

**COTTON TARE,
SEPTEMBER 3,
1912, PP. 1-51**

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DEPARTMENT OF COMMERCE AND LABOR
BUREAU OF CORPORATIONS
LUTHER CONANT, Jr., Commissioner

COTTON TARE



SEPTEMBER 3, 1912



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LETTERS OF TRANSMITTAL

DEPARTMENT OF COMMERCE AND LABOR,
OFFICE OF THE SECRETARY,
Washington, September 3, 1912.

SIR: I have the honor to transmit herewith a Report of the Commissioner of Corporations on Cotton Tare, this report dealing largely with the operation of contracts of foreign cotton exchanges.

Very respectfully,

CHARLES NAGEL,
Secretary.

The PRESIDENT.

DEPARTMENT OF COMMERCE AND LABOR,
BUREAU OF CORPORATIONS,
Washington, September 3, 1912.

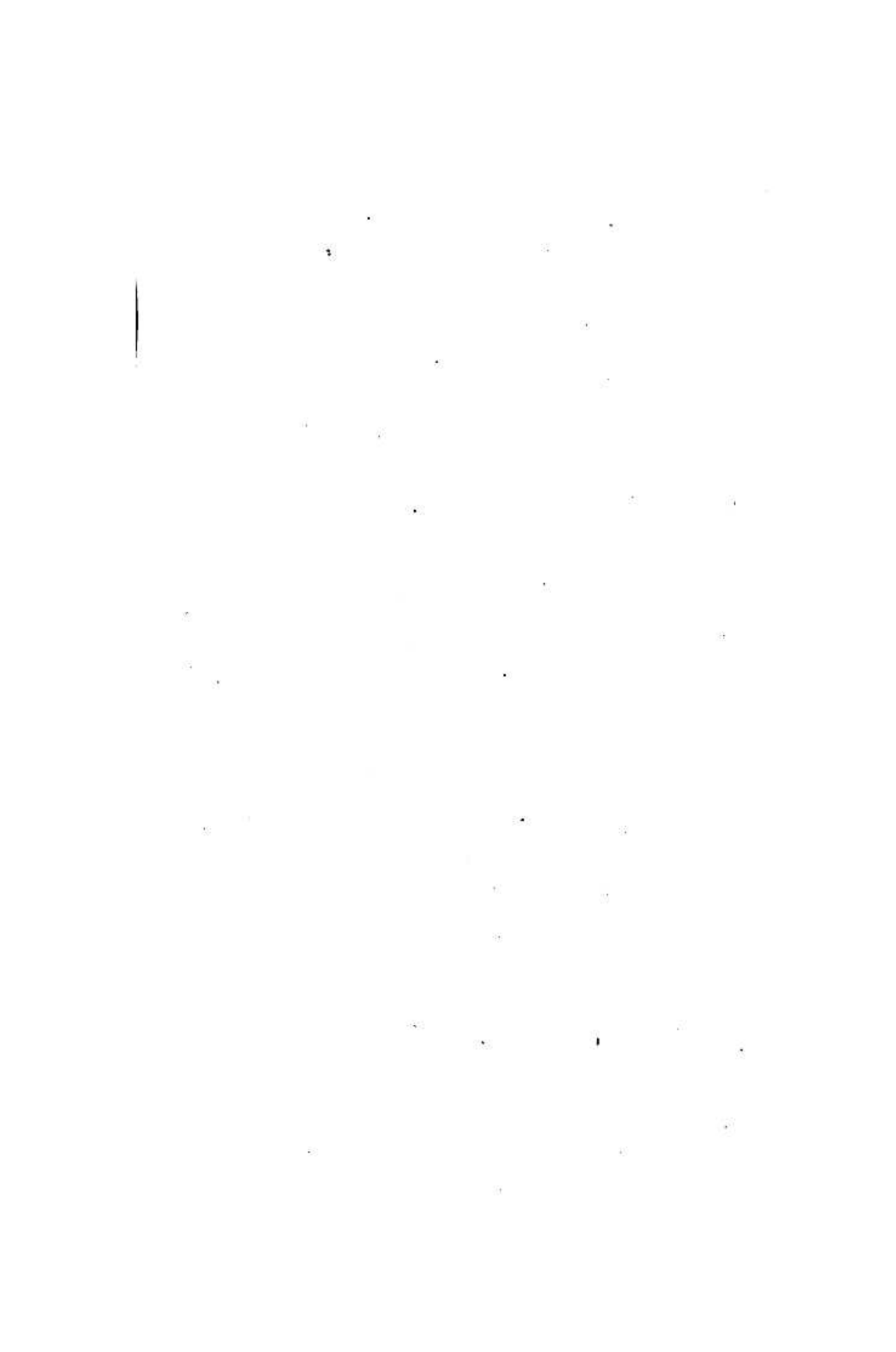
SIR: I have the honor to transmit herewith a Report on Cotton Tare, made to the President under your direction and in accordance with the law creating the Bureau of Corporations. This report deals largely with the operation of contracts of foreign cotton exchanges.

I desire to mention as especially contributing to the preparation of this report the name of Mr. T. M. Robertson, of this Bureau.

Very respectfully,

LUTHER CONANT, JR.,
Commissioner.

To HON. CHARLES NAGEL,
Secretary of Commerce and Labor.



LETTER OF SUBMITTAL.

DEPARTMENT OF COMMERCE AND LABOR,
BUREAU OF CORPORATIONS,
Washington, September 3, 1912.

SIR: I have the honor to submit herewith a report on cotton tare. This investigation was undertaken on complaint that producers of cotton were being subjected to serious injury because of excessive deductions for tare (bagging and ties) under the rules of leading European markets. The evidence gathered, however, indicates that competition in the cotton trade is so active that the producer does not ordinarily suffer. Nevertheless, these rules result in serious evils. They complicate price calculations by injecting into the business an unnecessary element of chance. Furthermore, they involve economic waste. If this does not injure the producer or the merchant or the spinner, it must impose an unnecessary burden upon the consumer of cotton goods.

The American producer sells his cotton gross weight. In the export trade, however, practically all cotton is sold net weight. A large part of the cotton exported to Europe is sold under what are known in the trade as "c. i. f. and 6 per cent" terms, which provide that the net invoice weight shall be found by deducting 6 per cent of the gross weight. When this rule was originally established, many years ago, an ordinary bale of cotton weighed about 400 pounds gross, and a deduction of 6 per cent fairly represented the tare and "draft" (the latter an arbitrary allowance of about 2 pounds per bale). Since then the gross weight of the bale has gradually increased to approximately 500 pounds, without a corresponding increase in the amount of tare. Roughly speaking, the tare on a bale of American cotton as it comes from the hands of the producer is from 19 to 24 pounds per bale, or, to use an average figure, about 22 pounds. This means that a bale of cotton weighing 500 pounds contains 478 pounds net. A deduction of 6 per cent from a gross weight of 500 pounds leaves only 470 pounds net, or 8 pounds less than the actual weight of the net cotton in the bale.

When the cotton reaches the foreign market, the buyer has the right to call for an actual test for tare. In case of such test, the rules governing the contract fix a maximum tare allowance of about

5.3 per cent, or, say, 26½ pounds for a standard bale. In other words, while the contract requires a deduction of 30 pounds per bale, the rules governing tests under the contract allow only 26½ pounds, a discrepancy of 3½ pounds per bale.

The cotton exporter is therefore confronted with two problems—first, how to take care of the difference between the tare on the bale when he buys it and what is deducted when he sells it; and, second, how to allow for the 3½ pounds difference between the 30 pounds deducted in his invoice and the 26½ pounds allowed in the final settlement in case of actual test.

Some cotton merchants argue that these facts are thoroughly understood by the trade and are adjusted in the price. Others, however, contend that since they are obliged to deduct 6 per cent in their invoices they are virtually forced to have at least 6 per cent tare on their cotton when it is shipped abroad.

Whether or not the contract actually forces the exporter to add unnecessary tare to his cotton, there can be no doubt that such addition of tare has been its practical result. The exporter naturally adds tare up to the amount allowed by the rules (roughly, 26½ pounds). He does this by "patching;" that is, placing strips of bagging on the bale. A small part of such patching is usually necessary to cover sample holes. However, since the exporter in making out his invoice must deduct 6 per cent, he frequently goes further and adds tare up to at least 6 per cent of the total weight of the bale; sometimes he adds even more.

Obviously, if the exporter makes a complete adjustment in the price, and also adjusts by adding tare, he makes a profit on such added tare. If, however, complete adjustment is not made in the price, this addition of tare becomes simply a means of protection against loss, although in the trade it is usually spoken of as a "profit on patching."

EFFECT OF THESE TARE RULES ON THE AMERICAN PRODUCER.

The important question involved in the investigation was how this 6 per cent contract and the accompanying rules affect the American producer. As already stated, many producers believe that they are injured because of the 6 per cent deduction, but the investigation indicates that competition in the cotton trade is so active that ordinarily this is not the case. Most exporters take account of their so-called "profit on patching" in arriving at the price which they actually pay for cotton. In fact, some state that in figuring upon their buying prices they make no specific allowance for profit but depend upon the profit or saving they derive from patching; in other words, they do not deduct the full 6 per cent for tare. There was very general unanimity of opinion among buyers that the producer is not