31	13,932	4,179	1,589	2,300	1,589	470	310	1,114	25,483
1931-32	17,096	3,206	1,271	1,735	1,846	575	387	1,119	27,233
1932-33	13,002	3,725	991	2,195	1,776	438	414	961	23,502
1933-34	13,047	4,086	1,715	2,652	1,917	1,014	447	1,570	26,448
1934-35	9,637	3,886	1,511	3,033	1,774	1,359	579	1,791	23,570
1935-36	10,638	4,582	1,707	2,415	2,374	1,718	589	2,067	26,090
1936-37	12,407	4,767	1,889	3,766	3,750	1,800	616	1,685	30,680
1937-38 (estimate)	18,243	5,700	2,300	4,000	3,400	2,000	$\underbrace{\qquad\qquad}_{2,700}$		38,300

(Figures from Empire Cotton Growing Review)

(Note: the Empire bale is 400 lbs).

TABLE II.

Liverpool Prices of American Middling.x.

	Pence per lb.
1910-11	7.84
1911-12	6.09
1912-13	6.76
1913-14	7.27
1914-15	5.22
1915-16	7.51
1916-17	12.33
1917-18	21.68
1918-19	19.73
1919-20	25.31
1920-21	11.89
1921-22	11.37
1922-23	14.92
1923-24	17.66
1924-25	13.76
1925-26	10.77
1926-27	8.15
1927-28	11.17
1928-29	10.52
1929-30	9.09
1930-31	5.71
1931-32	4.82
1932-33	5.62
1933-34	6.02
1934-35	6.93
1935-36	6.52
1936-37	7.11
1937-38	4.92 (average of August to June inclusive).

.x. From articles by J.A.Todd F.C.G.R. Vol.6 to Vol.XV. Prices are the average for the last Friday of each Month.

TABLE III.

WORLD CONSUMPTION OF COTTON 1923-24 TO 1936-37

(In thousands of bales of 500 lb.)

Season	United Kingdom	Europe	United States of America	Asia	Other	Total
1923-24	2,718	5,329	5,605	5,973	771	20,396
1924-25	3,253	6,568	6,142	6,[illegible]	1,060	23,309
1925-26	3,022	7,210	6,400	6,635	1,419	24,686
1926-27	3,010	7,552	7,152	7,372	1,073	26,159
1927-28	2,904	8,056	6,771	6,591	1,219	25,541
1928-29	2,800	8,112	7,023	6,720	1,217	25,872
1929-30	2,465	7,889	6,052	7,713	1,082	25,201
1930-31	1,964	6,861	5,246	7,40[illegible]	1,010	22,488
1931-32	2,586	6,280	4,844	7,723	1,086	22,[illegible]
1932-33	2,248	6,675	6,110	8,156	1,164	24,353
1933-34	2,470	7,472	5,669	8,149	1,351	25,111
1934-35	2,507	7,322	5,337	9,139	1,496	25,801
1935-36	2,753	7,637	6,359	9,003	1,642	27,394
1936-37	2,851	7,533	7,935	9,512	1,823	29,654
1937-38 (estimate)						28,000

(Figures taken from the Empire Cotton Growing Review)

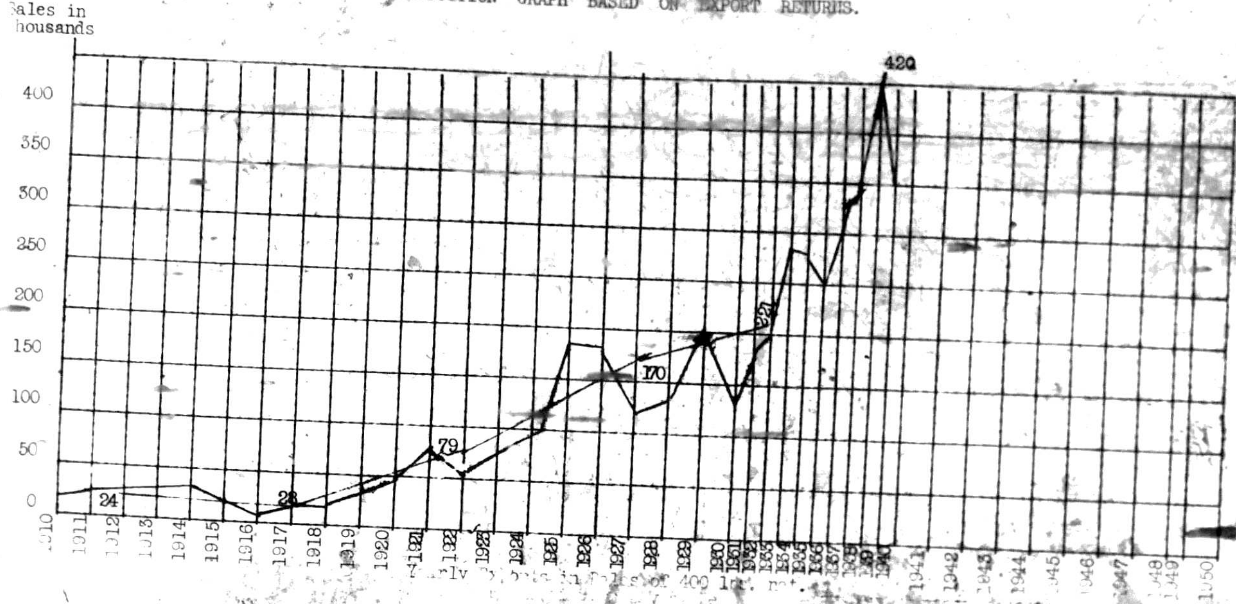
TABLE IV.

1. ...n.		2. Liverpool value of lint £ per ton.	3. Railway freight rate Jinja to coast per lb. of lint. Cents. ✠	4. Mileage.	5. Rate per ton mile. Cents.	6. Average costs of hauling total freight ton miles. Cents.	7. Av. recei... per frei... ton mi... (pu...). Cen...
.0-11	Average £ 66.5	73.8	2.59	726(?)	7.4		
11-12		57	"	"	"		
.2-13		65.3	"	"	"		
.3-14		68	"	"	"		
.4-15		48.8	"	"	"		
.5-16		70.3	"	"	"		
.6-17	Average £ 125.4	115.3	"	"	"		
17-18		120.3	"	"	"		
.8-19		184.6	"	"	"		
19-20		237.0	"	"	"		
20-21		111.	3.58	"	11.5		
21-22		106.5	"	"	"		
22-23		139.5	"	"	"		
23-24		165.2	"	"	"		
.4-25		128.8	"	"	"		
.5-26		101.0	"	"	"		
26-27		76.2	3.72	783	10.64	9.175	14.319
27-28		104.5	"	"	"	9.154	14.171
28-29		98.2	"	"	"	8.481	13.33[illegible]
29-30		85.0	"	"	"	9.215	11.67[illegible]
.0-31	Average £ 57.7	53.8	"	"	"	10.649	11.07[illegible]
.1-32		45.1	"	"	"	10.674	12.21[illegible]
.2-33		52.5	"	"	"	8.815	11.81[illegible]
33-34		56.3	"	"	"	9.251	13.91[illegible]
34-35		64.8	"	"	"	8.502	12.680
5-36		61.2	"	"	"	7.443	10.965
.6-37		66.5	"	726	11.5	7.350	11.269
37-38		46.1	"	"	"		

✠. The rate was 1.79 rupees per 100 lbs. Later converted to E. A. Shillings at Sh.2 = 1 rupee.

TABLE V.

UGANDA COTTON PRODUCTION GRAPH BASED ON EXPORT RETURNS.



UGANDA COTTON ASSOCIATION.

P.O. Box 51,
KAMPALA,

12th August, 1938.

The Honourable the General Manager,
Kenya & Uganda Railways & Harbours,
NAIROBI.

Sir,

RAILWAY FREIGHT ON COTTON.

We are instructed by the Members of our Association to submit for your consideration their request for a permanent reduction in Railway freight and Harbour dues on Cotton Lint.

The arguments in support of this application are detailed in the attached Memorandum.

Briefly, they may be summarised as follows :-

(a) There is world wide over production of cotton with which consumption has failed to keep pace.

(b) This has resulted in a drastic fall in Cotton prices.

(c) Uganda is almost entirely dependent on its Cotton crop.

(d) In order to maintain its place in existing markets, at the new low level prices, Uganda cotton must be marketed more cheaply.

(e) The grower must not be discouraged from planting by unduly low prices or output will drop with disastrous results to all.

(f) It remains for the other partners in the industry - ginners, railway and Government to assist in the reduction of costs.

(g) Since the railway derives a very large revenue from Cotton, both direct and indirect, which is believed to be a very profitable one, we ask with no misgivings for a substantial reduction in freight.

(h) In view of the arguments adduced in the attached memorandum, we request an immediate and permanent reduction of 50% in railway freight on cotton lint, to come into force on 1st January, 1939; a like reduction on Harbour dues on cotton lint; and a continuance of the concession granted last year by the Harbour Board of Sh. 2/50 in respect of cotton seed.

(i) In conclusion we are to ask that you will receive a deputation from our Association and we shall be glad to know when it will be convenient to you.

We have the Honour to be,
Sir,
Your obedient servants,
MOODY & TILBROOK LTD.
SGD: ....
SECRETARIES.

MEMORANDUM BY THE UGANDA COTTON ASSOCIATION IN SUPPORT OF A CLAIM FOR REDUCTION IN RAILWAY AND HARBOUR CHARGES.

1. Uganda is almost entirely a one crop country and is dependent upon cotton. The only other crop of any size is coffee, which is itself in a bad economic state. During the past ten years cotton lint alone has accounted for approximately 75% of the exports from Uganda in value, and if cotton seed be also taken into account, the figure becomes approximately 80%.

The following table illustrates this position :-

EXPORTS OF LINT AND SEED.

Year.	Bales of 400 lbs. each	Value	Percentage of total exports.	Tons Seed.	Value	Percentage of total exports.
		£			£	
1928	138486	2475327	72.9%	45506	323110	9.5%
1929	204057	3312667	77.5%	67525	424000	9.9%
1930	129122	[illegible]	75.8%	53578	137387	6.7%
1931	183330	1503307	76%	45435	149224	7.5%
1932	207326	1584172	71.2%	56311	168566	7.56%
1933	294828	2682210	77.4%	81274	262539	7.5%
1934	285642	2927796	77.5%	35689	85947	2.2%
1935	253242	2822739	77.7%	50685	135779	3.7%
1936	321848	3326879	74.4%	85762	263180	5.9%
1937	338392	4269283	74.8%	103440	392083	6.9%

2. The large increase in the crop during the past decade will be immediately noticed, and this has been still further maintained in 1938 when a crop of approximately 420,000 bales will be tendered to the railway. This would spell increased prosperity for Uganda and consequently the railway if only world prices had remained reasonably stable, which they have not.

3. As the value of the crop rises or falls, so will the spending power of Uganda increase or decrease, with resultant effect on the imports into the Protectorate and railway traffic entailed.

If any proof be needed for that statement, the following table, illustrating the relation between the total amount paid to the growers and Customs Receipts for the same years supplies it :-

Year.	Value of crop to Growers. £	Customs Revenue Uganda. £	Percentage Customs Revenue bears to amount paid to growers.
1928	1846000	432062	23.5
1929	2373000	440302	18.
1930	1242000	324697	26.
1931	1318000	303430	23.
1932	1397000	285184	20.
1933	1676000	290203	17.
1934	1843000	367520	20.
1935	1923000	397758	20.5
1936	2031000	428480	21.
1937	2922000	582263	20.

4. The figures quoted in the two preceding tables finish on a note of high prices in 1937. Unfortunately, those have not been maintained, and in fact the world price of cotton broke at the end of our 1937 season and has now reached a low level such as has been almost unknown in the past, falling from 7d. in June to 4½d. in October.

5. The reason for the slump in prices is not far to seek, being increasing production coupled with a more or less stable consumption, as illustrated by the following table, which shows how, in ten years, production has increased from 25½ million bales to 40½ million bales, whilst consumption remains less than 30 million bales.

Year.	Production. Bales of 500 lbs.	Consumption Bales of 500 lbs.
1927-8	25,531,000	25,541,000
1928-9	27,660,000	25,872,000
1929-30	27,472,000	25,201,000
1930-1	28,084,000	22,481,000
1931-2	28,542,000	22,319,000
1932-3	25,345,000	24,353,000
1933-4	28,374,000	25,111,000
1934-5	25,611,000	25,801,000
1935-6	28,546,000	27,371,000
1936-7	33,639,000	29,728,000
1937-8	40,645,000	13,454,000 (half year)

6. Approximately 50% of the world's cotton is produced [illegible] U,S.A., where the Government have attempted by various means to hold up the price, although the increasing production has prevented them from achieving that measure of success for which they had hoped. The final crash in prices came as the result of the almost incredible yield of the 1937 American crop; and with the steadily increasing production and lack of corresponding consumption it is difficult to see how any substatnial rise can take place in the near future, and it would appear to be necessary to count on the continuance of a low world cotton price. Quite apart from the increased crop in the U.S.A., Brazil has increased her output in the last six years by 2,000,000 bales; Russia by 2,000,000 bales; Egypt by 600,000 bales; Sudan by 130,000 bales and India by 1,000,000 bales. Furthermore, Germany and Japan, normally big buyers of cotton, are restricted in their purchasing power by economic and political reasons. Yet another factor militating against cotton consumption is the increase in use of artificial silk.

7. . . .

7. Uganda cotton is a high grade cotton, commanding a premium over American Middling, and although all cotton prices are related to American Middling, other factors influence the amount of premium which any one type can command.

Uganda cotton is unfortunate in that it not only follows the general slump, but in addition is attracting increasing competition, and in India in particular, which is our biggest customer, attempts are being made to grow a cotton similar to that produced in Uganda. It is essential that Uganda cotton should be marketed as cheaply as possible in India in order to discourage experiments of that nature. Furthermore, if the Uganda crop is to increase we may find India unable to absorb it all and we may have to find other markets in which we must be prepared for keen competition.

8. It is hoped that the foregoing will have demonstrated the urgent need for economies in every possible way in the marketing of Uganda cotton.

9. Ginners in Uganda have already made sacrifices during the past two years by extra payments to the growers varying from .80 cents to 1½ cents per lb. of lint. A further indication of what ginners themselves have done towards effecting economies is illustrated by comparison of costs, etc., in Uganda in 1929 as given by the Carter Commission at Sh. 24/68 per 100 lbs. lint with the amount allowed for expenses in our current formula in 1936 of Sh. 9/40 per 100 lbs. lint. That Government are alive to the seriousness of the position is shown by their recent decision to appoint a commission of enquiry this year to see, amongst other things, what further saving ginners can effect.

10. It is further hoped that the Government of Uganda will remit cotton tax in whole or in part, which at present amounts to 2 cents per lb. of lint.

11. We accordingly approach the Railway to make sacrifices also, in support of which there are several excellent reasons.

Firstly, the first three paragraphs of this memorandum have demonstrated the direct relationship between imports, and resultant railway freight thereon, and the value of the Uganda cotton crop.

Secondly, Cotton Seed and Cotton head the list of commodities railed to the Coast, amounting in 1937 to 109525 tons and 66100 tons respectively, so that the [redacted] industry may be regarded as the Railway's biggest customer and consequently the one most deserving of consideration. We estimate that the cotton industry of Uganda will pay to the Railway some £600,000 in rail freight in 1938, made up of £320,000 on lint, £125,000 on Cotton Seed and £155,000 on ginners' imports for consumable stores, petrol, etc.

Thirdly, the Railways & Harbours earned a gross surplus in 1937 of £1,768,000, in spite of rate reductions introduced at the beginning of that year amounting to £120,000, a small amount of which latter was admittedly given to Cotton Seed by the Harbour Board but none to cotton. In fact, Cotton has never applied for, or obtained, any rate reduction.

/...

Fourthly, further substantial reductions in rates were made in 1938 for coffee and rubber, and it is submitted that cotton is now due for consideration.

Fifthly, a comparison of rates paid on commodities of similar values shows Cotton to suffer from a marked disadvantage.

EXPORT RAIL FREIGHTS: KAMPALA/MOMBASA.

Commodity.	Approximate value per ton at Coast.	Freight rate per 100 lbs.
COTTON	£45	Shs. 3/90
COFFEE	£50	Shs. 1/46 (2.91)
HIDES	£45	Shs. 2/91
RUBBER	£50	Shs. 2/18
Tea		3/76

Lastly, the General Manager's Report for 1937 stated in para 190 that given developments in the two territories further improvements and reductions in charges should be possible. It is now submitted that cotton is developing, but may be in serious danger of a retrograde movement should reduction in costs not be forthcoming.

Kampala.

9th August, 1938.

Fourthly, further substantial reductions in rates were made in 1938 for coffee and rubber, and it is submitted that cotton is now due for consideration.

Fifthly, a comparison of rates paid on commodities of similar values shows Cotton to suffer from a marked disadvantage.

EXPORT RAIL FREIGHTS: KAMPALA/MOMBASA.

Commodity.	Approximate value per ton at Coast.	Freight rate per 100 lbs.
COTTON	£45	Shs. 3/90
COFFEE	£50	Shs. 1/46 (2·91)
HIDES	£45	Shs. 2/91
RUBBER	£50	Shs. 2/18
Tea		3/76

Lastly, the General Manager's Report for 1937 stated in para 190 that given developments in the two territories further improvements and reductions in charges should be possible. It is now submitted that cotton is developing, but may be in serious danger of a retrograde movement should reduction in costs not be forthcoming.

Kampala.

9th August, 1938.

38179/32/38 Kenya

C.O.

Mr. Freeston 1/12/38

Mr.

Mr.

Mr. A. J. Dawe. 1.12

Sir H. Moore.

Sir G. Tomlinson.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT. TELEGRAM

HIGHCOMA,

NAIROBI.

No. 12

Your telegram No. 18. I approve proposals in your despatch 14th November cotton freights on the assumption that you have secured concurrence of Government of Tanganyika.

FURTHER ACTION.

Recirc. to me for letter to Treasury.

TRANSPORT

KENYA-UGANDA

CONFIDENTIAL

OFFICE OF THE HIGH COMMISSIONER FOR TRANSPORT,
GOVERNMENT HOUSE,
NAIROBI,
KENYA.

RECEIVED
1938

17th November, 1938.

Sir,

I have the honour to inform you that my Confidential despatch of the 14th of November on the subject of the concessions which I propose should be made by way of reductions in railway and harbour charges to the East African cotton industry, did not properly express the views of the Joint High Commissioner for, owing to a derailment on the main line and the consequent breakdown in communications, I had not been fully advised as to Sir Philip Mitchell's wishes.

2. I shall be glad if you will substitute the enclosed despatch for that under reference which gives a false impression of certain details, and should therefore be destroyed. The enclosures to the original despatch will not be altered, and should be retained.

I have the honour to be,

Sir,

Your most obedient, humble servant,

R Brooke-Popham

HIGH COMMISSIONER

THE RIGHT HONOURABLE
MALCOLM MACDONALD, M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET, S.W.1.

45

TRANSPORT

KENYA-UGANDA

CONFIDENTIAL

OFFICE OF THE HIGH COMMISSIONER FOR TRANSPORT,
GOVERNMENT HOUSE,
NAIROBI,
KENYA.

RECEIVED
22 NOV 1938
C. O. REGY

14th November, 1938.

Sir,

In the last paragraph of my Confidential despatch of the 22nd of September, 1938, on the subject of the five and a half million pounds advanced from the Imperial Exchequer for the construction of the Uganda Railway, I referred to the serious difficulties confronting the cotton industry, and to the representations which had been made by the government of Uganda for assistance in the way of freight rate reductions. I now have the honour to enclose for your consideration copies of the memorandum prepared by the Uganda government in support of the case for a substantial decrease in railway and harbour charges on cotton, and to explain my views on the extent to which such relief can reasonably be given.

29 — 38179/16/38
[illegible]
no copy

2. I recognize that the measures which I shall advocate in this despatch have an important and direct bearing on the ability of the railway administration to make repayment to His Majesty's Government in respect of the original cost of construction of the railway, but the difficulties in which the Uganda cotton industry is now placed are so serious and of such far-reaching importance to the railway that I am fully justified in asking you to consider my recommendations without any delay such as might be occasioned by examining now their repercussions on the question of railway indebtedness.

Annex (4)

3. I do not intend to comment in detail on the case put forward by the government of Uganda, but in the following paragraphs I propose to recapitulate the main points which, in my view, demonstrate the need for prompt action on the part of/

THE RIGHT HONOURABLE
MALCOLM MACDONALD, M.P.,
SECRETARY OF STATE FOR THE COLONIES.

of the railway administration.

You will see that the arguments advanced by the government of Uganda are directed to two conclusions, the first being that a permanent reduction should be made in the rates on cotton as a matter of justice, in view of the considerable diminution in railway costs during recent years in which the cotton trade, unlike other important industries, has had no share; and the second that a temporary reduction, which it is contended must be made over and above the permanent reduction, is the only prudent and safe course if the cotton industry, and with it the prosperity of Uganda and of the railway, is not to be seriously affected.

4. The grounds on which the first conclusion is based are the facts that a rate lower than the present one was fixed while the industry was in its infancy, but when prices were higher than they have been recently; that the charges were increased during a period of high prices eleven years ago that they have not been readjusted during the last decade of lower values; and that during this period the improvement in railway efficiency has resulted in a decrease of approximately 20% in haulage costs, the benefit of which has been largely passed on to producers of other crops than cotton. For details of this reasoning and for reference to other factors which support the general deduction, I invite your attention to Part VI of the memorandum, but you should know that it is the view of the Uganda members of the Railway Advisory Council that if adequate concessions are not granted to the cotton industry those in respect of other commodities, particularly coffee and sisal, must be reconsidered.

5. The cotton industry has in the past enjoyed a spell of comparative prosperity, during which any funds available

for/

for rates reductions were applied to the assistance of other industries and to decreased charges for the higher-classed commodities. The situation is now changed, and the cotton industry stands in need of every assistance which can be given. In the opinion of my advisers, the sum which can so be spared on a permanent basis is between £60,000 and £70,000, but this is not enough, and some temporary assistance must be given in addition.

6. In the third paragraph of this despatch, I referred to the two main conclusions reached in the memorandum. The second one there mentioned, if it can be substantiated, is clearly of major immediate importance, and I shall now discuss it. Tables of world cotton prices and of world production and consumption are compared by the Uganda government with the object of showing the general tendency of market prices to vary with the margin between supply and demand, and of attributing the present low price level to the very large surplus which will be available at the end of this year. The future of the world industry, so far as it can at present be gauged, is then examined, and the opinion, with which I can see no reason for disagreement, is reached that world production is increasing at a higher rate than world consumption, and that market prices cannot be expected to rise above what is approximately their present level, and may fall below it. This opinion is evidently shared by the Uganda Cotton Commission of 1938, copies of the interim report of which are enclosed, and in the memorandum of the 2nd of August, 1938, by the Economic Department of the Colonial Office, a similar view is expressed.

(attached)

7. In a survey of the world cotton-producing countries, in/

48

in the first three pages of the memorandum, the Uganda government reaches the additional conclusion that the Uganda type of cotton must be incfeasingly affected by the reduction in the premium of that type over American Middling in times of low prices, and by increasing competition from comparable types in other countries, notably in the Sudan and India.

8. Taking it therefore as very unlikely that there will be any appreciable rise in cotton values, the memorandum proceeds in Parts III and IV to show that in existing circumstances, in spite of the many measures which have already been taken by the industry itself and by the government of Uganda to reduce costs, and to maintain the industry on a sound basis, present world prices mean an average return to the producer in Uganda of only 8.25 cents a pound. It is argued that when this average price remains for long below the figure of ten cents a pound, there can be little substantial prosperity amongst the planters, with a consequent danger of reduced planting and - which is more important - reduced general prosperity in the protectorate, and a commensurate decrease in railway import traffic within a short time, for no alternative source of wealth is as yet apparent. It is admittedly difficult to assess the cotton price at which this recession is likely to be manifested; no technical data are available on which to base a firm assessment, but I am advised that experience in similar areas outside Uganda supports the opinion of the Uganda government that the estimate of ten cents a pound is reasonably accurate.

9. It remains to be considered what measures can be taken to enable this average price of ten cents to be paid to the grower. The possibilities are reviewed by the Uganda government in Part V of the memorandum, and reference to

certain/

certain aspects of the question are made in the interim report of the Uganda Cotton Commission. The government of Uganda examines the possibility of making savings under five heads.

The first refers to measures which can be taken within the industry. It is evident from Part III of the memorandum that considerable improvement has already been effected in this direction, but it is suggested that other possible economies may come to light as a result of the Cotton Commission's enquiries, and from the references made to the existing marketing system in the interim report it seems probable that steps may have to be taken to overhaul the marketing machinery. Effective action to this end must, however, await the publication of the Commission's final report, and may then have to be enforced by legislation, so that delay must evidently occur; meanwhile, with a second year of low prices ahead, the condition of the industry may become critical. For the present, therefore, this potential solution of part of the problem must be left.

10. Under the head of 'export tax', the government of Uganda suggests that it may be possible to assist the industry by reducing the tax from two cents to one cent a pound, and the Cotton Commission, in its interim report, has recommended that this should be done. I am now informed that the Uganda government has decided upon this step. The government of Uganda considers, however, that for its own part substantial help has already been given to the industry, and that in view of the past railway revenue from cotton rates, at a figure which, it is maintained, has for some time been too high, the first burden of the new economies should fall upon the finances of the railways and harbours.

11./

11. Apart from possible savings on motor transport, in which little economy is stated to be possible, the remaining two heads for economies concern rail transport costs and harbour handling and wharfage charges, where some measure of relief must clearly be given.

The whole question was referred to the Railway Advisory Council which, after detailed examination of all the issues at its last meeting on the 24th and 25th of October, made the following recommendation:-

"(a) that the rate on export cotton be permanently reduced to Class 10;

(b) that a further reduction of 10% be made when the price for cotton, as determined under the Uganda Cotton Export Duty Ordinance, falls below 8d per lb;

(c) that a further 10% reduction be made when the price for cotton, as determined under the Uganda Cotton Export Duty Ordinance, falls below 5d per lb.

Rates (b) and (c) to be reconsidered in a year's time. Mr. Folkes dissented on the ground that the proposed assistance to the cotton industry is inadequate."

The financial effect of these measures would be as follows:-

1. Permanent

	340,000 bales	420,000 bales
(a) The estimated cost per annum of the reduction of the cotton export rate to Class 10 on Uganda crops of 340,000 and 420,000 bales	£57,000	£70,400
2. Temporary		
(b) The estimated cost per annum of the first 10% reduction	£20,400	£25,200
(c) The estimated cost per annum of the second 10% reduction	£20,400	£25,200
	£97,800	£120,800

The/

The railways and harbours administration has recommended to the Harbour Advisory Board that a temporary rebate in respect of port charges be granted, equivalent to Sh.5/- per 2,240 lbs. The Board at its meeting on the 19th of October, recorded the following minute:-

"The Chairman in opening the discussion outlined the main points as recorded in the various memoranda and pointed out that the General Manager's memorandum states that it is fully realised that some assistance to the cotton industry must be granted and that towards this assistance the Administration and other interests concerned must contribute each a fair share and on this distinct understanding recommended that a temporary rebate in respect of Port charges be granted equivalent to Sh.5/- per 2,240 lbs.

The General Manager's memorandum further shows that the anticipated loss of revenue to the Port if the present request was granted would be:-

£15,500 on a crop of 340,000 bales
£19,100 " " " " 420,000 "

It was for the Board therefore to consider whether this loss could be afforded from Port revenue in the general interests of maintaining output or in other words in order so far as possible to avoid a decrease in traffic.

The Board noted that the General Manager's memorandum paragraph 6 (c), page 2, refers to tons of 2,240 lbs. and requested that such should be adjusted to Bill of Lading tons. It was further requested that the relative information should be available when the 1939 Estimates are submitted."

The decision was deferred at the time, but on the 9th of November the following resolution was adopted by the Board:-

".....That as a temporary measure to reduce marketing costs of cotton owing to the world's depressed ruling prices today, the Board recommends that for 1939 a rebate of Sh.2/50 per bill of lading ton on the wharfage and handling on raw cotton be granted making the charge for 1939 Sh.6/- per bill of lading ton."

The following additional costs (adjusted as advised in the Harbour Advisory Board minutes) must therefore be added to the totals shown above:-

(d)/

(d) Estimated cost per annum of concessions in Port charges	340,000 bales	420,000 bales
	£17,000	£21,000

Allowance must also be made for the cost of corresponding assistance on all other export cotton (Kenya and Tanganyika) amounting to:-

	£
(a) Permanent reduction to Class 10	2,400
(b) Temporary first 10% rebate	1,500
(c) Temporary second 10% rebate	1,500
(d) Temporary Port charges concessions	1,550
Total	£6,950

The total estimated cost of the proposed concessions is therefore £121,750 per annum if the Uganda cotton crop is 340,000 bales, or £148,750 per annum if the Uganda railings are 420,000 bales.

12. So far as Uganda cotton is concerned, the following figures give the effect of these proposals:-

The present average rate per ton is	Sh.	84.32
Class 10 average rate per ton is		65.88
representing a reduction per ton of		18.44
The first 10% rebate proposed is equal per ton to		6.59
The second 10% " " " "		6.59
The proposed Port rebate represents per ton		5.00
making the total relief for Uganda cotton equal per ton to	Sh.	36.62

which represents an average reduction of 1.83 cents per lb. of lint.

Uganda asked for 1.945 cents per lb. of lint
GPS

It is the considered opinion of the Administration that these proposals represent, so far as railways and port charges are concerned, the maximum reduction that can be granted in cotton rates in order to ensure the continued prosperity of the railway through the revenue derived from a healthy industry, and resultant inward freights. It is hoped that the ultimate value of the concessions, viewed from the angle of long-range development in Uganda and its effect on the financial structure

of/

of the railways, will be far greater than the immediate sacrifice of revenue contemplated. I am assured that no effort which is within the power of the Uganda government will be spared to grant such additional assistance as is required to enable an average price of ten cents a pound of seed cotton to be paid to the growers. It must be borne in mind that in the happy event of a material rise taking place in the price of cotton, the concessions will automatically be reduced and that, in any case, the temporary reductions are to be reviewed in a year's time.

13. On the information and advice before me, I am led to the conclusion that the only wise decision is to authorize the rates reductions proposed by the railway administration as soon as possible, and this I am anxious to do. Were it not for the suggestion that part of the concessions should be permanent, I should feel justified, in view of the possible results of delay on the financial structure of the railways and harbours, in giving my sanction to them for a period of six months forthwith, for I assume that the case would then fall within the purview of Mr. Ormsby Gore's (now Lord Harlech's) telegram No.4 of the 10th of May. Since, however, it is preferable, in order to reassure the industry, to establish concessions for a longer period than six months, and since part of my proposal is that a permanent reduction should be made, it becomes necessary to refer the question for your decision; in any event, such a course of action is obviously preferable in view of the large curtailment of immediate revenue involved in the concessions.

38170/[illegible]
not available
[illegible]

14. I have tried to show that the situation is fraught with serious risks, and calls for prompt action, and I do

urge/

urge that its consideration by yourself, and any references which may have to be made to the Lords of the Treasury, should be carried out with all possible speed. In anticipation of the result of your examination of the problem, allowance for the rates reductions involved has been made provisionally in the draft Estimates of the Kenya and Uganda railways and harbours which will shortly be submitted for your approval; but I shall be particularly grateful if your decision may be the subject of a telegraphic intimation.

15. I have not overlooked the point that the suggested alterations will affect assimilation of railway rates at competitive points on the Tanganyika railways system, but the urgency of the matter is such that I have deemed it unwise to defer my approach to you until the views of the Tanganyika government are available. Copies of this despatch have now been sent to the Governor of the Tanganyika Territory for his consideration of this aspect of the proposals, and to the governments of Uganda and Kenya for their information.

16. The draft of this despatch was submitted to Sir Philip Mitchell who in addition to certain suggestions which have now been embodied in this despatch desires me to add that although he is unable to associate himself in full with the case as stated, since he agrees with the conclusions and since the matter is of great urgency, in view of the approaching cotton season, he associates himself with it in the general sense, and trusts advantage may be taken of the presence of Dr. Tothill in London during the next two or three weeks for the elucidation of any matters which may require further explanation.

I have the honour to be,
Sir,
Your most obedient, humble servant,

R Brooke-Popham

HIGH COMMISSIONER.

UGANDA PROTECTORATE

Cotton Commission 1938.

Interim Report

ENTEBBE:
PRINTED BY THE GOVERNMENT PRINTER, UGANDA.
1938.

(4163)

56

THE COTTON COMMISSION, 1938.

INTERIM REPORT.

To His Excellency Sir Philip E. Mitchell, K.C.M.G., M.C., Governor and Commander-in-Chief of the Uganda Protectorate.

YOUR EXCELLENCY,

We have the honour to report that we have now concluded the examination of witnesses in the Protectorate and the consideration of numerous memoranda and documents presented to us, and have to state that we are not in a position as yet to submit a final report containing our considered conclusions.

2. Circumstances have compelled us to undertake further detailed enquiries into certain matters connected with the ginning side of the industry, and the submission of our final report must consequently await the conclusion of these.

3. Moreover it has become apparent that it is desirable to hold some meetings of the Commission in the United Kingdom for the purpose of obtaining authoritative opinions on a number of points of principle which cannot be obtained in Uganda, while in addition it may be desirable to obtain additional information regarding certain aspects of the Uganda cotton industry from gentlemen connected with it who are resident in the United Kingdom.

4. It is in any event clear that it will be impossible to implement the majority of the recommendations for the re-organisation of the industry which we at present have in mind before the commencement of the harvesting of the next cotton crop. We are sensible that these are likely to be of such a nature that their ultimate adoption or otherwise by the Government of Uganda can be decided only after careful examination of the report by Government, while their implementation is likely to involve considerable discussion between Government and the industry. In the circumstances we are persuaded that Your Excellency will share our desire that the information upon which our recommendations are based should be as complete as possible and our conviction that any delay which may in consequence ensue in the presentation thereof is justified in view of the importance of the issues involved.

5. We may say that we anticipate that it will be possible to place our final report in the hands of Your Excellency in the month of December.

6. There are a certain number of matters of importance arising out of our terms of reference upon which we are of opinion that action should be taken if possible before the commencement of the next buying and ginning season, and accordingly we have the honour to submit the following recommendations.

96

THE COTTON COMMISSION, 1938.

INTERIM REPORT.

To His Excellency Sir Philip E. Mitchell, K.C.M.G., M.C., Governor and Commander-in-Chief of the Uganda Protectorate.

YOUR EXCELLENCY,

We have the honour to report that we have now concluded the examination of witnesses in the Protectorate and the consideration of numerous memoranda and documents presented to us, and have to state that we are not in a position as yet to submit a final report containing our considered conclusions.

2. Circumstances have compelled us to undertake further detailed enquiries into certain matters connected with the ginning side of the industry, and the submission of our final report must consequently await the conclusion of these.

3. Moreover it has become apparent that it is desirable to hold some meetings of the Commission in the United Kingdom for the purpose of obtaining authoritative opinions on a number of points of principle which cannot be obtained in Uganda, while in addition it may be desirable to obtain additional information regarding certain aspects of the Uganda cotton industry from gentlemen connected with it who are resident in the United Kingdom.

4. It is in any event clear that it will be impossible to implement the majority of the recommendations for the re-organisation of the industry which we at present have in mind before the commencement of the harvesting of the next cotton crop. We are sensible that these are likely to be of such a nature that their ultimate adoption or otherwise by the Government of Uganda can be decided only after careful examination of the report by Government, while their implementation is likely to involve considerable discussion between Government and the industry. In the circumstances we are persuaded that Your Excellency will share our desire that the information upon which our recommendations are based should be as complete as possible and our conviction that any delay which may in consequence ensue in the presentation thereof is justified in view of the importance of the issues involved.

5. We may say that we anticipate that it will be possible to place our final report in the hands of Your Excellency in the month of December.

6. There are a certain number of matters of importance arising out of our terms of reference upon which we are of opinion that action should be taken if possible before the commencement of the next buying and ginning season, and accordingly we have the honour to submit the following recommendations.

I. Price Fixing Formula.

7. We have, in accordance with our instructions undertaken a thorough examination of the price fixing formula; this examination is not yet complete, but, as a decision in relation to the course of action to be pursued in fixing minimum prices to be paid for cotton under the Cotton Zone Ordinance during the buying and ginning season for 1939, is a matter of urgency, we recommend that the formula and the procedure thereunder followed during the season of 1938 should again be adopted in 1939 without modification, with the exception that we consider that the differential established in relation to the prices paid for raw cotton in the West Nile-Madi zone should be re-examined by the Committee appointed to advise upon the fixing of minimum prices for raw cotton, in order to ascertain whether in view of altered conditions any modification requires to be introduced into the terms of the formula in this respect.

8. With further reference to the price fixing formula it has been represented to us by a number of witnesses that the figure of 30·5 per cent. for the ginning out-turn of first quality cotton which is used in the formula, may be too high: a decision on this point can be reached only by means of a series of large scale tests carried out under the supervision of some independent authority. In these circumstances we recommend that arrangements be made for such a series of tests to be carried out by the Department of Agriculture during the ginning season of 1939.

II. Publication of the Price Fixing Formula.

9. The formula adopted in connection with the fixation of prices for raw cotton is at present treated as semi-confidential and has not been disclosed to the public. We find that this policy has given rise to misconception and has led to a belief in certain quarters that the formula cannot be disclosed because it favours unduly the ginning interests of the industry.

10. We consider that such a state of affairs is undesirable and that no useful purpose is served by maintaining the existing condition of semi-secrecy. Consequently we recommend the publication of the price fixing formula.

III. Establishment of a Reasonable Maximum Ginning Charge.

11. In our final report it is our intention to discuss this question in detail and to present recommendations for a change of policy in this respect. So far as concerns the procedure to be adopted during the 1939 buying and ginning season we recommend that the existing maximum charge of 10 cents per lb. of lint should be maintained.

IV. Marketing System.

12. In our final report it is our intention to discuss the marketing system fully, and to present recommendations for its improvement and better organisation. We desire now to invite the attention of Government to the fact that the present price fixing formula is devised on a basis which makes no allowance for unnecessary or extravagant expenditure in buying and ginning. In the course of evidence it has been established

that much wasteful and unnecessary expenditure is at present incurred in the transport of growers with their seed cotton to ginneries (locally known as "kyalo" transport); this is due primarily to destructive competition between ginneries for seed cotton, and persists notwithstanding the existence of ginning pools agreements which are designed to eliminate competition of this description.

13. We consider that it may be doubtful whether this form of transport can or should be eliminated from the industry, but there is no doubt that during past seasons the expenditure incurred by the ginning industry in this respect has been excessive and has considerably lessened the profits of the industry.

14. It is essential that with the existing low prices for cotton all wasteful and unnecessary expenditure should be eliminated so as to to ensure that both growers and ginners obtain the maximum amount for their cotton. We are further of the opinion that the manner in which "kyalo" transport has been conducted frequently involves unnecessary risk to growers who are carried with their cotton as shown by the distressingly large number of accidents which have occurred.

15. In these circumstances and pending the submission of our final report we recommend that Government should invite the earnest attention of the ginning industry to the above points, and urge that both in the interest of public safety and also by reason of the need for reducing expenditure to a minimum, every effort should be made during the forthcoming season to eliminate all unnecessary "kyalo" transport.

V. Cheating and Malpractices.

16. With the object of reducing malpractices current in the purchase of raw cotton we recommend the establishment of a central registry for cotton buyers, and that no person shall be allowed to purchase raw cotton either on his own account or as a paid employee of a buyer licensed under the Cotton Ordinance, who has not also been registered in the central registry.

17. Every buyer registered in this way shall be provided with a certificate of registration bearing his photograph and signature or thumb print, and a fresh certificate shall be issued to each registered buyer at the commencement of each cotton buying season.

18. Any person engaged in the actual buying of cotton who does not possess a certificate of registration as a buyer shall be guilty of an offence; it shall be competent for any Administrative Officer, Agricultural Officer or European Police Officer to demand the production of the certificate of registration of anyone engaged in the actual purchase of raw cotton.

19. If any registered buyer of cotton shall be convicted of dishonesty or fraud in connection with the purchase of raw cotton he shall be liable on conviction for a first offence either to have his certificate of registration permanently cancelled or suspended for a period of 12 months or more at the discretion of the Magistrate, together with any other penalties to which he may be liable.

20. On conviction for a second offence his certificate shall be permanently cancelled, and he shall be liable to any other penalties provided.

21. In cases in which a registered buyer is convicted and his certificate of registration is suspended the conviction shall be endorsed on the certificate, while the Magistrate shall further notify to the central registry all cases in which a registered buyer has been convicted of fraud or dishonesty.

22. These proposals are not intended to replace but to supplement Sections 18 to 39 of the Cotton Ordinance (Cap. 36 of the Laws of Uganda) and are intended particularly to exercise control over persons who are engaged in the actual purchase of raw cotton.

VI. Maximum Weight of Cotton in Bags.

23. We also recommend that subsection (1) of section 41 of the Cotton Ordinance should be amended by the substitution of 100 lbs. for 80 lbs. wherever it occurs.

VII. Cotton Export Duty.

24. We recommend that as a measure of immediate relief to the industry the cotton export duty levied under the Cotton Export Duty Ordinance (Cap. 37 of the Laws of Uganda) should be reduced forthwith to 1 cent per lb.

VIII. Railway Freight Rates on Cotton Lint.

25. We have taken note of the representations which have been made by the Government of Uganda to the Kenya and Uganda Railway Administration regarding a reduction in the railway freight rates on lint. It appears to us that the railway freight rates on lint are substantially higher than the industry can reasonably be expected to bear under existing conditions.

26. Since 1929 reductions have been effected in the Cotton Export Duty which have involved considerable losses of revenue to the Uganda Government.

27. During the same period the ginning industry has, as a result of the introduction of the price fixing formula under the Cotton Zone Ordinance, effected substantial economies in working, which have had the effect of enabling appreciably higher prices to be paid to growers for their cotton crop.

28. It is clear that there is little prospect of any marked rise in the market price of lint occurring in the immediate future; it is also clear that the prices which growers received for their seed cotton during the past season on the average barely sufficed to maintain production at its present level; consequently it is of importance that all possible economies should be effected with the object of ensuring that prices paid to cultivators for their seed cotton should be maintained at a level sufficiently high to eliminate risk of serious diminution of production.

29. We feel that provided a reasonable return to the growers is assured there is good reason to anticipate that the expansion of production which has occurred during recent years will continue; on the other hand it is probable that any marked further fall in the prices paid for seed cotton will lead to a contraction in production.

30. In these circumstances we feel that in view of the economies and concessions already made by the Uganda Government and by the ginning industry it is but reasonable to suggest that the Kenya and Uganda Railway Administration also should collaborate in the policy of effecting economies in the cotton industry, and should grant concessions in respect of the railway freight rate for lint of sufficient magnitude to give substantial encouragement to growers even although these may involve, temporarily, appreciable loss of revenue. We feel that any such concessions are bound to be to the ultimate benefit of the Protectorate as a whole and that of the Railway particularly inasmuch as they will assist in encouraging increased production and will tend to maintain and extend the purchasing and importing power of its inhabitants.

H. TEMPANY, *Chairman.*

J. D. TOTHILL, *Member.*

E. D. REYNOLDS, *Member.*

H. GRIFFIN SMITH, *Secretary.*

ENTEBBE,

4TH OCTOBER, 1938.

Memorandum on the proposals of the Uganda Government for a reduction in railway freight on cotton.

I. General. 1.. The Government of Uganda has formed the opinion that the future of the cotton industry in Uganda will be seriously jeopardised if the prices paid to growers cannot be assured at a higher level than that obtaining in the 1937-38 season and, in examining the measures possible to this end, has reached the conclusion that it is essential that a reduction should be made in the railway freight on cotton. To enable Railway Council to give the fullest consideration to the proposals arising from this conclusion it is necessary to review the situation in detail and an attempt is made in this memorandum to examine all relevant factors.

II. World situation and its bearing on Uganda production.

2. In Tables I to III details are given of world production in recent years (showing separately the returns from the major producing countries), of world consumption, and of prices for American Middling cotton (which determines broadly the price of all other types). Cotton prices are notoriously sensitive to influences apart from those of supply and demand and predictions are liable to be unaccountably upset, but there are important tendencies revealed in these Tables which lend strong support to the view that the prices obtained in the period 1933-34 to 1936-37 must not be expected again for some years and that the 1937-38 price is likely to remain approximately the ruling price.

3. Since the breakdown in cotton prices in 1929-30 the American Government have tried to restore prices by active intervention which has included production restriction. With the notable exception of the 1937-38 season which is expected to result in a record crop of 18,300,000 bales, the result has been to maintain an average American production slightly below the 1924-29 level. This reduction is more than covered by the increase in production in other countries with the result that production has outstripped consumption. The normal carry over of world stocks is estimated at from 9 to 11 million bales, but in America alone the carry over in February this year was over 15 million bales or 5 millions more than it was a year ago. Stocks are likely to remain at a high level for some years to come and while this continues the price of American Middling is not likely to rise much above present levels.

4. On the production side it is probable that the trouble in the Far East will substantially reduce the output from China, though at the same time it will undoubtedly reduce the demand for cotton from China and Japan (the largest consumer after the United States).

5. The most striking cotton development in recent years has been in Brazil. This development has taken place in the main in the coffee areas and is a direct result of the difficulties in the coffee situation there. The net result is that some 2½ million bales have been added in the short space of 5 years to the annual production; this is an increase of an order likely to have a permanent effect on world prices. It is to be expected that production in this country will still further increase in the future.

In addition to the general tendencies arising from the American and world situation there is the more particular bearing of developments in the Sudan and in India. In the Sudan a rain-belt type of cotton is being grown which competes directly with Uganda cotton. Production there is increasing and the acreage under cotton is likely still further to be increased.

7. India is the main market for Uganda cotton [illegible] 68% of the exports last season. The Indian crop has not greatly increased since 1930 but with the completion of the Lloyd Barrage it is certain that production will increase. The Indian cotton breeding stations were visited by the Director of Agriculture, Uganda, early this year [illegible] one of them an attempt is being made to develop a type [illegible] that could be used to replace the Uganda type. While there is no immediate prospect of success in this direction definite progress has been made and the possibility cannot be ignored. There is furthermore the consideration that on every pound of lint imported into India a duty of [illegible] anna is imposed.

8. It may also be noted here that one result of the excess carry over in America was that in January, 1938, 80,000 bales of Californian cotton were off-loaded on the Bombay market and purchased by mills that normally use Uganda cotton.

9. There are thus several new factors which show that Uganda cotton will have to contend with severe competition. Not only are the ruling prices for American middling likely to remain low, but there is the prospect that the competition facing the Uganda type of cotton will make it necessary to accept a reduction in the premium over and above American middling prices which this type of cotton now commands.

III <u>Measures taken in recent years to improve the economic basis of the Uganda cotton industry.</u>

10. The Uganda cotton industry suffered considerably and progressively after the war from internal difficulties due mainly to excessive competition amongst ginners. This led at the beginning of the 1929 depression, to the appointment of the Carter Commission which carried out a detailed investigation into costs and prices. A number of important improvements resulted which were effected by an extensive reorganisation of marketing arrangements. Competition was controlled by the prohibition of the erection of new ginneries and still more by the introduction of a zoning system which enabled ginners to work together in associated pools and to effect important economies in marketing. At the same time a price fixing Committee was set up which had authority to fix minimum prices to producers. This Committee was established with the object of ensuring fair prices to producers and of passing on directly to them the benefits of the economies made in marketing arrangements. This object has been achieved. On days when the local price of lint has happened to be the same in the 1933-34 and 1937-38 seasons the price to growers was higher in the latter season by from 1 to 1½ cents per lb. of seed cotton or in terms of lint from 3½ to 5 cents. It is true, of course, that part of this increase is due to economies arising from increased ginning output (the 1933-34 crop was less than 300,000 bales as against 320,000 this season). The measure of economies within the industry can be further demonstrated by a comparison of charges. In the supplement to the Carter Commission Report of 1929 details of expenses of buying, transport to the ginnery, ginning, management and overheads were assessed for different areas on a basis of an output of 1,380 bales per ginnery. These expenses varied from 25.14 to 22.14 cents per lb. of lint. For the 1937-38 season the basic charge for the same expenses as employed in the price fixing formula varied from 12 cents

per lb. of lint where the output was under 800 bales to 8 cents where the output was 3,500 bales or over.

In the aggregate the improved prices noted above represent on this season's crop an additional amount to producers of between £2[illegible] [illegible] and £42[illegible],000, and on the price of lint to-day (4[illegible] cents) [illegible] represents an addition of over 11% in the price [illegible] growers.

11. [illegible] the cultivation [illegible] programme to secure better ploughing, better planting dates, more accurate spacing and more careful cultivation is carried on unremittingly by the staff of the Agricultural Department. The field staff has expanded steadily from 14 Agricultural Officers in 1929 to 21 in 1938, and the African field staff has increased considerably during the same period. Cotton production continues to rise steadily and has in fact doubled since 1929; the limit is not yet in sight.

IV. <u>Necessity for securing higher prices to producers.</u>

12. [illegible] Sections II and III demonstrate the arguments in support of the contention that the Uganda cotton industry must expect and prepare for a period of low prices and increasing competition, and that important measures, attended with definite success, have been taken to place the industry on a sound basis. Before proceeding to discuss possible avenues for securing a further reduction in costs in Uganda it is desirable to examine [illegible] for improving prices to producers.

13. Cotton is the mainstay of the economic fabric of Uganda and is, at the same time, one of the main props of the Railway structure. A good season brings considerable prosperity not merely to Uganda but also to the Railway. It increases the spending power of the native and that power is exercised to the full. A good cotton year is accompanied by increased sales of imported articles such as cotton piece goods and bicycles. When cotton prices are low there is little real prosperity in Uganda and the indicator of this prosperity is the spending capacity of the native. Last year the cotton producer received £2,[illegible] from a crop of 330,000 bales for which the average price was 13.22 cents. This year the bumper crop of 420,000 bales of cotton at an average price of 8.25 cents will give approximately £2,[illegible] for the producer, and his spending capacity is reduced accordingly.

14. The price to the producer must be high enough to enable him to pay his taxes and to have a margin to spend on his [illegible] requirements. If this cannot be secured to him there is the danger that he will not plant the next season. [illegible] danger point is reached cannot be stated with precision. It is possible, in fact probable, that the point would have to be reached two seasons in succession before the effect on [illegible] became really serious. There are undoubtedly indications that the low prices paid this season are affecting the [illegible] planted for the 1939 season. The fact that producers have in recent years acquired a taste for the luxuries with which cotton production has furnished them suggests that they [illegible] easily forgo these luxuries and may be content with a [illegible] return rather than give up planting. This argument [illegible] bearing, but more typical of the African producer is the attitude of mind "if I cannot get a certain return it is not worth the trouble of planting". This reaction to reduce prices has recently arisen to the South of Lake Victoria, and similarly it has become evident with regard to the growing of coffee in Bugishu. The danger of reduction in planting is however not the main disability arising from depressed prices - certainly not on such prices as obtain this year. The chief disability is low spending capacity and its effect on general prosperity. There is little prosperity in Uganda when the average price of cotton to producers falls to 8 cents per lb., and it is considered that an average price of at least 10 cents must be secured if there is to be any substantial measure of prosperity from the industry, and an assured traffic of imported goods on the Railway.

15. A review of the prices paid this season in the several zones indicates the gravity of the situation:-

Zone.	Average price.	
Busoga	9	cents per lb.
Budama	8	" " "
Bugwere	8	" " "
Lango N.	7	" " "
Lango S.	7	" " "
Teso S.	7	" " "
Teso N.	6.5	" " "
" Segregated.	6.5	" " "
Mengo	9	" " "
Buruli	8.5	" " "
Masaka	8.5	" " "
Mubende	8.5	" " "
Bunyoro	7.5	" " "
Gulu	6.5	" " "
Chua N.	7.	" " "
" S.	7.	" " "
West Nile	7.	" " "

The "weighted" average has not yet been calculated but it will approximate to 8.25 cents. The comparable average estimated by Government to be the approximate prices paid to producers since 1927 are given below.

Season	Average price.
1927-28	21.2 cents per lb. of seed cotton.
1928-29	18.
1929-30	15.05
1930-31	10.78
1931-32	10.73
1932-33	8.78
1933-34	10.14
1934-35	11.75
1935-36	9.51
1936-37	13.22
1937-38	8.25 (estimated roughly).

V <u>Measures being taken or proposed with the object of improving prices.</u>

16. The directions in which improved prices can be secured come within the following main heads:-

(a) Economies within the industry.
(b) Cotton tax.
(c) Motor transport costs.
(d) Rail transport costs.
(e) Harbour and wharfage charges.

These main heads are examined separately below.

(a) The industry itself co-operates each year with Government in reviewing the price formula with the object of ensuring that all possible economies are reflected in prices. The particulars given in Section III of this memorandum show that economies are being made and that they are passed on to the growers. A Commission of Inquiry has recently been set up under the chairmanship of the Assistant to the Colonial Office Agricultural Adviser to review the situation and further possible economies may come to light in the course of the inquiry.

(b) An export tax has been imposed on cotton [illegible] first fixed [illegible] converted [illegible] shillings [illegible] in 1928-2[illegible] [illegible] was [illegible] [illegible] boom period [illegible] [illegible] at 2 cents [illegible] below 4.5d. [illegible] tax has since remained [illegible] and is now under [illegible] further reduction. [illegible] it in an amended form [illegible] during the period [illegible] substantial sums ar[illegible] soil conservation [illegible].

(c) One of the main items [illegible] first transporting raw cotton [illegible] ginneries and finally the [illegible] lint and [illegible] seed from the ginneries to [illegible] all road transport costs ar[illegible] the ginnery to rail head being [illegible] are [illegible] at a rate of from 40 to 60 cents [illegible] ton [illegible] on distance [illegible] all one [illegible].

As regards the cost of [illegible] the average of all charges is from 4 to [illegible] cents [illegible] lint, and of this amount fully half is expended on [illegible] transport. It may be mentioned that in recent [illegible] Buganda it has cost 1/- to buy and transport [illegible] cotton (i.e. approximately 25 lbs. of lint) from [illegible] to the market. This is 4 cents per lb. of lint. [illegible] the charge is fractionally less.

As regards the cost of transporting [illegible] ginnery to rail-head, an example [illegible] is afforded from the actual cost [illegible] N.Chua zone in 1937-38. These costs amounted [illegible] of lint (actually 1.228 cents or .031 cents [illegible] cotton). It should be noted further [illegible] cost of transport made in [illegible].

Of the items which go to make these costs [illegible] so high, those susceptible of adjustment are:-

(1) the petrol duty of 3[illegible] cents per gallon;

(2) the railway freight charges on lorries [illegible].

As regards the first this Government has [illegible] its opinion in favour of a reduction of duty but [illegible] of the other E.A. Governments to accept any reduction in revenue from this source has made it impossible for this Government to press for a revision. As regards the [illegible] any substantial revision such as would be necessary to [illegible] cotton prices would it is thought involve the Railway in [illegible] financial sacrifices, only part of which could be passed [illegible] for the benefit of the cotton industry.

For these reasons it appears to be more satisfactory at this juncture to give relief to the cotton industry in some other way. At the same time it must be remembered that the cost of road transport bears very heavily indeed upon the cotton industry and it may be necessary at a later stage to ask for a reduction in petrol freight charges as a measure of assistance.

(d) Rail transport cos[illegible] are discussed [illegible] in Section VI.

(e) Such relief [illegible] may [illegible] harbour and wharf [illegible] charges as necessarily [illegible] order as compared [illegible] in this memorandum. [illegible] been made, but the Uganda [illegible] council (to whom copies of this [illegible] circulated) will present [illegible] to co-operate by affording some measure of [illegible]

VI **Rail freight charges on cotton lint.**

17. The railway freight rate from Jinja [illegible] is 3.72 cents per lb. of lint, from Lake [illegible] ports [illegible] and from other places, proportional sums according [illegible]

Table IV brings together some of the relevant [illegible] Taking Jinja as a representative shipping point a rate set in 1910 when in fact there was no cotton industry (see Table V). It was set at 1.79 rupees per 100 lbs. or in shillings 2/39 and as rupees were later converted to E.A. shillings at the rate of 2 shillings = 1 rupee the [illegible] became automatically 3.58 cents per lb. of lint. [illegible] no further change until in 1926 it was increased to 3.72 cents and there has been no change since.

18. Column 2 of Table IV shows that there have been three well marked periods during the development of the [illegible] cotton industry. The column shows the value of American middling cotton in Liverpool in £ per ton. The value of [illegible] cotton at Mombasa would be greater by the amount of premium. This varies from £10 to £20 per ton increasing with high prices and decreasing with low. Reference to the cotton production graph (Table V) shows that the first period from 1910 to 1916 when the average value [illegible] Liverpool was £ [illegible] per ton was a nursery period marked by no substantial [illegible] in fact there was a decline towards the end of this period. It is now certain that the freight rate was substantially more than the industry could bear with cotton values at [illegible]

19. With the next season however cotton [illegible] to almost unheard of levels and for this second period lasting from 1916-17 to 1929-30 the average price of American middling [illegible] ton in Liverpool was £125.4. During this period [illegible] was fully able to bear the railway freight [illegible] in 1926-27 season to 3.72 cents per lb. of lint.

The third period from 1930-31 to date has been [illegible] continuous difficulty, but by scaling down and for [illegible] remitting the export tax, and by making the reorganisation effecting the very substantial economics recounted el[illegible] this memorandum it has been possible to expand.

20. Commencing with 1937-38 season however a fourth period has commenced and in view of the enormous world carry over of cotton and of the increased competition that is taking place from America and Brazil and in view of the serious Indian [illegible] to grow its own cotton for spinning to 45-50 counts it is certain that the industry cannot bear anything like the 3.72 cent rate and that the prices paid to growers will have to be improved substantially as compared with those paid this season.

ton mile 21. Turning now to the actual rates, the increase from 10.64 cents to 11.5 cents shown in the 5th column of Table IV does not of course mean any alteration in the basic rate (which has not changed for 10 years) but is merely due to the revision of Uganda mileages. It is important to note that during the last decade the improvement in Railway efficiency h[illegible] in a reduction in average hauling costs per ton mile (Column 6 of Table IV) from 9.175 cents to 7.35 cents, i.e. a reduction of 20% and in the same period average receipts decreased from 14.319 cents to 11.289 cents, a reduction of 21%. The latter reflects mainly rates reductions and the former reflects costs reductions which in their turn also increased traffic in which cotton has borne more than its share.

22. It is considered therefore that without any [illegible] to what the industry can bear there is a clear and immediate case for a 20% reduction in the 1927 rate of 10.64 cents - i.e. a reduction to 8.51 cents. Confirmation of this contention is supplied by the figures of average costs per ton mile of public freight. This figure in 1937 on an average haul of 414 miles is 9.047 - and cotton is hauled at least 750 miles and is less difficult to handle than the average commodity.

23. It is suggested further that some additional concession should be made in view of the fact that cotton has not had the advantage of the taper principle. It is realised that the rates were fixed initially in full knowledge of the long haul, but the adjustment of the taper in the last few years so as to increase the proportionate benefit [illegible] to long distance hauls points to the equity of a reduction on this account. In class 10 (the comparable class in which the taper is applied) the rate at 750 miles is 8.6 cents per ton mile and at 414 miles (the average haul) it is 9.47 cents. If it is accepted that cotton should not bear more than the average charge of 9.047 cents it is considered that at least a corresponding taper reduction above average haul as applied to Class 10 goods should be allowed. This would reduce the figure from 9.047 cents to 8.177 cents.

24. A further consideration is that cotton is not an average commodity since it is easy to load and handle, is spread over a large part of the year and on account of its density enables full use to be made of the railway [illegible]. It is considered that this factor justifies a concession in the freight rate.

25. The contention is that the three factors discussed above justify a reduction to at least 8 cents and that such reduction should be made irrespective of any other considerations.

There is still the general prosperity factor [illegible] successful cotton season brings substantial increases to the Railway in freight receipts not only on imported goods purchased by the native but also on petrol and lorries used for transporting the crop. And if a reduction below 8 cents is necessary in order to secure a reasonably successful cotton season it is submitted that it is very much in the interests of the Railway to make that reduction.

26. It has been stated in paragraph 14 above that the price to growers should not be allowed to fall below an average of 10 cents a lb. if the depressing effects of low prices are to be avoided. On this season's average of 8.25 cents, which as has been argued, is not likely to be subject to improvement an increase of 1.75 cents or 5.25 cents per lb. of lint is called for. If the Railway reduce the freight rate to 6 cents, and it is urged that a reduction of this order should be made, the rate applied to Jinja would be 43.56 shs. per ton, equivalent to increasing the price of lint by 1.945 cents. This it is suggested is not an unreasonable contribution to

[illegible] the assumption that the rate [illegible] an assumption which [illegible] been submitted that the improvements [illegible] operation which have taken place in the last [illegible] impossible to justify the retention [illegible] reduction of 8 cents per ton mile [illegible] sacrifice of [illegible] level it should [illegible] condition. It is the balance [illegible] £55,000 which the Railway are asked to [illegible] in remedying the difficulties of the industry.

28. Of this £55,000 it is considered [illegible] amount can be regarded as profit on [illegible] traffic created directly by cotton [illegible] this aspect of profits on import traffic is [illegible] in respect of freight rates on cotton [illegible] respect of other export commodities [illegible] import traffic too. But it must be [illegible] an important consideration which does not apply [illegible] measure in other export items. [illegible] transport costs. Railway charges [illegible] very considerable item in [illegible] senting approximately [illegible] cents [illegible] transport costs. Unless [illegible] freight rates for petrol [illegible] allowed in the cotton rate.

29. Finally [illegible] give assistance [illegible] made by Government and by the industry [illegible] is a definite proposal to reduce [illegible] cents to [illegible]. Since the matter is [illegible] is only at the proposal stage, but [illegible] the reduction will be [illegible] than 1 cent. [illegible] this represents £84,000. The [illegible] cannot be estimated at this stage with precision [illegible] will be to secure an improvement in rates [illegible] the 10 cents average is reached and this on the basis of [illegible] crop and present prices represents approximately £440,000.

30. It is appreciated that from the Railway point of view there is the criticism that the Railway are being urged to afford relief which will involve a sacrifice of revenue of the order of £150,000, whereas the relief to be afforded by Government and by economies in the industry itself has not been stated with similar precision. This is necessarily so since the examinations now being made both as regards revision of the cotton tax and economies within the industry cannot be completed in time to give the Railway Council precise decisions before they themselves take a decision which will - and as it is urged must - be effective for the coming cotton season. In these circumstances this Government would consider it reasonable if

part of the relief to be given by the Railway are granted a temporary measure only. It is recommended therefore ... reduction to 8 cents a ton mile should be made forthwith ... permanent measure, and that a further temporary reduction ... 2 cents a ton mile should be ... for one year ... place. This temporary reduction to be ... in the light of general conditions then obtaining ... measure of assistance actually afforded ... the industry itself.

VII Summary.

31. The representations in this ... summarised briefly as follows:-

The cotton industry in Uganda ... serious difficulties owing to low prices.

Prices are determined broadly by the ... American middling cotton, and the world production and consumption situation is such that no substantial improvement ... prices can be expected for some years to come. ... the Uganda type of cotton must expect increasing ... from comparable types in other countries.

Prices to growers in the 1937-38 season average ... 8.25 cents per lb. of raw cotton. To ensure the ... measure of prosperity the price must not be allowed to fall below 10 cents, and, since no increase in ruling prices can be expected, relief must be afforded from within and without the industry to secure this minimum price.

The vital importance of cotton to Uganda's prosperity has caused continuous effort in past years to improve the economic basis of the industry. Substantial results have been obtained and though further economies must be made within the industry, the scope of these economies is restricted. They will be investigated by a Commission of Enquiry recently appointed by the Governor. Outside the industry direct assistance will be afforded by Government by revising the cotton export tax - the actual terms of the revision have still to be determined.

Transport costs are considerable and of these ... freights are the most important. Rail freight on items which go to make road transport costs (e.g. petrol and ...) are a serious burden but any relief in this direction must have general application to all road transport.

The case for relief from the Railway is ... the present confined to freight charges on cotton lint from Uganda to the Coast. The present rate has been in existence for 11 years and the rating relief given to other ... traffic in recent years together with economies in railway operation justify an immediate and permanent reduction to 8 cents ton mile. A further temporary reduction to 6 cents a ton mile is urged as a measure of assistance in ... present very difficult position.

... rate 1064 cents

On the basis of the 1937-38 crop a reduction to 8 cents a ton mile represents a reduction in Railway revenue of approximately £96,000 a year. The further reduction to 6 cents represents an additional £55,000.

/JVN.

TABLE 1.

COTTON PRODUCTION 1919-20 TO 1936-37
(in thousands of bales of 500 lb.)

Crop Year	United States of America	India	Egypt	China	Russia	Brazil	British Empire other than India	Other	Total
1919-20	11,421	4,857	1,114	2,470	200	455	110	739	21,150
1920-21	13,440	3,600	1,206	1,829	96	450	151	705	[illegible]
1921-22	7,954	[illegible]	972	1,456	42	491	89	685	[illegible]
1922-23	9,7[illegible]	4,058	1,245	2,249	52	538	151	711	[illegible]
1923-24	10,140	4,125	1,308	1,931	214	581	201	838	[illegible]
1924-25	13,628	4,870	1,345	2,1[illegible]	458	642	281	974	[illegible]
1925-26	16,104	4,972	1,533	2,044	741	580	335	1,077	[illegible]
1926-27	17,977	4,019	1,727	1,707	785	490	387	1,218	[illegible]
1927-28	12,956	4,770	1,219	1,853	1,025	480	263	1,056	[illegible]
1928-29	14,478	4,628	1,602	2,441	1,174	528	372	1,209	25,60[illegible]
1929-30	14,825	4,194	1,697	2,069	1,279	564	329	1,227	[illegible]
1930-31	13,932	4,179	1,582	2,506	1,589	470	310	1,114	25,184
1931-32	17,096	3,206	1,271	1,752	1,846	576	387	1,119	[illegible]
1932-33	13,002	3,725	991	2,195	1,776	438	414	961	[illegible]
1933-34	13,047	4,086	1,715	2,652	1,912	1,014	447	1,370	[illegible]
1934-35	9,637	3,866	1,511	3,033	1,774	1,359	579	1,791	25,448
1935-36	10,638	4,582	1,707	2,415	2,374	1,713	589	2,067	25,570
1936-37	12,407	4,767	1,889	3,75[illegible]	3,750	1,800	616	1,585	[illegible]
1937-38 (estimate)	18,243	5,700	2,500	4,000	3,400	2,000	2,700		[illegible]

(Figures from Empire Cotton Growing Review)

(Note: the Empire bale is 400 lbs).

TABLE II.

Liverpool Prices of American Middling.

	Pence per lb.
1910-11	7.64
1911-12	6.09
1912-13	6.76
1913-14	7.27
1914-15	5.22
1915-16	7.51
1916-17	12.33
1917-18	21.68
1918-19	19.73
1919-20	25.31
1920-21	11.89
1921-22	11.37
1922-23	14.92
1923-24	17.66
1924-25	13.76
1925-26	10.77
1926-27	8.15
1927-28	11.17
1928-29	10.52
1929-30	9.09
1930-31	5.71
1931-32	4.82
1932-33	5.62
1933-34	6.02
1934-35	6.93
1935-36	6.52
1936-37	7.11
1937-38	4.92 (average of August to June inclusive).

x. From articles by J.A.Todd F.C.G.R. Vol.6 to Vol.XV. Prices are the average for the last Friday of each Month.

TABLE III.

WORLD CONSUMPTION OF COTTON 1923-24 TO 1936-37.

(In thousands of bales of 500 lb.)

Season	United Kingdom	Europe	United States of America.	Asia	Other	Total.
1923-24	2,718	5,329	5,605	5,973	771	20,396
1924-25	3,235	6,565	6,142	6,509	1,060	23,509
1925-26	3,022	7,210	6,400	6,635	1,419	24,686
1926-27	3,010	7,353	7,132	7,372	1,073	26,139
1927-28	2,904	8,056	6,771	6,591	1,219	25,541
1928-29	2,800	8,112	7,025	6,720	1,217	25,872
1929-30	2,465	7,889	6,052	7,713	1,082	25,201
1930-31	1,984	6,861	5,246	7,407	1,010	22,488
1931-32	2,386	6,280	4,844	7,723	1,086	22,319
1932-33	2,248	6,675	6,110	8,136	1,184	24,353
1933-34	2,470	7,472	5,669	8,149	1,551	25,111
1934-35	2,507	7,322	5,337	9,139	1,496	25,801
1935-36	2,735	7,637	6,339	9,005	1,682	27,394
1936-37	2,851	7,533	7,935	9,512	1,823	29,654
1937-38 (estimate)						28,000

(Figures taken from the Empire Cotton Growing Review)

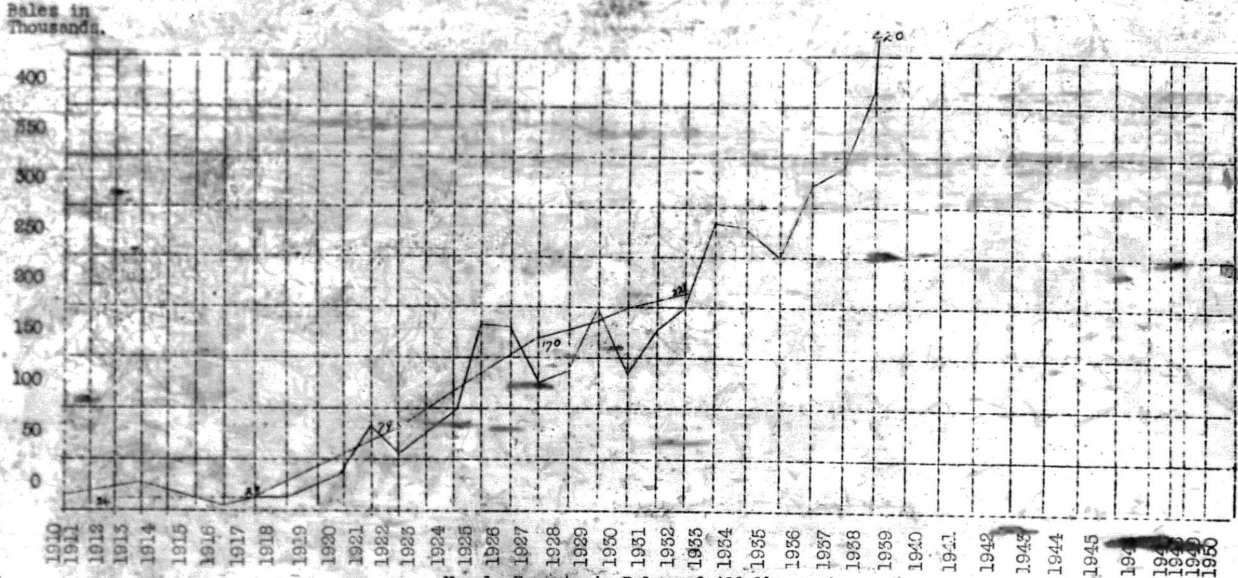
TABLE IV.

1. Season.	2. Liverpool value of lint £ per ton.	Average	Railway freight rate, Jinja to coast per lb. of lint. Cents.	Mileage. x.	Rate per ton mile. Cents.	Average costs of hauling total freight ton miles. Cents.	Av. receipts per freight ton mile (public). Cents.
1910-11	76.8	Average £ 65.5	2.39	726(?)	7.4		
11-12	67		"	"	"		
12-13	65.3		"	"	"		
13-14	68		"	"	"		
14-15	49.8		"	"	"		
15-16	70.5		"	"	"		
16-17	115.3	Average £ 125.4	"	"	"		
17-18	120.3		"	"	"		
18-19	[illegible]		"	"	"		
19-20	287.0		"	"	"		
20-21	111.		3.58	"	11.5		
21-22	106.5		"	"	"		
22-23	139.5		"	"	"		
23-24	165.2		"	"	"		
24-25	128.8		"	"	"		
25-26	101.0		"	"	"		
26-27	76.2		3.72	783	10.64	9.175	14.312
27-28	104.5		"	"	"	9.154	14.171
28-29	98.2		"	"	"	8.481	13.536
29-30	85.0		"	"	"	9.215	11.672
30-31	56.8	Average £ 57.7	"	"	"	10.649	11.[illegible]
31-32	45.1		"	"	"	10.674	12.212
32-33	52.5		"	"	"	8.815	11.815
33-34	56.3		"	"	"	9.251	13.218
34-35	64.8		"	"	"	8.502	12.680
35.36	61.2		"	"	"	7.443	10.965
36-37	36.5		"	726	11.5	7.350	11.369
37-38	46.1		"	"	"		

x. The rate was 1.79 rupees per 100 lbs. Later converted to E.A. Shillings at Sh.2 = 1 rupee.

TABLE V.

UGANDA COTTON PRODUCTION GRAPH BASED ON EXPORT RETURNS.



Yearly Exports in Bales of 400 lbs. net.
Average Production over 5 year Periods, ending with 1934

UGANDA COTTON ASSOCIATION.

P.O. Box 51,
KAMPALA,

12th August, 1938.

The Honourable the General Manager,
Kenya & Uganda Railways & Harbours,
NAIROBI.

Sir,

RAILWAY FREIGHT ON COTTON.

We are instructed by the Members of our Association to submit for your consideration their request for a permanent reduction in Railway freight and Harbour dues on Cotton Lint.

The arguments in support of this application are detailed in the attached Memorandum.

Briefly, they may be summarised as follows :-

(a) There is world wide over production of Cotton with which consumption has failed to keep pace.

(b) This has resulted in a drastic fall in Cotton prices.

(c) Uganda is almost entirely dependent on its Cotton crop.

(d) In order to maintain its place in existing markets, at the new low level prices, Uganda cotton must be marketed more cheaply.

(e) The grower must not be discouraged from planting by unduly low prices or output will drop with disastrous results to all.

(f) It remains for the other partners in the industry - ginners, railway and government to assist in the reduction of costs.

(g) Since the railway derives a very large revenue from Cotton, both direct and indirect, which is believed to be a very profitable one, we ask with no misgivings for a substantial reduction in freight.

(h) In view of the arguments adduced in the attached memorandum, we request an immediate and permanent reduction of 50% in railway freight on cotton lint, to come into force on 1st January, 1939; a like reduction on Harbour dues on cotton lint; and a continuance of the concession granted last year by the Harbour Board of Sh. 2/50 in respect of cotton seed.

(i) In conclusion we are to ask that you will receive a deputation from our Association and we shall be glad to know when it will be convenient to you.

We have the honour to be,
Sir,
Your obedient servants,

MOODY & TILBROOK LTD.
SGD: ....
SECRETARIES.

MEMORANDUM BY THE UGANDA COTTON ASSOCIATION IN SUPPORT OF A CLAIM FOR REDUCTION IN RAILWAY AND HARBOUR CHARGES.

1. Uganda is almost entirely a one crop country and is dependent upon cotton. The only other crop of any size is coffee, which is itself in a bad economic state. During the past ten years cotton lint alone has accounted for approximately 75% of the exports from Uganda in value, and if cotton seed be also taken into account, the figure becomes approximately 80%.

The following table illustrates this position :-

EXPORTS OF LINT AND SEED.

Year.	Bales of 400 lbs. each	Value £	Percentage of total exports.	Tons Seed.	Value £	Percentage of total exports.
1928	138486	2475327	72.9%	45506	323110	9.5%
1929	204057	3312667	77.5%	67525	484000	9.9%
1930	129122	1555344	75.8%	33678	187267	6.7%
1931	183330	1503307	76%	45435	149224	7.5%
1932	207326	1584172	71.2%	56311	168366	7.56%
1933	294828	2682210	77.4%	81274	262539	7.5%
1934	285642	2927796	77.5%	35689	85947	2.2%
1935	253242	2822739	77.7%	50685	135779	3.7%
1936	321848	3326879	74.4%	85762	263180	5.9%
1937	338392	4269283	74.8%	103440	392083	6.9%

2. The large increase in the crop during the past decade will be immediately noticed, and this has been still further maintained in 1938 when a crop of approximately 420,000 bales will be tendered to the railway. This would spell increased prosperity for Uganda and consequently the railway if only world prices had remained reasonably stable, which they have not.

3. As the value of the crop rises or falls, so will the spending power of Uganda increase or decrease, with resultant effect on the imports into the Protectorate and railway traffic entailed.

If any proof be needed for that statement, the following table, illustrating the relation between the total amount paid to the growers and Customs Receipts for the same years supplies it :-

/....

Year.	Value of crop to Growers. £	Customs Revenue Uganda. £	Percentage Customs Revenue bears to amount paid to growers.
1928	1846000	432062	23.5
1929	2273000	440302	18.
1930	1242000	324697	26.
1931	1318000	303430	23.
1932	1397000	285184	20.
1933	1676000	290203	17.
1934	1843000	367520	20.
1935	1923000	397758	20.5
1936	2031000	428480	21.
1937	2922000	582263	20.

4. The figures quoted in the two preceding tables finish on a note of high prices in 1937. Unfortunately, those have not been maintained, and in fact the world price of cotton broke at the end of our 1937 season and has now reached a low level such as has been almost unknown in the past, falling from 7d. in June to 4½d. in October.

5. The reason for the slump in prices is not far to seek, being increasing production coupled with a more or less stable consumption, as illustrated by the following table, which shows how, in ten years, production has increased from 25½ million bales to 40½ million bales, whilst consumption remains less than 30 million bales.

Year.	Production. Bales of 500 lbs.	Consumption Bales of 500 lbs.
1927-8	25,531,000	25,541,000
1928-9	27,660,000	25,872,000
1929-30	27,472,000	25,201,000
1930-1	28,084,000	22,481,000
1931-2	28,542,000	22,319,000
1932-3	25,345,000	24,353,000
1933-4	28,374,000	25,111,000
1934-5	25,611,000	25,801,000
1935-6	28,546,000	27,371,000
1936-7	33,639,000	29,722,000
1937-8	40,645,000	13,454,000 (half year)

6. Approximately 50% of the world's cotton is produced in the U.S.A., where the Government have attempted by various means to hold up the price, although the increasing production has prevented them from achieving that measure of success for which they had hoped. The final crash in prices came as the result of the almost incredible yield of the 1937 American crop; and with the steadily increasing production and lack of corresponding consumption it is difficult to see how any substatnial rise can take place in the near future, and it would appear to be necessary to count on the continuance of a low world cotton price. Quite apart from the increased crop in the U.S.A., Brazil has increased her output in the last six years by 2,000,000 bales; Russia by 2,000,000 bales; Egypt by 600,000 bales; Sudan by 130,000 bales and India by 1,000,000 bales. Furthermore, Germany and Japan, normally big buyers of cotton, are restricted in their purchasing power by economic and political reasons. Yet another factor militating against cotton consumption is the increase in use of artificial silk.

7. ...

7. Uganda cotton is a high grade cotton, commanding a premium over American Middling, and although all cotton prices are related to American Middling, other factors influence the amount of premium which any one type can command.

Uganda cotton is unfortunate in that it not only follows the general slump, but in addition is attracting increasing competition, and in India in particular, which is our biggest customer, attempts are being made to grow a cotton similar to that produced in Uganda. It is essential that Uganda cotton should be marketed as cheaply as possible in India in order to discourage experiments of that nature. Furthermore, if the Uganda crop is to increase we may find India unable to absorb it all and we may have to find other markets in which we must be prepared for keen competition.

8. It is hoped that the foregoing will have demonstrated the urgent need for economies in every possible way in the marketing of Uganda cotton.

9. Ginners in Uganda have already made sacrifices during the past two years by extra payments to the growers varying from .80 cents to 1½ cents per lb. of lint. A further indication of what ginners themselves have done towards effecting economies is illustrated by comparison of costs. e.g., in Buganda in 19[illegible] as given by the Carter Commission at Sh. 24/88 per 100 lbs. lint with the amount allowed for expenses in our current formula in 1938 of Sh. 9/40 per 100 lbs. lint. That Government are alive to the seriousness of the position is shown by their recent decision to appoint a commission of enquiry this year to see, amongst other things, what further saving ginners can effect.

10. It is further hoped that the Government of Uganda will remit cotton tax in whole or in part, which at present amounts to 2 cents per lb. of lint.

11. We accordingly approach the Railway to make sacrifices also, in support of which there are several excellent reasons.

Firstly, the first three paragraphs of this memo[illegible] have demonstrated the direct relationship between imports, and resultant railway freight thereon, and the value of the Uganda cotton crop.

Secondly, Cotton Seed and Cotton head the list of commodities railed to the Coast, amounting in 1937 to 109625 tons and 66100 tons respectively, so that the cotton industry may be regarded as the Railway's biggest customer and consequently the one most deserving of consideration. We estimate that the cotton industry of Uganda will pay to the Railway some £600,000 in rail freight in 1938, made up of £320,000 on lint, £125,000 on Cotton Seed and £155,000 on ginners' imports for consumable stores, petrol, etc.

Thirdly, the Railways & Harbours earned a gross surplus in 1937 of £1,768,000, in spite of rate reductions introduced at the beginning of that year amounting to £120,000, a small amount of which latter was admittedly given to Cotton Seed by the Harbour Board but none to cotton. In fact, Cotton has never applied for, or obtained, any rate reduction.

/...

Fourthly, further substantial reductions in rates were made in 1938 for coffee and rubber; and it is submitted that cotton is now due for consideration.

Fifthly, a comparison of rates paid on commodities of similar values shows Cotton to suffer from a marked disadvantage.

EXPORT RAIL FREIGHTS: KAMPALA/MOMBASA.

Commodity.	Approximate value per ton at Coast.	Freight rate per 100 lbs.
COTTON	£45	Shs. 3/90
COFFEE	£50	Shs. 1/46
HIDES	£45	Shs. 2/91
RUBBER	£50	Shs. 2/18

Lastly, the General Manager's report for 1937 stated in para 190 that given developments in the two territories further improvements and reductions in charges should be possible. It is now submitted that cotton is developing, but may be in serious danger of a retrograde movement should reduction in costs not be forthcoming.

Kampala.

9th August, 1938.

December, 1938.

21879/32/38

Sir,

With reference to the correspondence terminating with Mr. Hale's semi-official letter of the 5th May, 1938, I am directed by Mr. Secretary MacDonald to enclose, to be laid before the Lords Commissioners of the Treasury, copies of two despatches from the High Commissioner for Transport, Kenya-Uganda, seeking approval for the early introduction of certain alterations in freight rates and harbour charges in force on the Kenya-Uganda Railways and Harbours. Copies are also appended of connected telegraphic correspondence with the High Commissioner.

Fr. High Cr. 17th Nov: 1938

Fr. High Cr. 17th Nov: 1938

To High Cr. 10th May 1938

Fr. High Cr. 30th Nov. 38.

To High Cr. 1st Dec: 1938

To High Cr. 1st Dec: 1938

2. In his confidential despatch of the 14th November, the High Commissioner reviews the position and prospects of the cotton industry in Uganda, endorses the view that substantial relief must be granted if a serious recession in production is to be avoided, and recommends that reductions in railway and harbour charges on cotton should

THE SECRETARY,

TREASURY.

should be made to a possible maximum during 1939 of £180,000.

3. From a perusal of the 1939 draft Estimates of the Kenya-Uganda Railways and Harbours Administration, advance copies of which have subsequently been received in this Department, it appears that the cost of this assistance (together with that proposed to be granted to the coffee industry - see paragraph 7 below) is proposed to be met from current revenue during 1939. The resultant deficits, amounting to £17,738 on railway net revenue account, and £22,129 on the similar account of the harbours are to be defrayed from a Rates Stabilisation and Relief Fund, to be created at the beginning of 1939 by the allocation of £200,000 from hitherto unhypothecated surplus balances. No encroachment is contemplated either on the Renewals Fund or on the General Reserve Fund of the Administration which it is proposed should remain throughout the year at its present figure of £688,000.

5. Concurrently with the reduction in transport costs, the Government of Uganda, with the Secretary of State's approval, has decided to reduce the export tax

on

80
END

on cotton from two cents to one cent per pound, and it is anticipated that certain internal economies in the industry can be effected when the Report of the Uganda Cotton Commission, now sitting in London, has been received.

6. The Secretary of State is satisfied that these concessions to an industry which provides 81.8 per cent in value of Uganda's exports are economically sound and necessary, and he has been gratified to be semi-officially assured that in the circumstances Their Lordships will not withhold their consent to the High Commissioner's proposals.

7. In his despatch No.162 of the 17th November, Sir Robert Brooke-Popham recommends a number of minor rate adjustments of which only one calls for comment, viz:- the continuance during the first six months of 1939 of the reduced charges on Coffee for export. The cost to the Administration, estimated at £63,750 is to be met in the same way as the expenses of relief to the cotton industry described in paragraph 4 above.

8. Following upon semi-official communication with your Department a telegram of the 1st December, of which a copy is enclosed, was sent to the High Commissioner approving his proposals.

I am, Sir,
Your most obedient servant,
(Signed) L. B. FREESTON

PUBLIC RECORD OFFICE

END

TOTAL EXPOSURES ⇨