

**PUBLIC ACCOUNTS COMMITTEE
(1975-76)**

(FIFTH LOK SABHA)

TWO HUNDRED AND TWENTY-THIRD REPORT

CONTROLLED CLOTH

MINISTRY OF COMMERCE

[Paragraph 30 of the Report of the Comptroller
& Auditor General of India for the year 1973-74,
Union Government (Civil)]



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1976/Vaisakha, 1878 (S)

Price : Rs. 2.86

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA
SECRETARIAT PUBLICATIONS**

Sl. No.	Name of Agent	Sl. No.	Name of Agent
ANDHRA PRADESH		MAHARASHTRA	
1.	Andhra University General Co-operative Stores Ltd., Waltair (Visakhapatnam).	10.	M/s. Sunderdas Gianchand, 601. Girgaum Road, New Princess Street, Bombay-2.
2.	G.R. Lakshmiapaty Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	11.	The International Book House, (Private) Limited, 6, Ash Lane, Mahatma Gandhi Road, Bombay-1.
ASSAM		12.	The International Book Service, Deccan Gymkhana, Poona-4.
3.	Western Book Depot, Pan Bazar, Gauhati.	13.	Charles Lambert & Company, 10, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.
BIHAR		14.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	15.	Deccan Book Stall, Fergusson College Road, Poona-4.
5.	M/s. Crown Book Depot, Upper Bazar, Ranchi.	16.	M. & J. Services, Publishers Representatives, Accounts & Law Book Sellers, Bahri Road, Bombay-15.
GUJARAT		MYSORE	
6.	Vijay Stores, Station Road, Anand.	17.	People Book House, Opp. Jaganmohan Palace, Mysore.
7.	The New Order Book Company, Ellis Bridge, Ahmedabad-6	RAJASTHAN	
HARYANA		18.	Information Centre, Government of Rajasthan, Tripolia, Jaipur City.
8.	M/s. Prabhu Book Service, Nai Subzi Mandi, Gurgaon.	19.	M/s. Usha Book Depot, 585 A, Chitra Bazar, Tripolia, Jaipur.
MADHYA PRADESH		UTTAR PRADESH	
9.	Modern Book House, Shiv Vilas Palace, Indore City.	20.	Law Book Company, Sardar Patel Marg, Allahabad-1.

CORRECTIONS

223RD REPORT OF THE PUBLIC ACCOUNTS
COMMITTEE (FIFTH LOK SABHA) ON PARAGRAPH
30 OF THE REPORT OF THE C&AG FOR THE
YEAR 1973-74, UNION GOVERNMENT (CIVIL)
RELATING TO CONTROLLED CLOTH PRESENTED
ON 30TH APRIL, 1976.

- . . .

<u>Page</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
5	35	Ministry	Minister
8	9	After the word 'production', <u>insert</u> the word 'of'	
8	13 (from bottom)	financial by	financially
9	14	, and	which
10	2	0.2	-0.2
29	3	subjects	subject
29	16	got	get
42	19	Hybred	Hybrid
42	33	stample	staple
49	1	After the word 'responsibility', <u>insert</u> the word 'was'	
54	34	injuction	injunction
67	Table (col.1)	8501	7501
67	Table (col.2)	2790	2.90
68	Table (col.4)	8	85
68	Table (col.6)	15	158
76	31	to	for
84	24	and	add
116	3	arrangements	arrangement

45308(5)
29-7-76

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
REPORT	
CHAPTER I Production	1
CHAPTER II Marketing and Distribution	60
APPENDICES	
I Details showing mills from whom penalty is recoverable for short-fall in production of controlled cloth from October, 1964 to April, 1968	96
II Statement showing the obligation of mills to produce controlled cloth	97
III Statement showing the packing of controlled cloth and its percentage in relation to the total packing period-wise	99
IV Statement showing profits after tax as a percentage of net worth of Cotton Textile Industry	101
V Statement showing details of mills from whom penalty is recoverable for shortfall in production of controlled cloth	102
VI Note on legal position of Clause 21C(1)(b) of the Cotton Textiles (Control) Order, 1948, furnished by the Ministry of Law	103
VII Statement showing ex-factory cost of Cloth (Dhoties/Sarees) in Mill and in handloom sector	107
VIII Statement indicating the number of outlets in urban and rural areas (State-wise)	108
IX Statement showing conclusions/Recommendation	110

PART II*

Minutes of the sittings of the Committee held on :

15-7-1975 (FN and AN)
16-7-1975 (FN and AN)
17-7-1975 (FN)
28-4-1976 (AN)

*Not printed. One cyclostyled copy laid on the Table of the House and five cyclostyled copies placed in Parliament Library.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(1975-76)

CHAIRMAN

Shri H. N. Mukerjee

MEMBERS

2. Shri T. Balakrishniah
3. Shri Chandulal Chandrakar
4. Shri Chandrika Prasad
5. Shri Darbara Singh
6. Shri C. C. Gohain
7. Shri Pampan Gowda
8. Shri Raja Kulkarni
9. Shri Shyam Sunder Mohapatra
10. Shri Priya Ranjan Das Munshi
11. Shri Narendra Singh
12. Shri Noorul Huda
13. Shri Shibban Lal Saksena
14. Shri N. K. Sanghi
15. Shri Somchand Solanki
- *16. Shri Mohammed Usman Arif
- *17. Shrimati Pratibha Singh
- *18. Shri V. B. Raju
19. Shri Gulabrao Patil
- *20. Shri T. K. Srinivasan
- *21. Dr. K. Mathew Kurian
22. Shri Rabi Ray

SECRETARIAT

Shri Avtar Singh Rikhy—*Additional Secretary.*

Shri H. G. Paranjpe—*Chief Financial Committee Officer.*

Shri N. Sunder Rajan—*Senior Financial Committee Officer.*

*Cesscd to bc Member of the Committee consequent on retirement from Rajya Sabha
w.e.f. 2-4-1976.

INTRODUCTION

1, the Chairman, Public Accounts Committee, having been authorised by the Committee, do present on their behalf this Two Hundred and Twenty Third Report on Paragraph 30 of the Report of the Comptroller and Auditor General of India for the year 1973-74—Union Government (Civil), relating to Controlled Cloth.

2. The Report of the Comptroller and Auditor General of India for the year 1973-74—Union Government (Civil) was laid on the Table of the House on the 30th April, 1975. The Committee examined paragraph 30 of the said Audit Report at their sittings held on the 15th, 16th and 17th July, 1975. The Committee considered and finalised this Report at their sitting held on the 28th April, 1976. Minutes of these sittings form Part II* of the Report.

3. A statement showing the conclusions/recommendations of the Committee is appended to the Report (Appendix LX). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of the subject by the Comptroller and Auditor General of India.

5. The Committee would also like to express their thanks to the officers of the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

H. N. MUKERJEE,

Chairman,

Public Accounts Committee.

NEW DELHI;

April 29, 1976

Vaisakha 9, 1898 (Saka).

*Not printed. One cyclostyled copy laid on the Table of the House and five cyclostyled copies placed in Parliament Library.

CHAPTER I

PRODUCTION

Audit paragraph

1.1. Under section 3 of the Essential Supplies (Temporary Powers) Act, 1946, the Cotton Textile (Control) Order, 1948 was issued in August 1948 for regulating production, prices, packing etc. of cotton cloth. Clause 22 of that Order empowers the Textile Commissioner to specify the maximum ex-factory prices at which any class of cloth may be sold and, under Clause 21A of that Order, he may direct a producer to pack such minimum quantity of such cloth during such period as he may specify. Under sub-clause (1) of clause 21C of that Order, cash assistance may be given to cotton mills for production in excess of the minimum quantity prescribed and mills which produce less than the minimum quantity prescribed may make payment for the deficiency in production at the rates specified by Government. Any mill contravening the Cotton Textiles (Control) Order 1948 was liable to prosecution under section 7 of the Act of 1946, which expired in January 1955. The Cotton Textiles (Control) Order 1948 continued to be in force till March 1955 and continues to be in force thereafter under section 16 of the Essential Commodities Act 1955. Section 7 of the Act of 1955 provides for prosecution of the mills contravening the Cotton Textiles (Control) Order 1948.

1.2. Controls imposed on production of cloth under the Cotton Textiles (Control) Order 1948 were withdrawn in July 1953. Controls were reimposed in October 1964. During October 1964 to April 1968 there was no provision for either payment of cash assistance for production in excess of the minimum quantity prescribed or recovery of compensation for deficiency in production. During May 1968 to May 1971 provision was made for payment of cash assistance and recovery of compensation. Under a voluntary scheme operated by Indian Cotton Mills' Federation during June 1971 to March 1974 the Federation gave cash assistance and recovered compensation. From April 1974 when Government again assumed control over production of controlled cloth, no provision was made for payment of cash assistance although recovery of compensation was prescribed.

1.3. The Estimates Committee, 1973-74 (Fifth Lok Sabha) in its 61st Report has commented on the shortfall in production of some popular varieties of cotton cloth (dhoties, sarees, long cloth, shirtings,

drills etc.) after controls were reimposed in October 1964 on production and prices of such varieties of cloth to make these available for mass consumption at reasonable fixed prices. When controls were reimposed in October 1964, production of these varieties was fixed at 45 per cent to 50 per cent of the total production (reduced to 40 per cent in October 1966). Forty-four mills which failed to produce the minimum quantity of controlled cloth during October 1964 to April 1968 were liable to prosecution. The Textile Commissioner directed them to clear the backlog or, as an alternative, to pay to Government at the rate of 6 paise per square metre. The total amount recoverable for the shortfall in production of controlled cloth on this basis was Rs. 15.22 lakhs, out of which Rs. 5.34 lakhs were recovered from 24 mills. Neither has the balance of Rs. 9.88* lakhs been recovered nor have the defaulting mills been prosecuted (December 1974). Of the defaulting mills, management of 9 mills from which Rs. 4.45 lakhs are recoverable has been taken over by Government. Payment of rupees 1.92 lakhs due to the defaulting mills as cash assistance for production of controlled cloth during May 1968 onwards has been withheld by the Textile Commissioner.

1.4. From May 1968, the obligation of the mills for production of controlled cloth was reduced to 25 per cent of the total production and the mills were to pay compensation at the rate of 6 paise for each square metre of controlled cloth not produced. (Control on fine and superfine cloth was withdrawn from May 1968). Cash assistance was payable to those mills, which would produce controlled cloth in excess of their quota obligation, at half paise to 6 paise for each square metre of controlled cloth produced in excess. As on 30th November 1974, Rs. 166.51 lakhs were payable as incentives for the controlled cloth produced during May 1968 to May 1971, of which Rs. 163.59 lakhs had already been paid. Out of Rs. 544.18 lakhs recoverable as compensation from 189 mills for less production of controlled cloth during May 1968 to May 1971, Rs. 520.12 lakhs were recovered upto 15th December 1974. Of the balance Rs. 24.06 lakhs recoverable from 24 mills, Rs. 21.90 lakhs are recoverable from 18 sick mills management of which has been taken over by Government. Actual production of controlled cloth during May 1968 to May 1971 was 1572 million linear metres against obligation of the mills to produce 3248 million linear metres. Production of controlled cloth fell from about 220 million linear metres (21 per cent of total production) during the quarter February 1969 to April 1969 to about 12 million linear metres (1.23 per cent of total production) during the quarter February 1971 to April 1971.

*Vide details in Appendix I

1.5. A new voluntary scheme operated by the Indian Cotton Mills' Federation was introduced from June 1971, under which the industry agreed to produce 100 million square metres of controlled cloth per quarter (about 12 per cent of total production). The scheme was introduced initially for 3 months, pending re-fixation of prices of controlled cloth on the basis of results of study by the Bureau of Industrial Costs and Prices. From out of the premium on sale of imported cotton and contributions from Government and mills, loss on production of controlled cloth was to be subsidised by the Indian Cotton Mills' Federation at the rate of 50 paise per square metre (reduced to 35 paise from December 1971, 30 paise from March 1972 and 20 paise from June 1972). The compensation recoverable by Indian Cotton Mills' Federation for non-fulfilment of obligation was 25 paise per square metre upto December 1972. The compensation was raised to Re. 1 thereafter as it was noticed that many of the mills were not discharging fully their controlled cloth obligation and were taking recourse to paying compensation rather than producing the requisite quantity of controlled cloth.

1.6. In September 1972 the Bureau of Industrial Costs and Prices submitted its interim report based on cost study of certain selected units. Accounting years of those units ended March 1970 and June 1971, in the majority of cases the accounting year ended in December 1970. In this report the Bureau concluded that assuming production of controlled cloth as 20 per cent of total production, the industry as a whole would have well over 15 per cent return on the capital and there was no justification for continuing assistance. Between January 1972 and March 1973, Government sanctioned Rs. 1.89 crores to the Indian Cotton Mills' Federation as its contribution for payment of subsidy to the mills producing controlled cloth during June 1971 to May 1972. No cash assistance was paid on production of controlled cloth from June 1972. Production of controlled cloth during June 1971 to March 1974 was 1000.48 million square metres against 1133 million square metres required to be produced under the voluntary scheme, although the quota for production of controlled cloth was reduced to less than half of that prevailing during May 1968 to May 1971 and cash assistance was more liberal.

1.7. Consequent on increase in prices (about 30 per cent) of controlled cloth allowed from April 1974, Government again assumed control over production of controlled cloth and imposed an obligation on mills for annual production of about 800 million square metres of controlled cloth (24 per cent of total production), prescribing compensation of Rs. 2.50 per square metre for default. During the half year April 1974 to September 1974 actual production of con-

trolled cloth was stated to be 388 million square metres against 400 million square metres required to be produced. The total penalty leviable for 12 million square metres produced less was Rs. 3 crores. Government stated (December 1974) that "for any shortfall, penalty should be collected by the Indian Cotton Mills' Federation who should utilise the amount so collected for getting the shortfall made up through production from other mills."

1.8. It may be mentioned that the Estimates Committee, 1973-74 observed in its 61st Report mentioned above that with annual production of 800 million square metres of controlled cloth, the annual per capita availability of controlled cloth is only about 1.46 square metres and that the requirement of controlled cloth should be assessed on the basis of a minimum per capita annual requirement of 12 square metres.

1.9. A statement showing the obligation of mills to produce controlled cloth, how much was actually produced, the rates of incentive and compensation, the amounts paid as incentive, the amounts due as compensation and actually recovered etc., from time to time from October 1964 onwards is enclosed (Appendix II).

[Paragraph 30 of the Report of the Comptroller and Auditor General of India for the year 1973-74, Union Government (Civil)].

Genesis of the Controlled Cloth Scheme

1.10. The genesis of the Controlled Cloth Scheme and the changes made therein from time to time upto April 1974 have been indicated in the Audit paragraph. With effect from 1st April 1974, production of controlled cloth on a statutory basis was reintroduced with a target of production of 800 million square metres for the year ending 31st March 1975. The salient features of this scheme were as follows:

- (a) The price of controlled cloth was revised upwards by 30 per cent.
- (b) The retail margin on controlled cloth which was reduced to 12½ per cent in October 1972, was raised to 20 per cent over the ex-mill price because of increased cost of transportation and handling.
- (c) The quantum of controlled cloth was increased from the level of 400 million square metres envisaged under the

voluntary arrangements to 800 million square metres per annum.

- (d) The varieties under control included higher medium cloth also in the five commonly used varieties, viz., sarees, dhoties, drill, shirting and long cloth. A provision was also made in the revised scheme to ensure adequate production of each variety of controlled cloth in each of the three categories, viz., higher medium, lower medium and coarse.
- (e) A penalty of Rs. 2.50 per metre was prescribed for non-fulfilment of obligation. Inter-mill transfer of obligation to produce controlled cloth was however allowed.
- (f) A set off of 1 metre of controlled cloth for every 3 metres of cloth exported over and above the mills' obligation of 15 per cent was allowed.
- (g) Compulsory selvedge printing of prices on every metre of controlled cloth was to be introduced progressively.
- (h) In order to achieve the objective of production of 300 million square metres of controlled cloth per annum, an obligation to produce 24 per cent of its total production was placed on each composite mill for the period April—September, 1974.

1.11. From 1st October, 1974, however, the scheme for production of controlled cloth was slightly modified. From that date an obligation to produce 30 per cent of its production as controlled cloth was placed on each mill. Rebate in controlled cloth obligation was allowed at the rate of one metre of controlled cloth for export worth Rs. 5 f.o.b. in respect of piece-goods, and Rs. 7.50 f.o.b. in respect of garments.

1.12. For the period January to March 1975, the obligation for a mill to produce controlled cloth was increased to 36 per cent of its production. For the quarter April—June, 1975 each mill's obligation to produce controlled cloth was fixed at 28 per cent of the total production.

1.13. On 2nd December 1975 the Ministry of Commerce was reported to have announced at a News Conference that 'Sick and financially weak' cotton textile mills had been exempted from the production of controlled cloth for one year from January 1976 in view of

the huge accumulation of controlled cloth. On 2nd April, 1976, the Commerce Minister informed the Lok Sabha that the stock of controlled cloth remaining unlifted with the mills had come down from 96,000 bales in July 1975 to 48,000 bales at the end of February, 1976.

1.14. Briefly summing up the evolution of the controlled cloth scheme, as modified from time to time, the Commerce Secretary, stated in evidence:—

“Chronologically speaking, we can say that from October, 1964 to May, 1971 production and pricing were controlled. Distribution was not controlled. The second period, June 1971 to March 1974—there was no statutory control on production or pricing or distribution. Only a voluntary scheme organised by the Indian Cotton Mills Federation imposed voluntary controls on production and pricing but after 1974 till date statutory control is there on production, pricing and distribution.”

1.15. The Committee enquired into the specific steps taken by Government to remove the drawbacks in the working of the controlled cloth scheme. In a note, the Ministry of Commerce stated that the following steps had been taken to improve the situation:—

- (i) With effect from 1st October, 1974, production of grey long cloth, without prior permission of the Textile Commissioner has been prohibited.
- (ii) Revised specifications, effective from 1st March, 1975 have been prescribed for long cloth, shirting, dhoties and sarees.
- (iii) The mills have also been required to produce at least 20 per cent of their production of controlled cloth in the form of dhoties and sarees from January, 1975.

Production of Controlled Cloth

1.16. The following table indicates the production of controlled cloth in the Mill sector, since 1964:

Year	Millimetres	Total Production	Controlled cloth production
		Period	Production
1964	4,654	October-December, 1964	345 m.m.
1965	4,587	1965	1764 m.m.
1966	4,239	1966	1605 m.m.
1967	4,097	1967	1724 m.m.
1968	4,366	January- April, 1968	499 m.m.
		May-January, 1969	568 m.m.
1969	4,168	February, 1969—January, 1970	578 m. sq m.
1970	4,157	February 1970—January 1971	234 "
1971	3,957	February 1971—May 1971	11 "
		June 1971—February 1972	302 "
1972	4,245	March—December 1972	265 "
1973	4,169	1973	389 "
1974	4,316	January—March 1974	58 "
		April—December 1974	612 "
1975	1,064	January—March 1975	211 "

(Upto March 1975)

NOTE—The figures of production of controlled cloth have been given according to the periods for which obligations for production were fixed. The figures for broker periods have been given at certain places because of the charges which took place in the scheme of controlled cloth.

1.17. Packing of controlled cloth since 1964 had been as under:—

Period	Total quantity of controlled cloth packed
	(in million sq. metre)
October-April 1968	5,937.00
May 1968—May 1971	1,397.24
June 1971—March 1974 (statutory scheme)	1,060.00
April 1974—March 1975 (statutory scheme)	823.00 (approx)

The percentage of controlled cloth packings to the total packings ranged between 33 to 49 per cent in various quarters during the period October 1964 to April 1968 but sharply declined in the quarters in the subsequent period from May 1968 to May 1971, the percentage range being 1.22 to 21 per cent. (Details are given in Appendix I & II).

1.18. Under the controlled cloth scheme introduced w.e.f. October 1964, as amended from time to time, the obligation of the mills for the production controlled cloth was as under:

Period	Production of controlled cloth as percentage of total production
20-10-64 to 31-3-65	45
1-4-65 to 30-6-65	50
1-7-65 to 31-3-66	45
1-4-66 to 30-9-66	50
1-10-66 to 1-5-68	40
2-5-68 to 31-5-71	25
1-6-71 to 31-3-74	12
1-4-74 to 30-9-74	24
1-10-74 to 31-12-74	30
1-1-75 to 31-3-75	36
1-4-75 to 30-6-75	28

1.19. From January 1976, "sick and financial by weak" mills have been exempted from the obligation to produce controlled cloth for one year in view of the large accumulation of stocks of such cloth.

1.20. The Committee desired to know the main reasons which impelled Government to reduce the obligation of Mills to produce controlled cloth from 40 to 25 per cent of the total production of cloth from May 1968. In a note, the Ministry of Commerce stated:

"Prior to the revision of controlled cloth policy in May, 1968 the cotton textile industry had been passing through difficult times for two-three years. There had been loss of production efficiency due to obsolescence of machinery in a large number of units and substantial increase in the debt equity ratio from approximately 2:1 in 1960-61 to 3:1 in

1965-66. The resultant enhancement of debt service liabilities had further contributed to the erosion of overall profitability."

1.21. The Committee asked if it was a fact that even the obligation of 25 per cent was not enforced and that the mills were allowed to 'set off' their obligation against cloth produced for defence and export. In reply, the Textile Commissioner stated in evidence:—

"First time when the control came at 45 per cent at that time also, the policy was to give set off to be given for defence and export supplies. From 1965 onwards, we were giving 100 per cent set off on defence and export supplies by the mills.*** This has been the policy from the beginning. Two cornerstones of our policy have been to encourage exports and the defence supplies, and have to be maintained. For these objectives all along, we have given set off, to the mills."

The position is that during this period (1968—71) we fixed the obligation at 3,000 million sq. metres and the rebate allowed for defence and exports was 1150 million sq. metres. The net obligation was 1850 million sq. metres.

1.22. The Committee enquired whether before reducing the obligation of the mills from 40 to 25 per cent, under the May, 1968 scheme, any assessment of the requirements of controlled cloth was made. In a note, the Ministry of Commerce replied:

"While no precise assessment of the requirements of controlled cloth had been made, the scheme was based on the objective of providing as much cloth in the fine varieties as possible to meet the requirements of cloth for mass consumption."

1.23. The Committee wished to know the level at which the decision to reduce the obligation of mills from 40 to 25 per cent was taken. In a note, the Ministry of Commerce stated:

"The decision to reduce the area of control to medium 'B' and coarse categories of cotton cloth and to reduce the obligation of the mills to 25 per cent was taken at the Cabinet level. The decision was announced by the Commerce Minister in the two Houses of Parliament on 1 May, 1968 and came into force from 2 May, 1968."

1.24. The Ministry also informed the Committee that the profitability in cotton textile industry ranged between 0.2 and 11.1 as against 7 and 10.1 per cent for all industries during the period 1964-65 to 1972-73, *vide* details indicated in Appendix IV. This generally deteriorating situation was further aggravated during 1965-66 and 1966-67 by cost inflation due to the shortage and higher prices of cotton as well as increases in labour and other costs, accompanied by a demand recession. There had been an appreciable increase in the number of closed mills from 27 in March, 1967 to 38 in March 1968.

1.25. Following the lifting of price controls on raw cotton in September, 1967 and inspite of better availability during 1967-68 cotton season, the prices of cotton continued to rule high. These ranged mostly between 20 to 30 per cent over the ceiling of 1966-67. From February, 1968 onwards, however these prices had shown a downward trend but even as late as 15th of April, 1968, the weighted average market prices were about 8 per cent above the ceilings of 1966-67 cotton season. The index number of raw cotton prices moved up from 139.9 during 1966-67 to 176.9 in January, 1968, i.e. an increase of about 37.6 points. The index number of cloth prices on the other hand, moved up from 145.8 in 1966-67 to 154.4, i.e. an increase of only about 9 points, over the same period. As cotton accounts for almost 50 per cent of the total cost of cotton textiles, the imbalance between the two rates of increase was thus apparent.

1.26. Over the same period there had been other increases in production costs by way of increases in dearness allowance by 10 to 12 per cent. As wage costs account for about 27 per cent of the total cost of cloth, this alone justified a proportionate increase of the order of 3 per cent in cloth prices.

1.27. The mill industry was pressing very hard from October, 1967 for a suitable upward revision of the cloth prices to compensate for the increasing costs so as to restore profitability, and thereby improve the staying power particularly of the weaker units of the industry. In their view the ills of the industry were not always due to bad and inefficient management or obsolescence of machinery. They attributed their plight mainly to the effects of cost inflation and demand recession.

1.28. It was also partly due to their over borrowed position. The industry, therefore, emphasised the need for immediate action towards restoring profitable working particularly of the weaker sector of the industry. To this end they suggested *inter-alia* an increase in the price of the controlled varieties of cloth and a substantial reduction in the

volume of cloth under control. The matter was discussed intensively at official level between the representatives of Ministry of Commerce and the Ministry of Finance as well as the representatives of the Indian Cotton Mills' Federation.

1.29. The situation of the cotton textile industry was really unhealthy and that some remedial measures to revive activity and improve profitability were called for. A sizeable reduction in the quantity of cloth under control seemed inescapable. On the other hand it was difficult at that time to agree to any substantial increase in cloth prices keeping in view the interest of the economy as a whole and of the consumer in particular. The total decontrol of cloth was also not considered practicable.

1.30. Taking all these factors into account it was decided to keep within price control only coarse and lower medium cloth of the prescribed varieties and simultaneously to reduce the statutory minimum obligation to 25 per cent of the total production. In the year 1967 production of controlled varieties in coarse and lower medium categories accounted for about 16 per cent of the total mill production in that year. In order to ensure sufficient availability of these controlled varieties for the vulnerable sections of the population, the percentage was stepped up from 16 per cent to 25 per cent.

1.31. During evidence, the Textile Commissioner added:

"If you put 50 per cent under control, then, the price increase, which you have to give will be slightly higher than the price increase which you will put if 25 per cent of the area is under control and 75 per cent is free."

1.32. The Committee desired to know why superfine, fine and medium 'A' varieties of cloth were taken out of the ambit of the controlled cloth scheme in May, 1968. In reply, the representative of the Ministry of Commerce stated:

"Basically, the decision was only to remove higher varieties of cloth, in the fine and superfine category, from the ambit of control and maintain the supply to these sections of the categories in which they were primarily interested.***** One can question whether this would be a better approach or the other approach would be supplying a larger spectrum of production based on the economic price which was still then being fixed. Which was a better solution? But I think Government did come to the conclusion that a line of supply of certain, though limited, proportion of the

production should be maintained at constant price and this was done between 1968 and 1974."

1.33. On the question of a need for an integrated policy for standard cloth production raised by the Committee, the Commerce Secretary stated during evidence:

"At present, we are following a policy of 800 million sq. metres of cloth in the controlled sector. Our total cotton textile production in the mill sector is 4200 million metres. Besides this, there is, of course, the handloom sector and the powerloom sector. Now the total production of cloth in this country assumes a figure of something like 8000 million metres at present. There is a proposal which is seriously and earnestly being considered that the controlled cloth production should be augmented—augmented from 8000 to 1200 m. sq. metres or a higher figure. The Commerce Minister did indicate certain ideas on the subject in the Consultative Committee the other day. The final figure is, of course, not yet agreed upon between all these departments of the Government and the Ministries but an indication was given that probably it might be 1200 million sq. metres or nearabout. In that case, if we add 400 million sq. metres more to the controlled sector it is obvious that the load on the cotton textile mill sector will be more than **at present**. **At present, there is a feeling that the cotton textile mill sector is suffering a loss of approximately one rupee per sq. metre.** That means, the total loss is of the **order of something Rs. 80 crores** on the production of this kind of cloth. Some of the inefficient mills are probably suffering a higher loss than one rupee but we have taken for the purpose of broad calculations a figure of one rupee. In order to make good this extra loss, we have to see that the health of the industry is not impaired. It is proposed that some kind of a marginal increase or let us say, substantial increase in the price being given to the mills for this standard cloth production, may have to be thought of. Also it is thought that in the non-controlled sector and in the handloom sector we have to do something. The non-controlled sector will have to be brought under some kind of discipline—either a voluntary kind of discipline or something like that. Again the money generated in this context would have to be earmarked substantially at least

for the modernisation and development of the textile industry itself. The failure of the textile industry to expand itself during last 25 years is an alarming feature and it is certainly going to be difficult for people to produce extra cloth for the requirement of a growing population. A meeting organised in the Cabinet Secretary's room between various Secretaries and the Planning Commission very recently went into this matter and suggested a total supply of at least 15 sq. metres of cloth per capita which includes, of course, the synthetics also, and ensure it by the end of the Plan. These are the broad parameters on which thinking is being done. There is no doubt that a lot of adjustments will have to be made as a result of an increase which is being proposed in the contribution in respect of controlled cloth, by the mill industry. The handloom industry, as I have earlier said, will also have to be inducted into this, but to an extent which we cannot foresee now. It depends very much on the price of yarn made available to them for the production of controlled cloth. As regards varietal reductions, orders have already been given that there should be a 10 per cent reduction this year and 25 per cent reduction by next year. In the meantime, a Committee under the Chairmanship of the Textile Commissioner is going into the details of it; and I expect that by the end of the year their recommendations on the subject will be coming forth; and then, another view can be taken as to how and to what extent to implement the scheme of varietal reduction. Government is aware of this problem; and they want to curtail the varieties."

1.34. The Committee wanted to know the level at which the "Voluntary Scheme" for the production of controlled cloth, which remained in operation from June 1971 to April 1974, was approved. In a note furnished in reply, the Ministry of Commerce stated:

"The scheme for production of controlled cloth on voluntary basis introduced in June 1971 was set out in the report submitted by a Committee headed by the then Additional Secretary in the Ministry of Foreign Trade to look into the causes of fall in production and to suggest remedial measures. The scheme initially introduced for the quarter June—August, 1971 was subsequently extended from time to time till April 1974 when the scheme was placed on statutory basis. The scheme was approved at the level of the Minister of Foreign Trade."

1.35. The Committee were informed that the Indian Cotton Mills Federation (ICMF) received a total sum of Rs. 23.55 crores for the operation of the Controlled Cloth Scheme during 1971-74. As against this, the total disbursements made by the Federation amounted to Rs. 20.08 crores on this scheme. The break-up of the amount of Rs. 23.55 crores received by the Federation is indicated below:

	Rs.
(1) Fees collected on foreign cotton	12,32,51,871
(2) Contributions received from mills on production of non-controlled cloth	5,37,35,868
(3) Penalties received on short falls in production of controlled cloth	3,56,20,377
(4) Contributions from funds with the Textile Commissioner	1,89,00,000
TOTAL	<u>23,55,08,116</u>

1.36. Asked if the ICMF had been submitting statements of accounts to Government, the Minister of Commerce stated in a note:

“Statements of accounts were submitted by the Federation to the Textile Commissioner. The statements in respect of the period 1-6-71 to 31-5-72 was received by the Textile Commissioner on 4-5-73, for the period up to 31-3-73 on 24-1-74 and for the period up to 31-3-74 on 7-1-1975. The accounts had been properly audited by Chartered Accountants and were accepted by the Textile Commissioner.”

As pointed out in the Audit paragraph, when the “Voluntary Scheme” was in operation from 1971 to 1974, the compensation for non-production was being recovered by the Indian Cotton Mills Federation. The Committee enquired whether this arrangement was discontinued when the Controlled Cloth Scheme, was again placed on a statutory basis from April 1974 and whether the compensation collected at the rate of Rs. 2.50 per sq. metre from that date was being credited to the Consolidated Fund of India. In reply, the representative of the Commerce Ministry stated:

“The statutory scheme of controlled cloth does not provide for the payment of penalty in lieu of non-fulfilment of production obligation. The production obligation cannot be compounded by the payment of an amount. But the level of penalty would be determined by Government because Government has a role to see that the controlled cloth is produced. That level of penalty would be fixed by Government and intimated to the Indian Cotton Mills

Federation which is the apex organisation of the mills. The collection of this amount of Rs. 2.50 will be operated by the ICMF. There will be no question of the amount being paid into the Government. Clause 21(c) of the Cotton Textile Control Order has also been deleted. All these three steps have been taken together during May 1974. Therefore, the mill which does not deliver controlled cloth in accordance with the decision of the Textile Commissioner, faces prosecution in the court of law under the Essential Commodities Act. Penalties etc. are within the system and operated *inter se* by the ICMF to make sure that the production is in fact ensured. We do not come into the picture of collecting anything from anybody."

The Commerce Secretary added:

"We are not taking steps for amending the Act; we have taken steps for deleting the provision which the Law Ministry thought, was not legal. This Rs. 2.50 is a penalty no doubt; but it cannot come into the Government's Funds. It is true that this is a penalty which the mill will pay, unless it wishes itself to be prosecuted."

Compensation for Non-Fulfilment of Obligation and Incentives for Excess Production

1.37. According to the Audit Paragraph, the rate of compensation payable by Mills for deficiency in the production of controlled cloth and rate at which incentive was payable to Mills for controlled cloth produced in excess of their obligation were as under:—

(Paise per sq. metres)		
Period	Rate of compensation	Rate of incentive
October, 1964 to April, 1968	6*	Nil
May, 1968 to May, 1971	6	½ to 6
June, 1971 to March, 1974 (Voluntary Scheme)	25 (Upto Dec., 72) 100 (From Jan. 73)	50 (from June, 71) 35 (from Dec, 71) 30 (from March, 72) 20 (from June, 72)
April, 1974 to 24-10-1984	250	Nil

*Not actually provided in the Cotton Textile Control Order—Adopted as an alternative to prosecution.

1.38. The Committee learnt from Audit that the amounts realised as penalty during the periods October 1964 to April 1968 and 2 May

1968 to 31 May, 1971 were credited as receipts of Government. From 1 June 1971, however, the penalty was being collected by the Indian Cotton Mills Federation and credited to its Consumers Subsidy Fund. This does not pass through the Government account.

1.39. The Committee desired to know whether on account of the low rate of compensation of 6 paise per sq. metre fixed in respect of the defaulting mills, many mills had preferred to pay this meagre penalty rather than fulfilling their obligation for the production of Controlled Cloth. The Committee also desired to know the rationale for fixing what, *prima facie*, appeared to be a ridiculously low rate of compensation. The Commerce Secretary, stated in evidence:

“We will go through the past record and try to find out the rationale for this formula of six paise.”

1.40. In a subsequent note, the Ministry of Commerce stated:—

“The rationale behind the determination of the rate of 6 paise of compensation was that this amount was considered to be higher than the losses faced by the Mills in the production of controlled cloth.”

1.41. The actual packing of controlled cloth was 201 million sq. metres during the period November 1968 to January 1969, which, however, decreased to only 9.14 million sq. metres during the period February 1971 to April 1971. If as had been stated that the compensation of 6 paise per sq. metre for the non-production of controlled cloth was higher than the losses suffered by the mills in producing controlled cloth, the Committee desired to know the reasons for the fall in production pointed out above. The Textile Commissioner stated in evidence:

“From 1964—68 the Government kept on fixing the prices on the basis of the formula of the Tariff Commission. Later we refused to give any increase in price. That is why in the later months of 1969 as the actual cost of production went high and the prices given became low, most of the mills started using this device of paying the compensation amount. That is why you have this phenomenon of 9 million sq. metres being produced against 165 million sq. metres in February-April, 1971. Everybody was paying this compensation which was a right given to him under the law.”

1.42. The Commerce Secretary, however, conceded that later on when the cost of production went up and the mills preferred to pay

the penalty of 6 paise in lieu of producing controlled cloth, probably the loss would have been much higher than six paise.

1.43. The representative of the Commerce Ministry stated in this connection:

“At the time when the compensation was fixed at 6 paise, the actual figure of loss was perhaps less than 6 paise, so there was an element of incentive in the 6 paise figure. However the events subsequently overtook us and there was a steady rise in cotton price year after year.”

1.44. In this context, the witness furnished the following figures representing the index of cotton price:

Year	Index
1968-69	138.3
1969-70	147.6
1970-71	169.0
1971-72	242.0
1972-73	169.2
1973-74	257.9

1.45. Since any policy decision should actually fulfil the objectives envisaged and produce results, the Committee desired to know how this was ensured by prescribing a low figure of compensation, which, in the ultimate analysis, proved to be self-defeating. The Textile Commissioner stated:

“The reason for this is that the mills started opting for paying compensation of 6 paise because the cotton price index during this period had almost increased from 138 to 220, and the price of cloth was pegged down at the 1968 level. Therefore, some of the mills found that it was beneficial for them to opt for that 6 paise compensation rather than produce the cloth.”

The representative of the Commerce Ministry added:

“During the period 1968-69, one might say that more or less the assumptions behind fixing the 6 paise figure were borne out. But subsequent to 1969, the cost of production rose so heavily that Government was receiving continuous representation about continued loss in the controlled cloth

production and as the Textile Commissioner observed just now, no increase was given in spite of these representations, so that the prices were kept or pegged down at 1968 level. The revision in price that was given in 1968 itself was practically only marginal because there was only a 2 per cent increase of cost in mill price for controlled varieties of cloth and that too it was not in the case of dhotis or sarees. It was restricted to other categories. The increase in the price was given only for the other types of cloth production and rationalisation of excise duty was also introduced."

1.46. Asked if raising of the compensation to Rs. 2.50 from April 1974 had improved production performance, the Commerce Secretary stated:

"The penalty was fixed at a very high figure of Rs. 2.50 in order that there is no default in the total production. In fact this paid us very well. In the year 1974-75 the total obligation on the industry of 800 million metre was exceeded by a little fraction, to 810 million metres. The whole thing was available because the penalty was very high."

1.47. The Committee wanted to know as to how it was that while in 1968 compensation of 6 paise was found rational but in 1974 a much higher compensation of Rs. 2.50 was considered to be rational. In reply, the Commerce Secretary said:

"It was very much a penal figure probably at that time. It was not realised that we should put a higher penal kind of thing."

1.48. Since the penalty of six paise obviously had no relation to the realities of the objectives, and Government, if it so desired, could invoke and enforce their penal powers to ensure better performance from the mills, the Committee asked whether Government's attitude in this regard had been rather soft so as to have levied only a ridiculously low penalty. The witness said:

"Yes, Sir, if the legal provisions would have been there, Government could have used it in any manner. The decision was about six paise. It seems that the system seems to have broken down and the production figure went down to as low as has been just stated."

1.49. Asked if by preferring to pay compensation of six paise rather than producing controlled cloth, mills had apparently tried to blackmail the Government, the witness said:

“I don't think there was blackmail, I would say at this way, they took advantage of a provision in the law.”

1.50. During evidence, the Committee were informed by the Textile Commissioner that during the period 1964 to 1968, the mills default was only 9.4 per cent i.e. 87.98 lakh sq. metres. Out of the total penalty of Rs. 15.22 lakhs to be collected, at the rate of six paise per sq. metre, two private mills had defaulted to the extent of Rs. 0.91 lakhs.

Eight Mills of the National Textile Corporation had also defaulted to the extent of Rs. 4.36 lakhs. The relevant details in respect of each of the 10 Mills are given in Appendix V.

1.51. In a subsequent note, the Ministry of Commerce stated that one private mill (New Commercial Mills, Ahmedabad) had been granted an injunction prohibiting the Textile Commissioner from taking any action against the Mill. F.I.R. had been lodged with the U.P. Police against the second private Mill (M/s. Lakshmirattan Cotton Mills, Kanpur). The question of initiating prosecution proceedings against 8 NTC Mills was stated to be under consideration in consultation with the Law Ministry.

1.52. As regards defaults during the operation of the Controlled Cloth Scheme from 1968 to 1971, the Textile Commissioner stated in evidence:

“From 1968 to 1971, we have recovered Rs. 520.12 lakhs leaving out balance of Rs. 24 lakhs to be recovered out of which Rs. 2.12 lakhs had to be recovered from private mills and the remaining amount is to be recovered from NTC mills. There is only one private mill defaulter now and unfortunately this is the party which has obtained stay order.”

LEGAL VALIDITY OF PENALTY PROVISION

1.53. When the Controlled Cloth Scheme was modified in May, 1968 providing for compensation by Mills at the rate of 6 paise for each square metre of controlled cloth not produced and cash assistance at half paise to 6 paise per sq. metre to those which produced controlled cloth in excess of their quota obligation, the following

provision (Clause 21C) was introduced in the Cotton Textiles (Control) Order, 1948:

"21C. (1) Where the Textile Commissioner has issued directions under sub-clause (I) of clause 21A to any producer to pack a specified quantity of cloth during the period specified in the direction:—

- (a) the producer who packs quantities of such cloth during the period in excess of the minimum quantity shall be eligible for receiving cash payment by way of assistance from the Textile Commissioner in respect of such excess quantity packed at such rates and in respect of such maximum quantity as may be specified by the Central Government from time to time;
 - (b) such producer may, in lieu of packing the whole or part of the minimum quantity of cloth specified in the said direction, make payment to the Textile Commissioner in respect of the deficiency at such rates as may be specified by the Central Government and with such time as may be determined by the Textile Commissioner.
- (2) All payments received from producers under paragraph (b) of sub-clause (I) shall, as far as may be, be utilised towards payments, if any, to producers under paragraph (a) of the said sub-clause.

Explanation: In this clause "producer" includes a group of producers."

1.54. The Committee were informed that before introducing this clause, a meeting was held between the Special Secretary (Commerce) and the Law Secretary sometime in April, 1968. An extract from the note recorded on this meeting is reproduced below:

"Though Special Secretary (Commerce) agreed that there is **an element** of risk from the legal point of view, as the **proposal was sponsored** more or less at the instance of the affected industry, there is no great risk of any one taking the matter to a Court of Law. Law Secretary stated that if the Department is satisfied that there is no such risk of challenge, they may go ahead with the **proposal**. But as **the contemplated levy** by means of executive orders is not strictly legal, the question of sponsoring legislation for the **amendment of the Essential Commodities Act** should be

taken up as early as possible. Such law may have to be given retrospective effect if in the meantime there is any challenge."

1.55. The apprehension of the Law Secretary expressed in the aforesaid meeting came true when on 16th March, 1970 the Laxmi Vishnu Cotton Mills Ltd. filed a writ petition in the Bombay High Court for impugning the various provisions, including Clause 21C (under which penalty for shortfall in production of controlled cloth could be levied), of the Cotton Textiles (Control) Order, 1948.

1.56. The Committee learnt from Audit that in October, 1970, the Ministry of Law had advised the Ministry of Foreign Trade *inter alia* as follows:

"In order to appreciate the legal validity of such levy it may be pointed out that there are two categories of textile mills which are required to make cash payment under clause 21C(I)(b). One category is those textile mills which have the necessary machinery to manufacture the controlled cloth but do not for one reason or the other manufacture and pack the minimum quantity of controlled cloth. The other category is those textile mills which having regard to the particular machinery installed in them are not capable of manufacturing the controlled varieties of cloth. Both these categories of mills are required to make the cash payment. Levy of such cash amounts from those textile mills amounts to expropriation of property consisting of cash belonging to these mills. Such expropriation of cash is illegal and void under Article 31.

The said levy cannot be said to be in the nature of a tax because the said levy of cash is not on any cloth produced by the textile mills but on their failure or omission to produce the controlled cloth. It cannot also be said to be a fee because a fee involves *quid pro quo* and the Government does not render any service to textile mills from which the said fee is to be levied. The said levy is rather in the nature of penalty imposed and recovered by administrative action. Here it may be borne in mind that those of the textile mills which fail to manufacture and pack the minimum quantity of controlled cloth are liable to be prosecuted for a contravention of clause 21A of the Cotton Textiles (Control) Order, 1948 and punished under Section 7 of the Essential Commodities Act. The provisions in

Clause 21C(I)(b) which empowers the Textile Commissioner to levy cash in effect amounts to compounding the the said offence out of court.

I am, therefore, of the view that the said levy under Clause 21C(I)(b) of the Cotton Textiles (Control) Order, 1948 is illegal and it cannot be legalised by any amendment in the Essential Commodities Act because any such amendment would be constitutionally void as offending Article 19(1)(f) and (g) and Article 31."

157. The Committee learnt from Audit that in July, 1974 while inviting attention to the advice of the Ministry of Law, the Textile Commissioner had pointed out that it was open to the Mill to pay the penalty and thus compound the offence instead of facing prosecution. He felt that it would be appropriate to advise the Indian Cotton Mills' Federation and the National Textiles Corporation that the rate of compounding the offence would be Rs. 2.50 per square metre and that otherwise the mills would be liable to prosecution. The Textile Commissioner was also of the view that it might be necessary to acquire powers under the authority of Parliament to levy a penalty for non-performance of the obligations cast under the Cotton Textiles (Control) Order and that this could be processed in the Ministry.

158. In September, 1974, the Ministry of Commerce, however, advised the Textile Commissioner through telex message as follows:

"The Statutory Scheme of Controlled Cloth production will itself not provide for payment of penalty for non-fulfilment. The scheme of payment of penalty may be operated as an informal arrangement by the industry outside the statutory scheme. Mills which do not fulfil their obligation and also do not pay the penalty to the Indian Cotton Mills' Federation will have to be prosecuted under the Essential Commodities Act for contravention of the Cotton Textiles (Control) Order and not repeat not for non-payment of penalty. The penalty of Rs. 2.50 per metre for the period April-September, 1974 may be indicated to the Indian Cotton Mills' Federation who may be directed to operate the scheme under your direct supervision. This level of penalty for non-production of controlled cloth would continue for future quarter also unless and until Government decide otherwise having regard to market conditions. The fund collected as penalty if any will be utilised for getting controlled cloth produced by those

Mills which may offer to produce controlled cloth on payment of a fixed amount of subsidy. Details of this scheme of production on payment of subsidy may be worked out as and when required. Since it has been decided to operate the scheme of penalty as an informal scheme it has been decided to delete Clause 21C of the Cotton Textiles (Control) Order, 1948 for which steps are being taken by us."

1.59. Since the mills which failed to manufacture and pack the minimum quantity of controlled cloth were liable to be prosecuted, the Committee desired to know the reasons for resorting to a cash levy instead of launching prosecution proceedings which tantamounted to compounding of the offence out of court. In reply, the Commerce Secretary stated:

"In 1968, I think, this Clause 21C was introduced and since that date, under Clause 21C(1)(b), it has been provided that:

"Such producer may in lieu of packing the whole or part of the minimum quantity of cloth specified in the said direction make payment to the Textile Commissioner in respect of the said deficiency at such rates..."

It was taken to be a kind of either or thing. But, if the man does not pay the penalty for it, then, he becomes liable. It is not as if the prosecution liability still remained on him. This was the interpretation, I find, that was taken at that time."

1.60. The Representative of the Ministry of Law, however, expressed the following view in evidence:

"Prosecution cannot be launched unless a complaint is filed by the Textile Commissioner. It is the discretion of the Textile Commissioner to examine the facts of a particular case and decide whether a prosecution should be launched or not. As far as I can see, it is for him to decide whether, on receipt of certain liabilities under Clause 21C(1)(b), he should prosecute or not. Unless he launches a prosecution, he lodges a complaint, no prosecution would lie. It is not as though it is a cognisable offence."

"We have said that prosecution can be launched and if the problem is about making recoveries, even a threat of pro-

secution would be good enough. Prosecution is not a new thing. The section itself says that you can prosecute. It is not as if the Law Ministry's advice is required for prosecution."

1.61. The Textile Commissioner informed the Committee, in this context, that the Law Ministry had advised as follows, in their note dated 15 December, 1970:

"It is not compulsory for the mill to pay the penalty and hence Textile Commissioner cannot insist on levying the penalty against the wish of the mill. What he can do under the law is only to prosecute the mill for breach of the direction given under Clause 21A. The Textile Commissioner can accept the penalty if only the mill voluntarily pays, in which case the mill also cannot demand the refund of such penalty."

The witness added:

"The general thing which I have been able to find from the record is that this was used as a threat for getting penalty. As I submitted here, during the entire period, that is, from 1964 to 1968 and as on today, there are only two defaulters and against both the defaulters, we have launched prosecution. In one case, unfortunately, we have received an order from the High Court not to proceed because the party has deposited the amount in the High Court."

1.62. The Committee desired to know why the legal position was not gone into further in order to get a clear and final picture. The representative of the Law Ministry stated:

"After the Commerce Ministry expressed their difficulties, a meeting was sought to be arranged between the Law Secretary and the officials of the Commerce Ministry so that some way may be found out. Actually, the meeting did not take place. I do not know what would have happened if the meeting had taken place. Perhaps, we could have sponsored some legislation or done something about it. Ultimately, we had written on 2-4-71 that a meeting can be arranged and the Law Secretary would be able to attend at any time. Thereafter, it seems that the Commerce Ministry took a decision that this clause is to be deleted—I cannot say exactly why and that the file may

now be recorded for five years. That is how ultimately, the question was not finally examined and probably it could have been examined at an appropriate level to see if any solution could be found out."

1.63. Clarifying the position in this regard, the representative of the Commerce Ministry stated:

"On the basis of the Law Ministry's advice, which was immediately communicated to the Textile Commissioner, the Textile Commissioner then pointed out that the whole issue had arisen out of the fact that Laxmi Vishnu Mills had filed a case in the Bombay High Court challenging the imposition of this penalty provision or what was then called the compensation provision of six paise. The noting at that time shows that there might have been a serious consequence if the amounts of compensation and the amounts of incentives were both taken into account. It was somewhat like this. The amount of compensation was as much as Rs. 2.09 crores and the amount of incentives was as high as Rs. 1.36 crores. Therefore, if the verdict of the Court were to be adverse, the amount collected by way of compensation would have to be refunded to the mills because that would be the direction saying that this provision is illegal. On the other hand, there would have been no means of getting back the amount paid as incentives. Incentives were paid on the understanding that if a mill produced more controlled cloth, it was eligible to receive incentives. Therefore, legally we could not call it back whereas we would have to pay the compensation amount. So, there was dilemma in this and it was decided that the Law Ministry should be requested to reconsider the matter. Sir, you were pleased to refer to the opinion of the Law Ministry given in October 1970. The advice was that it cannot be legalised by any amendment. At that stage, we thought that it might even require that we should go up to the Solicitor General or the Attorney General for a definitive opinion on what we should do further, in the interest of Government and in public interest. This all happened in the early part of 1971. Then, a few days after that date, before the case could be heard and disposed of, the scheme itself was changed and became a voluntary scheme. Therefore, the legal challenge no longer persisted and the occasion for review of the legal

position came up once again only in 1974. That was what I was submitting to the Committee. The shape of the scheme changed. The controlled cloth scheme was no longer under the Essential Commodities Act as between 1971 and 1974."

1.64. A Note subsequently furnished, at the Committee's instance, by the Ministry of Law indicating the legal position of Clause 21C(1)(b) of the Cotton Textiles (Control) Order, 1948 is reproduced in Appendix VI.

Inter-Mill Transfer of Obligation

1.65. The scheme for production of controlled cloth was introduced in October 1964 and remained in force on statutory basis till May, 1971 with modification from time to time, on a substantial scale in May, 1968. As stated in the Audit Paragraph during this period (October 1964 to April, 1968) there was no provision for inter-mill transfer of the obligation for the production of controlled cloth.

1.66. Explaining in a note, at the Committee's instance, the circumstances leading to the decision to permit the transfer of the obligation to produce controlled cloth by the Mills, the Commerce Ministry, *inter alia* stated:

"In May, 1968, consequent to the exclusion of medium 'A', fine and superfine categories of cloth from the ambit of the controlled cloth scheme, for some mills it was not technically feasible to produce controlled varieties in medium 'B' and coarse categories, while others were predominantly structured to produce these varieties. Therefore, a provision was introduced whereby mills in the former category could opt out of their obligation by paying a compensation money and the mills in the latter category were entitled to incentives for producing controlled varieties in excess of their obligations.

From May, 1971, the scheme was on voluntary basis operated through the Indian Cotton Mills' Federation and under the supervision of the Textile Commissioner. Under this scheme the facility was allowed to mills to get their production obligation fulfilled by another mill on premium to be settled among the mills themselves. When the operation of the scheme was again placed on statutory basis from April 1974, this facility was continued."

1.67. The Committee desired to know the level at which this decision had been taken. The Commerce Ministry replied in a note that the continuance of this facility was approved by the Minister of Foreign Trade.

1.68. The Committee asked if Government had considered the question of launching prosecution against mills which had defaulted in spite of their having the capacity to produce the requisite controlled cloth. In reply, the Textile Commissioner stated:

“Now in each case why was it not done is another matter and I think one will have to go into it and then only I will be able to answer on each individual case. At present out of the two defaulters, I have prosecuted one and in the case of the second defaulter further action has been stayed by the High Court....”

1.69. The Committee wished to know whether the inter-mill transfer of the obligation which had been introduced alongwith the voluntary scheme in 1971 and had been continued beyond April 1974, even after the re-introduction of the statutory scheme, had the force of law to back it and had been placed on a statutory footing. The Textile Commissioner stated:

“The Textile Commissioner fixes the obligation under Section 20 and 21 of the Cotton Control Order and a Mill has to produce that much of cloth. As a policy pronouncement it has been laid down that the mills can fulfil this obligation either themselves or through some other mill.”

1.70. According to Section 20 of the Cotton Textile (Control) Order, 1948:—

“(1) The Textile Commissioner may, from time to time, issue directions in writing to any manufacturer or class of manufacturers or manufacturers generally regarding:

- (a) the class or specification of cloth or yarn which each manufacturer or class of manufacturers or manufacturers generally shall or shall not manufacture or
- (b) the maximum or minimum quantities thereof which such manufacturer or class of manufacturers or manufacturers generally shall manufacture during such period as may be specified in the order.

Provided that in issuing the direction under this sub-clause, the Textile Commissioner shall have regard to:

- (i) The demand for cloth or yarn.
 - (ii) The needs of the general public.
 - (iii) Special requirements of the industry for such cloth or yarn.
 - (iv) Capacity of the manufacturer or class of manufacturers or manufacturers generally to manufacture different descriptions or specifications of cloth or yarn.
 - (v) The necessity to make available to the general public cloth of mass consumption.
- (2) While issuing any direction under sub-clause (1), the Textile Commissioner may also provide that such direction shall be with reference to the quantity of cloth or yarn packed by the manufacturer, or class of manufacturers or manufacturers generally during the period referred to in that sub-clause.
 - (3) Every manufacturer or class of manufacturers or manufacturers generally, to whom a direction has been issued shall comply with the direction.
 - (4) Where, on an application made by any manufacturer or class of manufacturers or otherwise, the Textile Commissioner is satisfied that any direction issued by him under this clause will cause undue hardship or difficulty to any such manufacturer, or class of manufacturers, he may by order, for reasons to be recorded in writing, direct that the direction shall not apply, or shall apply subject to such modifications as may be specified in the order, to such manufacturer or class of manufacturers."

1.71. Since there was apparently no specific provision in the Cotton Textiles (Control) Order for the transfer of the obligation to produce controlled cloth, the Committee desired to know the authority under which such transfers had been allowed. The Commerce Secretary replied in evidence:

"It has to be subject to such modifications as may be made. The modifications were given by the Government of India."

1.72. When asked how Government could override the text of the Act or the orders made thereunder, the witness replied:

“Sub-para (4) of 20 reads: ‘Subjects to such modifications as may be specified’.”

1.73. Explaining the circumstances in which such transfers had been allowed, the representative of the Commerce Ministry stated:

“Irrespective of whether or not they had the equipment, the mill was under a statutory obligation to deliver the required quantity amounting to 24 per cent of their packed production. There is no escape from it. But suppose a mill has export orders or some other commitments. The word ‘transfer’ may kindly be understood in its full perspective. It cannot transfer the obligation away. It has got to give 24 per cent to the Textile Commissioner. Some mills may be able to manufacture a part of the obligation in their mills and got the remaining part manufactured in some other mills. There are some genuine difficulties from the side of the Government also. There were two or three mills where the long cloth produced by them was of such a superior quality that its price was very high. Now that was brought into the controlled cloth scheme. It could not be helped. On the other hand, we did not want that mill to go out of the scheme. That mill had to arrange controlled quota produced by some other mill. It is in that sense that transfer was made. It is not that a mill transfers its obligation to some other mill.”

1.74. The Committee, therefore, enquired from the Law Ministry whether such transfers, which did not apparently have statutory basis, could have been permitted. The representative of the Ministry replied:

“This point was not referred to the Law Ministry.”

He added:

“In the first place, when we examine 21(C), the question would be whether ‘with such modifications as may be specified in the order’ would cover this. This will have to be read with the earlier portion of the order. After going through this, I would say that it is a border line case and it is open

to people to take different views on it. I can't say for certain that this will not be covered."

If, as stated, it was a border line case, the Committee asked why an extra-ordinary provision like inter-mill transfer was not given careful consideration before it was implemented. The Commerce Secretary replied:

"This problem never came up as a legal problem before anybody. It was assumed that the Textile Commissioner had these powers under the Textile Control Order and he himself believed so. Otherwise, somebody would have raised an objection."

Asked whether the legal implications of this crucial matter would be got examined at least now, the witness said:

"We will take it up with the Law Ministry; I am sure we want a clarification from them."

1.75. Asked how many mills in the country were not equipped to produce controlled cloth, the Textile Commissioner replied in evidence:

"The mills with only plain automatic looms, would not be able to manufacture dhotis and sarees which need headings. There are only two such mills. Mills without wet processing machinery would not be able to produce controlled shirting as according to the definition, grey cloth cannot be offered under the variety of controlled shirting. It has to be either bleached or printed. There are 24 mills. Mills which are equipped only for spinning and weaving fine and super fine categories would find it difficult to offer any controlled cloth, as at present, the definition of controlled cloth includes only coarse medium A and B categories. There are only six such mills."

The witness added:

"If we force these mills, that is, the fine and superfine mills, to do coarse cloth and medium A cloth, the difficulty will arise that the spindles and looms will become idle resulting in unemployment and resulting in lesser utilisation of capacity. Therefore, we allow them to get this obligation purchased from those mills which are capable of producing it and these mills, when they purchase the obligation, may pay them some compensation and we get our quota of controlled cloth."

1.76. The Committee desired to know whether such a provision for the inter-mill transfer of obligation did not offer scope for malpractices, since it enabled some mills to transfer their obligation to produce controlled cloth to other mills and undertake the production of such varieties of cloth with higher margins of profit. The Textile Commissioner stated in evidence:

“In this, there is no possibility of malpractice in the sense that it is for the mill which is producing coarse and medium A to decide whether it wants to purchase the obligation or not. In fact, in this process, these mills which are producing coarse and medium cloth charge them a higher price and produce the cloth on their behalf which is then supplied to the Government. That is, Government gets the quota at the fixed price of Rs. 1.15 or Rs. 1.50 depending upon the variety. These mills producing cloth on behalf of other mills get 50 or 60 paise extra for this transfer.”

1.77. As regards the extent of inter-mill transfer of obligation, enquired into by the Committee, the witness said:

“If I may say so, out of the quantity of 200 million sq. metres per quarter, which is the obligation generally we fix, this transfer is of the order of 50 to 60 million sq. metres per quarter.”

1.78. The Committee were informed that during the period April 1974—March 1975, 118 private mills had transferred their controlled cloth obligation to the mills of the National Textile Corporation. The obligations accepted by the NTC Mills amounted to 90.47 million sq. metres. While the NTC Mills were estimated to have incurred, on an average, a loss of Rs. 1.10 per square metre on the production of controlled cloth produced by them to meet their own obligations, they were stated to have received a premium of Rs. 10.39 crores on ‘transferred obligation’, resulting in a profit of Rs. 1.19 crores on this account.

1.79. During evidence, the representative of the National Textile Corporation stated it was not as if NTC Mills alone were losing on the production of controlled cloth and that losses of other mills were also considerably heavy on this account, which worked out to about Rs. 1 per sq. metre of controlled cloth.

1.80. Asked what rate of premium the transferred obligation carried, the representative of NTC stated in evidence:

"The ruling premium is something of the order of 80 paise per sq. metre..... in the course of the last year 1974-75, the ruling premium has been varying..... It varies with each deal."

1.81. The Committee desired to know whether it would not be more profitable for the NTC mills to utilise their spare capacity, if any available after fulfilling their own obligations, for the production of varieties other than controlled cloth rather than accept the obligation of other private mills. The representative of the National Textile Corporation stated:

"In the obligation we have accepted by way of transfer on the basis of mutual agreement, at least in the conditions prevailing in the last six to eight months, we have been making more profits than in some other non-controlled cloth we have been producing."

Per Capita Availability of Cloth

1.82. As regards per capita availability of cloth for the weaker sections of the population, the representative of the Ministry of Commerce stated:

"The number of persons in the weaker sections of the population, that is, having an income of Rs. 3,000 or below at the end of the Fourth Plan period is estimated at 230 millions. There has been no recent assessment of cloth requirements of weaker sections of the community. The last assessment made on the basis of the National Sample Survey was in 1964-65 when the per capita consumption was estimated at 6.5 metres. Assuming a normal growth of 1.5 per cent per annum the per capita consumption of these sections should stand at 7.5 metres in 1973-74. The total requirements of controlled cloth for these sections on the above basis would come to 1720 million metres. Since the mill sector's share in the total cloth production is nearly of the order of 50 per cent then you arrive at a position of mill sector's obligation for 860 million metres per annum....."

1.83. Asked what the per capita availability of cloth for the wea-

ker sections was expected to be by the end of the Fifth Five Year Plan, the Textile Commissioner stated:

"In terms of figures, at present, the total production at the end of the 4th Plan is estimated at 8,000 million metres. Out of this about 677 million metres is exported, leaving us with about 7200 million metres. If we exclude non-wearable varieties or industrial varieties, our per capita availability of cloth is about 12 metres. At the end of the Fifth Plan, our objective is to get total production of 10,000 million metres out of which we expect 1350 million metres to be exported, leaving us with the local or domestic availability of 8650 sq. million metres. This is for a population of just over 60 crores and this will bring us in the vicinity of 14 or 14.5 per capita and this is our expectation now. This 9050 would further consist of 4700 million metres from de-centralised sector and about 4,000 million metres from mill sector for the domestic market. This does not include synthetics."

1.84. As regards per capita consumption of cloth, the Committee were informed that based on the projections relating to the proportion of population falling within the vulnerable sectors, i.e., having an annual earning below Rs. 3,000 for a house-hold and the estimated per capita consumption of cloth in this sector, as contained in the Approach Document for the Fifth Five Year Plan, the per capita consumption of cloth of these sectors was estimated to be as under:—

1978—79	Percentage to total estimated population as on 1-3-1979 (636.8 millions)	
(1) Estimated population of people in the per capita expenditure class of :		
(a) upto Rs. 25 per month (no. million)	10	6.37
(b) Between Rs. 25 and Rs. 50 per month (No. million)	250	39.30
(2) Estimated per capita consumption of cotton cloth by people in the per capita expenditure class of :		
(a) upto Rs. 25 per month		7.0 metres
(b) between Rs. 25 per month and Rs. 50 per month		12.0 metres
(3) Estimated consumption of cotton cloth by people in the per capita expenditure class of :		
(a) upto Rs. 25 per month		70 million metres
(b) between Rs. 25 and Rs. 50 per month		3,000 million metres

It will thus be seen that the total estimated requirements of cloth for weaker sections of the population in the per capita expenditure class of upto Rs. 50 per month will be 3070 million metres in 1978-79.

1.85. While furnishing the above information, the Ministry of Commerce pointed out:

“These projected estimates are based on 1972-73 prices and the assumptions made in the Draft Fifth Plan. Since the formulation of the Draft Fifth Plan, there have been various developments including rise in prices which may have affected these estimates. The revised targets for the Fifth Plan have, however, not been finalised and, therefore, it is not possible at present to indicate as to what change the projected estimates of per capita consumption of cotton cloth given above will undergo.

However, these requirements are not restricted to varieties of controlled cloth only. The present consumption pattern even for weaker sections of the population includes not only numerous non-controlled varieties but also blended and man-made fabrics as well as hosiery goods.”

1.86. According to the 63rd Report (Fifth Lok Sabha) of the Committee on Public Undertakings on the National Textile Corporation, the percentage production and percentage requirements of controlled cloth during the period January—September, 1974 were as follows:

	Percentage required	Actual Percentage production
Long cloth	25	78.7
Shirting	25	12.8
Dhoties	20	6.3
Sarees	20	2.7
Drill	10	0.3

1.87. As regards production of sarees and dhoties, the Committee were informed by the Ministry of Commerce as follows:—

From 1959 onwards directions were given from time to time to progressively reserve dhoties and sarees for production

in decentralised sector, increasingly in handloom sector. The directions are indicated below in chronological order:—

- (i) In April, 1950, dhoties with borders exceeding 1/4 inch in width or using zari or Muga or art silk yarn in border were reserved for the handloom sector. From 1 June, 1950, Units (Powerlooms) not covered by Factories Act were exempted from these restrictions.
- (ii) In June, 1950, sarees (i) with borders exceeding 2-1/2 inch in width or using Zari gold coloured art silk yarn in a saree border, and (ii) using coloured yarn in the body of a saree except in a heading which should not be more than 9 inch in width, were reserved in the handloom sector.
- (iii) In November, 1966 while the exemption in favour of powerlooms units not covered under the Factories Act, was withdrawn, Powerloom units with less than 5 looms continued to enjoy the facility of producing items reserved for handloom sector except (a) Piece dyed dhoties and (b) coloured sarees, piece dyed or yarn dyed.

1.88. The production of dhoties and sarees in the mills sector since 1968 was as under:

Year	(in million metres)		
	Dhoties	Sarees	Total
1968	257	208	465
1969	206	134	340
1970	147	95	242
1971	155	75	230
1972	142	77	219
1973	125	55	180

1.89. In a note furnished in reply to a question whether the Handloom sector had been called upon to produce dhoties and sarees of the coarse varieties under the Controlled Cloth Scheme to meet

the requirements of the vulnerable sections of society, the Ministry of Commerce stated:

"The reservation did not cast on the handloom sector any obligation to produce dhoties/sarees of coarse categories or any other categories."

1.90. The Committee desired to know the production of sarees and dhoties in the handloom sector. In a note the Ministry of Commerce stated:

"There is no direct production data available in respect of the handloom sector and the total production figures reported from time to time are derived from the figures of deliveries of hank yarn. As such, no production figures for any individual variety such as sarees and dhoties, are available."

1.91. In reply to a question whether the cost price of dhoties and sarees in the Handloom sector was more than that in the Mill sector and if so, to what extent, the Ministry of Commerce furnished a statement (Appendix VI) which showed that while the ex-factory cost of cloth (dhoties and Sarees) in the Mills Sector ranged between Rs. 1.76 and Rs. 1.94 per sq. metre, depending on the manufacturing particulars; the cost in the case of the handloom sector ranged between Rs. 2.01 and Rs. 2.25 if the yarn was supplied at the ex-mills rate and between Rs. 2.14 and 2.40 if the yarn was purchased from the market.

1.92. The Committee desired to know whether any assessment of the requirements of dhoties and sarees had been made by Government. In a note, the Ministry of Commerce stated:

"As soon as the scheme on controlled cloth was again made statutory with effect from 1 April, 1974, steps were taken to assess, to the extent possible, the actual demand pattern for the different varieties and to gear the production accordingly. It was assessed that the requirements of dhoties and sarees should be 25 per cent and 20 per cent of the total controlled cloth production. Therefore, measures were taken to impose upon the mills an obligation to produce at least 20 per cent of their total production in the form of these two varieties."

1.93. Asked if any comprehensive survey of the estimated re-

requirements of dhoties and sarees of the vulnerable sections of the Community had been made, the Ministry of Commerce replied:

"No comprehensive survey or reliable data on the estimated requirements of dhoties and sarees of the vulnerable sections of the community are available."

1.94. As back as 1964, the Ashok Mehta Committee on Powerlooms had recommended that Government should not undertake any further expansions of the loomage in the mill sector till the end of the 4th Plan period i.e., 31 March, 1974. Government, however, felt that:—

"The mill sector should not be denied all share in the projected expansion. It has, however, been proposed that mill production should be restricted to 6,000 million yards out of a total target of 11,000 million yards at the end of Fourth Plan period and that the balance of 5,000 million yards should be earmarked for the decentralised sector. This will mean a big scope of increase in the decentralised sector from 3,500 million yards in the Third Plan to 5,000 million yards in the Fourth Plan."

1.95. The Committee desired to know the share of the decentralised sector in the projected production of cloth by the end of the Fourth Plan. In reply, the representative of the Ministry of Commerce stated in evidence:

"The production in the Mill sector accounted for 53 per cent of the total production. Production in the decentralised sector was about 47 per cent. In this decentralised sector the handlooms accounted for about 2/3rds of the production and the powerlooms 1/3rd of the production. Therefore, we have had a slight weightage in favour of the organised sector, in the total, to the extent of 53:47."

1.96. Asked what was the position likely to obtain by the end of the Fifth Plan, the witness stated that:

"One of the objectives of the Fifth Plan Policy was to move increasingly towards a higher proportion of the production being achieved in the decentralised sector so that at the end of the Fifth Plan the total production would be organised more or less half and half in the organised and the decentralised sector."

1.97. Asked why it was not possible to help the decentralised sector by making available yarn at a given price for the production of controlled cloth. The Commerce Secretary, replied:—

“...It has been our endeavour to see whether we can ask the handloom industry to come into this and provide to us at least some part of this further requirement. For that purpose we have been having a dialogue with the mill sector for supplying the yarn to the handloom sector for the purpose of production of controlled cloth at a given price which would necessarily be less than their normal sale price. There has more or less been some kind of an agreement on this...”.

1.98. The Committee enquired whether any hurdles stood in the way of the decentralised sector taking up controlled cloth production in a big way. The representative of the Ministry of Commerce stated:—

“From 1968 onwards right upto 1974, the concept has been one of giving controlled cloth at the same price without any increase. In this scheme, perhaps it was difficult for the decentralised sector to contribute to the controlled cloth pool. The economics of production in the decentralised sector is such that the element of loss per metre in production of controlled cloth would be higher. So, some means would have to be found—either to pay them an economic price and recover it from the consumer or to have some element of subsidy, for which we would have to find the resources. On the production, organisation, marketing and distribution side also, there are many difficulties so far as decentralised sector is concerned. But it is a fact that there has been no ostensible effort, from any of the records, to bring the decentralised sector into the scheme of controlled cloth production. Now we are thinking of ways and means to do it, but we are discovering that there are many organisational and financial problems which will have to be settled before we can do it.”

1.99. The Committee desired to know whether there had been an excess production of long cloth leading to widespread shortage of sarees and dhoties in the country. The Textile Commissioner stated in evidence:

“It is true that when the scheme came into force from 1st April 1974, there was excess production of long cloth. As

soon as the position came to our notice, we immediately reacted. When this came to our notice we ordered that in future every mill, irrespective of the fact whether it has got the means or not, shall produce a minimum of 20 per cent of dhoties and sarees as a result of the change in the order so much so that in the last few months our despatches in respect of dhoties and sarees have been of the order of 35 to 40 per cent."

1.100. Asked if it was a fact that till April 1974, the width of sarees and dhoties produced under the Controlled Cloth Scheme was so small that such sarees and dhoties were useless for the rural people, the Textile Commissioner stated:

"The new scheme came into operation from 1st April, 1974. Previously a lower width was prescribed. The previous width was 71 cms. This was fixed sometime in 1968. When complaints started coming in that the width was small, we increased the minimum from 71 to 104 cms."

1.101. The Committee desired to know the reasons for Government remaining virtually ignorant of the preference of the rural consumers all these years. In reply, the Textile Commissioner stated:

'Controls came in 1964. It was thought that ultimately the mills which have been producing cloth have been doing so for serving the consumers preference and there cannot be any better system of finding out the consumers preference than to ask these mills to continue to have the same pattern of production as they were having prior to the imposition of controls. We have with us the figures of the pattern of production before the controls came into force for the first time, i.e., in 1964. In 1963, in the whole mill sector (from coarse to super fine) the production of dhoties and sarees accounted for only 16.7 per cent of the total production. The production in the coarse, Medium B, and higher medium category for dhoties accounted for only 7 per cent of the total production, for sarees it was another 8 per cent. That is before the controls were introduced and when the mills were producing on their own to serve the needs of the consumer in this country—the total for dhoties and sarees accounted for 15 per cent. At that time the feeling was that it was not possible to

suddenly impose our own decision regarding what the production in each variety should be—until there is a reliable method of feed back to know the change in the consumers preference. After 1974, we evolved a system of having a Review Committee at the Textile Commissioner's level in which Textile Commissioner, Sellers in the market, Co-operative representatives, the Ministry of Co-operation, Representative of the Mill Industry, are represented. Every month we sit and take a review of the needs. As and when requirement for dhoties and sarees was made known, we also geared up our efforts and we have achieved success."

Availability of Cotton

1.102. Manufacture of cloth depends on the availability of cotton. If indigenous production of cotton is not adequate to meet the country's requirements, import is resorted to

1.103. During the period 1966-67 to 1972-73, India imported 4907.8 thousand bales of cotton of the value of Rs. 609.98 crores. Year-wise details are given below:—

Year	Quantity in the- sand bales)	Value (Rs. in lakhs)
1966-67	444.8	5043.36
1967-68	792.7	8347.66
1968-69	724.3	9018.04
1969-70	663.1	8278.48
1970-71	772.7	5883.43
1971-72	884.2	11338.93
1972-73	626.0	5088.39
	<u>4907.8</u>	<u>60998.29</u>

1.104. During 1973-74, the import of cotton was 1.5 lakhs bales only.

1.105. While long staple cotton was imported from Egypt, Sudan and East Africa, the short staple variety came mostly from Pakistan and partly from United States.

1.106. Actual production of long, medium and short staple cotton in the country during the three years from 1971-72 to 1973-74 was as under:

Year	'000' Bales			
	Long staple	Medium staple	Short staple	Total
1971-72	1779.0	3807	978	6564.0
1972-73	1816.2	2659.5	941.1	5416.8
1973-74	2059.9	2883.3	880.0	5823.2

1.107. It has been estimated that by 1978-79, the production of long, medium and short staple cotton would be around 2629, 4757 and 750 thousand bales respectively, i.e., 8136 thousand bales in all.

1.108. All imports are canalised through the Cotton Corporation of India, to whom a bulk license is issued for the imports.

1.109. The Committee asked whether it was a fact that long staple cotton was being produced in excess of the country's requirements whereas the production of short medium staple cotton fell short of requirements and, if so, what steps were being taken to balance the situation. In a note, the Ministry of Commerce replied:

"Over the years, the overall production of cotton has remained far short of the requirements of the mill industry. While the deficit in the requirement was being met by import of long and medium staple variety, a planned effort was made to develop production of cotton with an accent on long staple varieties in the country so that expenditure in foreign exchange on import could be avoided. It was also envisaged that production of long staple varieties would prove more remunerative to the growers. Only during the cotton year 1974-75 (September—August), due to cultivation of long staple varieties in river valley like Nagarjunsagar, Thungabhadra, etc., the production of long staple varieties is known to have increased substantially resulting in higher production overall. The increased production of long staple varieties is thus not at the expense of short/medium staple varieties. Meanwhile certain factors have led to higher require-

ments of medium varieties of cotton. The level of production of controlled cloth was doubled for the year April 1974—March 1975 over the preceding year. Secondly, there was a substantial increase in exports of cotton textiles from India, bulk of which was woven from short and medium varieties of cotton. As a result, short and medium varieties of cotton were in great demand. As situation arose during the cotton year 1974-75 in which production of long staple varieties of cotton proved to be in excess of the current requirements. In order to meet the situation of imbalance in short run, export of long staple varieties of cotton has been permitted. As a long term measure a Committee has been set up to go into the restructuring of the excise categories of textiles so as to encourage optimum use of different varieties of cotton including long staple varieties."

1.110. The Committee enquired if it was a fact that after India achieved a break-through in developing substitutes for long staple cotton like MCU-5, Hybrid 4, Vara Laxmi, etc., the consumption pattern itself had changed resulting in a glut in those varieties of cotton. In reply, the representative of the Ministry of Agriculture stated:

"We encouraged the cultivation of MCU-5 at a time when our 90 per cent of imports were of long staple cotton. In order to cut down our imports, all our developmental efforts were directed to evolve varieties which would be substituted for imported variety. We have been very successful in producing MCU-5, Hybrid-4, Vara Laxmi varieties. At present, we are surplus in that category and there is a glut. We are intending to export it to some extent.... Now we find there is a change in the consumption pattern.... The share of production of long staple cotton increased."

Now we find there is a change in the consumption of long staple cotton increased by 10 per cent during the Fourth Plan period whereas the consumption share decreased by about 30 per cent. In other words, the consumption share of medium staple increased by 20 per cent. Once we introduce a variety, it takes time even to discourage it. These are costly varieties. These fetch higher price. The Varalaxmi fetches Rs. 900 per quintal. If you ask

the farmer not to grow it and grow a different variety which fetches Rs. 200—300 per quintal, he will be very much reluctant to do it. However, Research on medium cotton has been intensified.”

1.111. Asked about the point of time when the Ministry of Commerce had advised the Ministry of Agriculture about the change in consumption pattern, the witness stated:

“At the time of the formulation of the Fifth Plan paper... by the end of 1973-74.”

1.112. The Committee desired to know the criteria and procedure followed for the distribution of imported cotton to individual mills. In reply, the Ministry of Commerce, in a note, stated:

- “(i) As soon as Government takes a decision on the import policy for cotton with regard to the country of origin, quantum involved, the types of cotton etc., Textile Commissioner is asked to get a Trade Notice issued by Joint Chief controller of Imports and Exports, Bombay laying down the conditions under which cotton imports are to take place. This Trade Notice stipulates the contracting and shipment periods. All imports are canalised through the Cotton Corporation of India, to whom a bulk licence is issued for the imports.
- (ii) Ministry conveys to the Textile Commissioner the criteria to be adopted for distribution of imported cotton to individual applicant mills. Simultaneously, the Indian Cotton Mills' Federation is also apprised of this criteria, since the I.C.M.F. functions as the sponsoring authority for recommending applications from individual mills. The criteria for the distribution of cotton to individual mills have been either on spindleshift basis or on export performance basis. Indian Cotton Mills Federation collects necessary information from individual mills and on the basis of criteria laid down, forwards to Textile Commissioner a list of eligible mills together with their entitled quantities. Mills are issued individual quota letters by the Textile Commissioner based on the recommendations of the Indian Cotton Mills' Federation. Sub-licences to individual mills for import are issued by the Joint Chief Controller of Imports and Exports on their getting necessary clearance from the Cotton Corporation of India with regard to the quantity and country of origin. Before issuing

Release Orders, the Cotton Corporation of India verifies the documents submitted by applicant mills to ensure that the correct prices are charged for the import, and that there are no manipulations in these transactions.

- (iii) While submitting the applications for sub-licenses to the Joint Chief Controller of Imports & Exports, the mills route applications through the Cotton Corporation of India and one of the documents to be attached to these applications is a certificate from the Indian Cotton Mills Federation to the effect that the mills had paid the premium to the Indian Cotton Mills' Federation for the particular quantity of cotton recommended by them. The collected premium goes for augmenting the export promotion fund of the Indian Cotton Mills' Federation, from which the industry is paying cash incentives to exporting units."

1.113. In a note furnished in reply to another question as to how it was ensured by Government that the imported cotton was utilised only for bonafide purposes by the Mills, the Ministry of Commerce stated:

"The individual quota letters issued by the Textile Commissioner to mills contains provision that the allotted cotton is for their bonafide consumption only, and such cotton should not be sold in the market. However, cases do arise in which a mill may not be in a position to consume the imported cotton due to various reasons such as prolonged closure, change in the production programme due to consumer preferences, absence of other cottons for mixing etc. In such cases, Textile Commissioner grants permission to these mills to sell their unwanted imported cotton to other Actual mills on condition that the transaction is on a no profit basis. The Joint Chief Controller of Imports is also informed of this permission."

1.114. The Committee enquired into the nature of the safeguards, if any, adopted and enforced by Government to prevent manipulations and to guard against the misuse of imported cotton. In a written reply, the Ministry of Commerce stated:

"Necessary safeguards against misuse of imported cotton are provided as the periodical inspections by Regional Offices minimise opportunities for manipulations."

1.115. Asked whether imported cotton was meant to be used only for producing cloth for export or whether it was used for domestic consumption as well, the Ministry of Commerce, in a note, clarified:

“No stipulation was imposed on imported cotton that cloth produced with that cotton would be exported. Therefore, the question of a stipulation not being fulfilled does not arise.

The cotton import policy is framed after taking into account the total requirements of cotton of the mill sector to produce cloth for domestic needs and for exports and after assessing how far the domestic crop could meet this demand. Cotton imports cannot, therefore, be directly related to the requirements of textiles for exports only. After taking into account the domestic production of various staples the deficit varieties of cotton alone are imported.”

1.116. The Committee asked whether the levy collected by the Indian Cotton Mills Federation at the rate of Rs. 300 -- per bale from the Mills to whom they supplied imported cotton was credited to the Consolidated Fund of India. In a note, the Ministry of Commerce replied:

“The working of the controlled cloth scheme, as revised in May, 1968, was running into difficulties on account of sharply rising production costs on the one hand and non-revision of prices fixed in May 1968 on the other. The production of controlled cloth suffered a steep fall. A Committee under the Chairmanship of the then Additional Secretary in the Ministry of Foreign Trade, was appointed in April 1971 to make recommendations to the Government for taking steps to increase production of controlled cloth. In the light of the recommendations of this Committee, Government approved introduction of voluntary scheme for the production of controlled cloth to the extent of 100 million square metres for the quarter June 1971 to August 1971. It was assessed that the loss involved in the production of controlled cloth then was about 63 paise per sq. metre. However, it was decided that the loss may be neutralised only to the extent of 50 paise per square metre by way of subsidy to mills producing the controlled cloth from out of the funds to be generated by way of: (i) collection of premium on imported cotton, (ii) collection of contributions from mills producing medium ‘A’, fine and superfine varieties of cloth and

(iii) grants from Textile Commissioners Controlled Cloth Fund built up during the operation of the controlled cloth scheme from May, 1968. The requirements of Rs. 5 crores for subsidising production of 100 million sq. metres of controlled cloth was envisaged to be made as under:

(Rs. crores)

(a) The industry was authorised to collect a premium of Rs. 300 per bale on 1.25 lakh bales of American cotton	3.75
(b) Mills producing Medium 'A' Fine and Superfine cloth to pay contributions at following rates to the Consumer Subsidy Fund :	
Medium A—5 ps per sq. metre on 20% packing minus export of this category.	
Fine— 12 ps. per sq. metre on 20% packing minus export of this category.	
Superfine — 12 Ps per sq. metre on 20% packing minus export of this category	0.60
(c) The shortfall to be made good from the Textile Commissioner's Controlled Cloth Fund	0.75
	<u>Rs. 5.10</u>

1.117. In reply to another question whether proper accounts of this levy were maintained and submitted to Government, the Ministry stated:

“The Indian Cotton Mills’ Federation has maintained and submitted to the Textile Commissioner accounts in respect of collection and disbursement.”

1.118. The Committee wished to know the criteria on which the levy was determined. The Ministry, in a note, stated:

“The rate of premium to be collected on imported cotton was determined by the requirements of finance to subsidise the production of controlled cloth and the amounts that could become available by way of contributions from mills producing medium 'A', fine and superfine categories of cloth and from the Textile Commissioner's Controlled Cloth Fund. The Indian Cotton Mills' Federation collected premium on imported cotton for the implementation of the scheme for production of controlled cloth on voluntary basis from June, 1971 to March, 1974. Actually the Federation had been making collections of premium on imported cotton since September, 1967 for grant of cash

assistance on exports of cotton textiles on a selective basis. The arrangements for cash assistance by the Federation was necessitated by the position that, in terms of the GATT, if Government subsidised the exports of cotton textiles the importing country could resort to antidumping measures including imposing countervailing duties. When the scheme for controlled cloth to be operated on voluntary basis was approved from June 1971, the rate of premium was suitably increased and part of the collections was envisaged to be utilised for the implementation of the scheme."

1.119. The Committee enquired whether the premium collected on imported cotton was a statutory levy and, if so, why a private organisation like the ICMF had been allowed to collect the same. In reply, the representative of the Commerce Ministry stated:

"It is a levy that was being collected by the industry."

1.120. Asked which authority had sanctioned the collection of this levy, the witness replied:

"The Committee consisted mainly of representatives of the ICMF, who could speak on behalf of the member-units and the NTC. The members of the Committee and the Committee itself agreed that there would be a voluntary levy. It was a voluntary decision. It was an agreed levy and they agreed to raise this."

1.121. To the Committee's enquiry whether the premium collected by the ICMF had been credited to general revenues of Government, the Commerce Secretary replied:

"I would like to clear two points in this context. One is that the ICMF were not our agents in any sense of the term. This was a kind of agreement with them, and whatever was to be collected was their internal arrangement. How they would collect it, what measures they would adopt, equitable or inequitable, that was entirely left to them, but they did come up saying that they would collect the funds in this manner and they let the high powered committee know that they were going to do so. That was about all, but it was their fund, the methods by which they were to collect was their own innovation and since cotton was already being imported and was a somewhat prized item of

import, they thought that this was a way of asking for some contribution."

1.122. In a later note indicating the reasons for not crediting the premium collected on the sale of imported cotton to the Consolidated Fund of India, the Ministry stated that the scheme for the production of controlled cloth was being implemented on a voluntary basis and not on statutory basis.

1.123. The Committee wanted to know whether, instead of allowing the ICMF to collect the premium on sale of imported cotton, it would not have been better if Government itself had collected these amounts by levying an import duty. In reply, the Textile Commissioner stated:

"If you permit me, I would submit that in a way the industry collects some amount and then ploughs back in the industry. It is not going out of the industry. * * * If the import duty is collected, it goes out of the industry. If the Government levied this import duty and paid back the amount to the industry, may be for controlled cloth, the position will be the same. But the Government levying the duty and keeping it with itself as a part of the general revenues will be a different thing."

The Commerce Secretary, however, added:

"The Government is always free to levy an import duty wherever it thinks fit."

1.124. The Committee observed that delegation of authority to a private organisation like the ICMF to levy premium on imported cotton was tantamount to creating a State within a State with quasi-sovereign authority over the people of this country and enquired what was the legal basis for such an arrangement. In reply, the Textile Commissioner stated:

"It was during this period that the Distribution Control Order came into being—distribution of even controlled varieties would be through these channels. The Textile Commissioner was all the time associated and was overseeing the progress of the scheme so as to ensure that whatever quota was fixed was actually produced and was made available. A high level Committee was associated in this scheme."

1.125. Since the Textile Commissioner's responsibility apparently to merely "associate" himself with the scheme operated by ICMF, the Committee asked whether this did not imply that the ICMF was not accountable to anyone and had become, so to say, a "monarch of all it surveys". The witness replied:

"It was a voluntary scheme and under the schemes of things it will be accountable to its own members."

1.126. In paragraph 2.17 of their 50th Report (3rd Lok Sabha) presented in April, 1966. the Public Accounts Committee had observed:

"The Committee are surprised to learn that even when there is no sanction from the Government and Parliament, the Textile Commissioner gives his "moral" support to the Cotton Mills Federation for realising premium on foreign cotton and fee on Indian Cotton consumption. The Committee are of the view that, however, desirable the objective this compulsory levy has all the ingredients of a tax and hence, it should be levied only with the prior sanction of Parliament and should be operated by an official agency."

1.127. In their reply dated 22nd July, 1967. to the above recommendation the Ministry of Commerce had *inter alia*, stated that "such voluntary and indirect methods and modes of export assistance are recognised, and practised in many countries (as for example, dual pricing system industry-wise and unit-wise whereby the local consumers pay a higher price and indirectly enable reduction in international prices) in preference to the system of collection of tax/duty/cess by the Government and direct subsidisation by Government."

1.128. Asked if Government at least kept a watch that there were no defaults in payment of premium on imported cotton, the Commerce Secretary stated:

"I think the Review Committee did go into this matter every quarter and later on when cotton prices fell, we stopped the Government subsidy altogether and left it entirely to the ICMF to do its own business because the agreement was with the ICMF * * * Government kept a watch because this scheme was initially sanctioned for only three months. Then it continued to be extended every three

months after each review and that is all the Government did. But we did not go into the questions how the money was being collected, whether there were defaulters, whether some money was not coming etc. They had defaulters also presumably."

1.129. Asked how the amount of premium collected was utilised by the ICMF, the representative of the Ministry of Commerce then stated:

"Imported cotton, long staple cotton in particular, was in great demand. It was, therefore, realised that such of the mills as were able to buy the imported cotton would be generally in the better class or higher bracket of profitability and it would be possible for them to bear an additional levy by way of premium. This was the genesis of the idea which the ICMF had put forward in the Committee and which was then accepted and became part of the scheme. That is to say any one who imported foreign cotton could be made to pay a little extra for that item, that going towards the socially desirable objective of production of controlled cloth. A part of the premium was also used for export purposes, but we are not dealing with that here. A part of it was also used for purposes of development and research in an organisation called ICMF's Research Association."

1.130. In reply to a question whether the Commerce Secretary would agree that a lot of money changed hands on account of imported foreign cotton permitted by Government, he stated:

"Yes, certainly so."

1.131. During evidence, the Committee asked how the supervisor's jurisdiction over such collections was exercised. In reply, the Textile Commissioner stated:

"Whenever they make a decision, they consult the Textile Commissioner."

1.132. **The primary objective, professedly, of the Controlled Cloth Scheme has been to make available cheap, durable cloth to the weaker sections of our people. The Audit paragraph and the narrative thereafter indicates that the scheme has been modified periodically. In spite of all the refinements, incentives and penalties introduced from time to time, Government have yet to come**

truly to grips with this major problem. The social objectives of the Scheme have remained largely unfulfilled on account of various factors. The Committee concede that some of the difficulties and hurdles encountered in the process of trying to implement the gigantic task of clothing the masses of our people have been daunting. Even so, the Committee fear that there had been much avoidable vacillation in policies which continued to favour the industry even when it became intransigent to the detriment of the larger public interest.

1.133. The Committee regret that in May 1968 not only was control on fine and superfine cloth withdrawn but the obligation of the mills for the production of controlled cloth was reduced from 40 to 25 per cent of the total production, without making any precise assessment of the actual requirements of controlled cloth. The Committee have been informed, in extenuation, that the cotton textile industry was facing 'difficult times' during the preceding two to three years on account of the increase in cotton prices, wage costs, loss of production-efficiency as a result of the obsolescence of machinery in a large number of units, all of which factors, had in turn, led to an 'erosion in overall profitability'. (The cost of cotton is stated to account for 50 per cent of the cost of production and the cotton price index moved from 139.9 during 1966-67 to 176.9 in January 1968). The industry had, therefore, suggested an increase in the price of controlled cloth and a substantial reduction in the volume of cloth under control. The Committee learn that after discussion between the Commerce Ministry, Finance Ministry and the Indian Cotton Mills Federation, 'sizeable reduction in the quantity of cloth under control seemed inescapable', and the other alternatives of total decontrol or price rise were ruled out.

1.134. It would appear that greater concern had been shown for preventing an 'erosion in the profitability' of the industry than for working out special measures for ensuring that the weaker sections of the community were provided with a basic necessity of life at reasonable prices. Even when 40 per cent of the production of the mills had been earmarked for controlled cloth, the per capita availability of cloth was less than 1.7 square metres. As pointed out elsewhere in this Report, the plea of losses incurred in the production of controlled cloth, which had prompted the Government from time to time, to rush to the rescue of the industry appears to be, on closer scrutiny, considerably exaggerated. Even assuming that it was necessary, in 1968, for Government to come to the assistance of an allegedly ailing industry, the Committee are

unable to appreciate the rationale for the simultaneous withdrawal of controls on fine and superfine varieties of cloth and the reduction in the obligation of the mills for the production of controlled cloth from 40 to 25 per cent. In the Committee's view, Government should have, in the first instance, confined the concession to the withdrawal of control on fine and superfine cloth so as to enable the industry to stabilise itself, and only after having watched the impact of that measure for a year or two, Government should have considered whether, if at all, the obligation of the mills also needed to be reduced. The Committee feel that in a vital matter like the reduction of the mills' obligation of production of controlled cloth, which was bound to affect adversely the per capita availability of cloth to the weaker sections of society, nothing would have been lost if Government moved with wisdom and circumspection. What happened, however, produces, on the contrary an impression that Government was less anxious about ensuring adequate production and availability of controlled cloth for the poor, than about stemming the alleged erosion of the industry's profitability.

1.135. When in May 1968, the obligation of the mills to produce controlled cloth was reduced to 25 per cent of the total production, a provision was also made that in the event of any shortfall in the production of controlled cloth, a mill would pay compensation to Government at the rate of 6 paise per square metre of controlled cloth not produced under the obligation. The rationale for fixing what, prima facie appeared to be a ridiculously low rate of compensation was stated to be that this amount was considered to be higher than the losses faced by the mills in the production of controlled cloth. Subsequently, however, when on account of the increase in cotton prices and consequential increase in production costs, the losses on the production of controlled cloth turned out to be more than the petty penalty of 6 paise per square metre, most of the mills preferred paying the compensation rather than producing controlled cloth at a higher loss and the actual packing of controlled cloth declined sharply from 201 million square metres (November 1968—January 1969) to only 9.14 million square metres (February 1971—April 1971). The Committee are amazed that even though the production of controlled cloth had so drastically and sharply declined and had almost come to a grinding halt by April 1971, Government was no more than a helpless spectator and took no steps whatsoever to raise at least the rate of compensation to an adequate level or otherwise persuade or compel the mills to honour their obligation to serve the needs of our own people. The Committee are convinced that if Government had increased the

rate of compensation, the mills would have found it difficult to evade their obligation, as can be seen from the performance of the mills from April 1974, when the rate of compensation was increased to Rs. 2.50 per square metre. This appears to have had some salutary effect, for the production by the mills was 810 million square metres of controlled cloth as against the obligation of 800 million square metres. The Committee deplore Government's unaccountable passivity in the matter, especially when it was not unknown that the mills were finding it easier to pay the paltry compensation of 6 paise rather than produce controlled cloth for the masses. Since this inaction on Government's part led to serious shortfalls in the production of controlled cloth and consequent distress for the people, the Committee urge that the matter be closely looked into and responsibility for the lapse be squarely fixed and appropriate action taken.

1.136. What is also peculiarly distressing is the fact that though mills which fail to produce and pack the stipulated minimum quantity of controlled cloth are liable to be prosecuted for a contravention of clause 21A of the Cotton Textile (Control) Order, 1948 and punished under Section 7 of the Essential Commodities Act, the Ministry of Commerce glibly went ahead and incorporated, in May 1968, clause 21(1)(b) in the said Order which gave an option to the mills to pay a compensation to the Textile Commissioner in respect of the deficiency in production of controlled cloth. This appears to have been done despite the apprehensions of the Law Ministry that the levy imposed by means of an 'executive order' was liable to be challenged as being ultra vires since it amounted to expropriation of property consisting of cash belonging to the mills. The Commerce Ministry, however, appears to have felt that as the proposal had been sponsored more or less at the instance of the affected industry, there was no great risk of the matter being taken to a Court of Law. The fears of the Law Ministry came true when, on 16 March 1970, a private textile mill filed a writ petition in the Bombay High Court, impugning the various provisions including clause 21C of the Cotton Textile (Control) Order. In October 1970, the Law Ministry pointed out that in view of the provisions for prosecution, clause 21C(1)(b) which empowered the Textile Commissioner to levy a cash compensation amounted in effect to 'compounding the said offence out of court'. While, however, this question was being reconsidered, the 'voluntary scheme' of controlled cloth was introduced in June 1971 and, therefore, the issue was not pursued further and the aforesaid clause was deleted.

1.137. After the controlled cloth scheme was again placed on a statutory footing from April 1974 and a penalty of Rs. 2.50 per square metre was prescribed, the Textile Commissioner pointed out that it was open to a mill to pay the penalty of Rs. 2.50 per square metre and thus compound the offence instead of facing prosecution. He also felt that it might be necessary to acquire powers under the authority of Parliament to levy a penalty for non-performance of the obligations. There was no ambiguity in the earlier advice of the Law Ministry, but, strangely, the Commerce Ministry advised the Textile Commissioner, inter alia, that the scheme of payment of penalty might be operated as 'an informal arrangement' by the industry outside the statutory scheme.

1.138. The Committee are unhappy with the manner in which the entire issue relating to the legal validity of the penalty clause was handled. It appears that even though the Law Ministry had pointed out several times that such a provision required the authority and force of law to sustain it, and even the Textile Commissioner had, though belatedly, felt that Parliament's authority was necessary to provide for such a levy, the Commerce Ministry had reservations about it and was not inclined to come up before Parliament with a proposal for the imposition of such a levy. The Committee do not appreciate this peculiar approach and would urge that rather than operating the penalty provision as an 'informal arrangement', Government should, in consultation with the Law Ministry, consider the desirability of integrating the penalty provision in the statutory scheme itself.

1.139. The Committee have been informed that during the period 1964 to 1968, as against an amount of Rs. 15.22 lakhs recoverable as compensation from mills, (at the rate of 6 paise per square metre for deficiencies in production) two private mills and eight mills now under the National Textile Corporation were in default to the extent of Rs. 0.91 lakh and Rs. 4.36 lakhs respectively. While F.I.R. had been lodged with the U.P. Police against one of the private mills, the other mill had been granted an injunction prohibiting the Textile Commissioner from taking any action against that mill. The default in respect of the subsequent period from 1968 to 1971 was stated to be Rs. 24 lakhs, out of which Rs. 2.12 lakhs were due from private mills. The Committee would like to be informed of the steps which Government proposed to take to enforce their claim. The Committee would also very much like to know why Government have shied away from prosecuting the defaulting mills when adequate powers in this regard are already available with Government.

1.140. The Committee find that from October 1964 to April 1968, there was no provision for any payment of cash assistance for production in excess of the minimum quantity of controlled cloth prescribed. However, when the scheme was modified in May 1968, a provision was made for the payment of cash assistance at the rate of $\frac{1}{2}$ to 6 paise per square metre for controlled cloth produced in excess of the obligation fixed. When the controlled cloth scheme was operated on a voluntary basis by the Indian Cotton Mills Federation from June 1971 to March 1974, it was provided that from out of the premium on sale of imported cotton and contributions from Government and mills, the losses on production of controlled cloth would be subsidised. The rate of subsidy was first fixed at 50 paise per square metre but was reduced subsequently to 35 paise from December 1971, 30 paise from March 1972 and 20 paise from June 1972. When statutory control was resumed in April 1974, no provision was made for compensation or subsidy. The Committee are surprised that in spite of the liberal concessions allowed (quota for controlled cloth was reduced to less than half and cash assistance was more liberal) to the industry during the period when the voluntary scheme was in operation, the production was only 1000.48 million square metres against 1133 million square metres undertaken to be provided by the industry. In other words, the liberal incentives not only had not resulted in excess production of controlled cloth but even the minimum obligation was not fulfilled. In the circumstances, it is a moot point whether the persistent pampering of the industry by the grant of liberal incentives was at all justified. In any case, even if such incentives were considered inescapable, they should have been inseparably linked with the fulfilment of the production obligation in full. This question has been discussed in some detail in Chapter II of this Report and the Committee would urge Government to take serious note of their observations.

1.141. Yet another provision being operated without any statutory basis is 'Inter-Mill Transfer of obligation'. The Committee find that this provision was introduced in May 1968 (when Medium 'A', Fine and Superfine categories of cloth were excluded from the ambit of the controlled cloth scheme) when it was felt that it was not technically feasible for some mills to produce controlled varieties in the Medium 'B' and coarse categories, while others were predominantly structured to produce these varieties. The provision of Inter-Mill transfer of obligation was accordingly made, whereunder mills of the former category could opt out of their obligation by paying a

compensation and the mills in the latter category were entitled to incentives for producing controlled varieties in excess of their obligation.—When the voluntary scheme remained in operation (May 1971—March 1974), the mills were allowed to get their obligation fulfilled by another mill on the payment of a premium to be settled among the mills themselves. The Committee find that even though the controlled cloth scheme was placed on a statutory basis from April 1974, the aforesaid facility was still continued. The Committee were informed that out of the total obligation of 800 million square metres of controlled cloth fixed from April 1974, inter-mill transfers had been of the order of 200 to 240 million square metres i.e. about 25 per cent of the total obligation. In support of this provision it was stated that it had enabled Government to get the full quota of controlled cloth produced. The Committee, while not happy with the somewhat tortuous nature of the scheme, might conceivably concede that it might have worked as a practical arrangement they are of the view that such a provision, if really thought satisfactory, should have been sought to be operated as an integral part of the statutory scheme. It may be added that during evidence the representative of the Law Ministry himself doubted the legal validity of this arrangement.

1.142. The Committee find that during the period April 1974 to March 1975 as many as 118 private mills had transferred their controlled cloth obligation to the NTC mills. The obligation thus accepted amounted to 90.47 million square metres. The rates of premium payable for the performance of the obligation on behalf of other mills is understood to have been fluctuating, but the ruling premium was stated to be about 80 paise per square metre. The Committee found during evidence that while the NTC mills had, on an average, been incurring a loss of Rs. 1.10 per square metre of controlled cloth produced towards their 'own' obligation. They made a profit of Rs. 1.19 crores on 'transferred' obligation. The Committee are not averse to the idea of NTC mills accepting the controlled cloth obligation of private mills especially when such a transfer appears to have been a profitable proposition and perhaps enabled the NTC mills to utilise more fully their manufacturing capacity. The Committee, however, do not approve of a situation where private mills, no doubt hunting for higher profit arenas, can shove off their own obligation to the shoulders of NTC, particularly when the latter's experience shows that controlled cloth production by no means necessarily involves loss. Here is clearly yet another instance of our cotton mill industry, which once upon a time had patriotic motivations, having turned out to be profit-oriented to the extent even of being allergic towards national obligations.

1.143. The Committee were informed during evidence that by producing 8000 million metres of cloth, per capita availability of cloth (after excluding exports and non-wearable varieties or industrial varieties of cloth from the total production) worked out to 12 metres by the end of the Fourth Five Year Plan (1973-74). As far as the vulnerable sections of the population, (those having an annual earning below Rs. 3,000/- for a house-hold) are concerned, their number was assessed at 230 millions and per capita consumption of cloth at 7.5 metres by the end of the Fourth Plan. According to the projections made for the Fifth Five Year Plan, while the per capita availability of cloth in the country is expected to be in the vicinity of 14 or 14.5 metres, requirements of cloth for the weaker sections is estimated to be 3070 million metres by the end of the Fifth Plan. The Committee were also informed that since the formulation of the draft Fifth Plan, there have been various developments, including rise in prices, as a result of which these estimates have been affected and are, therefore, likely to undergo changes. The Committee regret that even after the lapse of the first two years of the Fifth Plan, final estimates of annual requirements of cloth for the vulnerable sections of population are yet unavoidable. This failure calls for rapid rectification.

1.144. Another disturbing phenomenon of the operation of the Controlled Cloth Scheme is that there has been a steady decline in the production of dhoties and sarees since 1968. Perhaps the most important factor which has come in the way of the smooth functioning of the scheme is that the production pattern was not in conformity with the actual requirements of the people, and the mills were producing more long cloth (presumably because of the opportunities available for clandestine sales by their conversion and reprocessing) and shirting and less sarees and dhoties. While in 1968, the mill sector produced 465 million metres of dhoties and sarees, the production was 440 million in 1969, 242 million in 1970, 230 million in 1971, 219 million in 1972 and only 180 million metres in 1973. During 1974 (upto September 1974), while the percentage requirement under the scheme was assessed at 20 per cent, the actual production of dhoties was 6.3 per cent and that of sarees only a meagre 2.7 per cent. Apart from this tremendous shortfall in production, dhoties and sarees produced under the controlled cloth scheme were of such abysmally poor quality and width that they could be of hardly any use to the poorer sections of the population, especially in the countryside. This is an intolerable situation and the Committee ask for stringent measures to ensure adequate production of dhoties and sarees by the mill sector. An early report on this issue is particularly called for.

1.145. In spite of the Controlled Cloth Scheme having now been in operation for more than a decade, no genuine survey or even broadly reliable data on the estimated requirements of dhoties and sarees for the vulnerable sections of the people are available. It is no wonder that in 1974 (upto September 1974), while the production of long cloth was 53.7 per cent in excess of requirement, the production of all other categories (shirts, sarees, dhoties, drill) was far short of requirements. While the Committee feel strongly that Government through the Textile Commissioner should have enforced corrective measures in time, they urge on Government to collect relevant data without any delay to ensure that the production pattern of the mills conform to actual requirements.

1.146. The Committee find that during the years 1966-67 to 1972-73, India imported 4907 thousand bales of cotton, valued at Rs. 609.98 crores. The bulk of these imports were confined to the long-staple varieties. Till a few years back, cotton was being imported against free foreign exchange, against PL-480 Agreements and against Bilateral Trade Agreements. In 1975, under a special arrangement, 2 lakh bales of medium staple cotton were imported from Pakistan. Justifying these imports, it was stated by the Commerce Ministry that over the years the overall production of cotton had remained far short of the requirements of the mill industry. This reason does not, by itself, appear to be plausible, in view of the fact, which was also admitted during evidence, that India has in recent years successfully achieved a breakthrough in the development of long-staple cotton. As this variety commanded a higher price of Rs. 900 per quintal as against the price of Rs. 200—300 of other varieties, the production picked up to such an extent that there was even a glut in the home market in 1974-75 and Government had to permit a portion of it to be exported. The Committee were informed that the low off-take of long staple cotton was due to the higher requirements of the medium varieties. In April 1974, the production of controlled cloth, which depended for its production on short and medium varieties of cotton, was doubled from 400 to 800 million square metres. There was also a spurt in our export of cotton textiles which too depended on those varieties. Explaining this paradox of imports in the face of glut of long-staple cotton, the representative of the Agriculture Ministry stated that "once we introduce a variety, it takes time even to discourage it." The Committee are not impressed by this statement. The hardships and a puzzling dilemma which the growers of that variety must have faced when they found to their dismay that the very variety they were encouraged to grow was no longer required by the mills can be visualised. The Committee recommend that in order to avoid such unhappy situations in the future, Government should follow what may broadly be termed an integrated policy

so that varieties of cotton produced in the country are not out of tune with the trends in consumption.

1.147. The Committee note that while imports of cotton are canalised through the Cotton Corporation of India to whom a bulk license is issued for the imports, it was the Indian Cotton Mills Federation which not only functioned as the sponsoring authority for recommending applications from individual units but also collected a premium at the rate of Rs. 300 per bale of imported cotton. As the amount was collected from the mills by the ICMF under a voluntary arrangement, the same was not credited into Government account. As far back as April 1966, the Committee had in their 50th Report (Third Lok Sabha) pointed out that the levy of premium had all the ingredients of a tax and as such it should be operated by an official agency. In their reply, the Ministry of Commerce had pointed out that such voluntary and indirect methods and modalities of export promotion were recognised and practised in many countries. The Committee did not at that time pursue their recommendation further. It is surprising, however, to learn that Government did not even go into the question of how the ICMF collected premium on imported cotton during the period the voluntary scheme was in force, i.e., from June 1971 to March 1974. A much better arrangement would have been for Government to use its power of levying import duty on cotton and out of the amount so collected consider subsidising the production of controlled cloth. The Committee recommend that whenever private bodies manage to impose levies on or make collections of premium from industries, Government should not acquiesce in such an arrangement on the plea of its being 'informal', but should on the contrary, examine fully the implications of such levy/collections and place it if thought fit, on an appropriate statutory basis.

1.148. It is distressing that during the years 1971-72 to 1973-74, while the production of long-staple cotton increased by 15 per cent (from 1,779 thousand bales in 1971-72 to 2059 thousand bales in 1973-74), the production of medium and short staple, which was 3807 and 978 thousand bales respectively in 1971-72, decreased to 2883 and 880 thousand bales respectively in 1973-74, the percentage decline being 24 and 10 per cent respectively. The Committee would like the Agriculture Ministry to go into the reasons for this decline and give greater encouragement to the production of medium and short staple varieties of cotton in the country with a view to ensuring that the controlled cloth scheme which is dependent on these varieties of cotton, does not come to grief on this account. There should, in other words, be a well thought-out plan for growing all required varieties of cotton, with an eye particularly to the cloth requirements of the weaker sections of our society.

.. CHAPTER II.

MARKETING AND DISTRIBUTION

2.1. According to a nation-wide survey conducted, in 1974, by the Press Trust of India, acute shortage of commonly used varieties of standard cloth like sarees, dhoties, shirtings and drills, inadequacy of the distribution machinery, as a result of which people belonging to the economically weaker sections of the society had to wait for hours in queues to get their standard cloth, and the adoption of questionable practices at all levels had resulted in the Controlled Cloth Scheme being unable to fulfill the social objectives for which it was introduced. A common complaint of consumers was that all was not well with the distribution system for controlled cloth and that the acceptable varieties produced by the mills found their way into the affluent sections of society, either directly or through wayside shops. Other complaints were that the distribution centres were few and far between from their places of residence, that the authorities did not give proper information about the availability of cloth and that the distribution centres did not display signboards about availability and rates.

2.2. The Committee enquired into the arrangements that existed for the marketing of controlled cloth. In a note, the Ministry of Commerce stated:

"Allotment of controlled cloth to each State is in proportion to its population. The National Cooperative Consumers Federation (NCCF) is the coordinating agency at the national level for onward distribution of 90 per cent of the production of controlled cloth to the wholesale and retail channels nominated by the State Governments. 10 per cent of the production of controlled cloth is sold through mills' own retail shops.

The following channels for distribution of controlled cloth have been indicated by the Textile Commissioner to the State Governments:

- (a) Super Bazars in cooperative sector.
- (b) National Cooperative Consumers' Federation and the chain of cooperatives affiliated to it.

- (c) Fair price shops run under the aegis of the State Governments.
- (d) Any other agency in the cooperative sector specified by the State Governments.

The State Governments have nominated State Co-operative Consumer Federations as State-level wholesale and coordinating agencies in 13 States (namely, Andhra Pradesh, Bihar, Haryana, Punjab, Rajasthan; Madhya Pradesh, Gujarat, Maharashtra, Tamil Nadu; Kerala, Karnataka, Orissa, West Bengal); State Marketing Federations in U.P., Jammu & Kashmir and Nagaland, and recently State Food & Civil Supplies Corporation as an additional wholesale agency in Bihar. In the remaining States and Union Territories, the National Co-operative Consumers Federation coordinates with the selected wholesale stores which have been nominated by the respective State Governments for functioning as wholesalers. At the District/Taluka level, consumer cooperative/marketing cooperatives and, in some States, private trade on a limited scale, have been appointed as sub-wholesalers. Release orders are issued every month by the Textile Commissioner, which are communicated to State Co-operative Consumer/Marketing Federations who, in turn, send advice to the National Co-operative Consumers' Federation intimating break-up of quantities of controlled cloth of different varieties which is to be sent to different districts and Talukas. The N.C.C.F., on receipt of store-wise allocations from the State Federations, issues despatch instructions to the Textile mills. In this way it is ensured that the controlled cloth reaches the wholesale points in the State direct from the mills.

The internal allocation of controlled cloth within a State and retail distribution of controlled cloth, is primarily the responsibility of the concerned State Government. The Government of India in the Department of Civil Supplies and Cooperation have, however, advised the State Governments to take necessary steps to organise distribution of controlled cloth, not only in urban areas but also in semi-urban and semi-rural areas through co-operative channels to the maximum extent possible.

In the States of Tamil Nadu, Karnataka, Orissa, Rajasthan and Uttar Pradesh, the entire retail distribution of controlled cloth is with the cooperatives. In other States also, cooperatives have been pressed into service to a large extent for retail distribution of controlled cloth in urban as well as rural areas. Retail sale in the cooperative sector is undertaken by consumer cooperatives in urban areas and marketing and service cooperatives in rural areas, besides, as indicated above, in some States private fair price shops have also been entrusted with distribution of controlled cloth by the concerned State Governments."

2.3. The underlying idea behind entrusting the distribution and sale of controlled cloth to the cooperatives was that these institutions, with a vast network of stores throughout the country, would be in a position to ensure that controlled cloth reached the consumers for whom it was primarily meant. Besides, these were also under close public audit. It was, therefore, legitimate to expect that the alleged malpractices in the sale of controlled cloth would be minimised, if not altogether eliminated. However, cooperatives in some states did not have the necessary expertise and experience in shouldering this responsibility in a competent way. While some lacked financial resources, others did not possess the professional skills to organise the sale of huge quantities of cloth allocated to them.

2.4. On the role of the cooperatives for the distribution of controlled cloth, the Estimate Committee (1973-74) had, in their 61st Report (April, 1974), *inter-alia*, observed:

"It has been represented to the Committee by a non-official organisation that under the new arrangements for distribution of controlled cloth through cooperatives 'there are serious bottlenecks in the movement of the cloth as on the one hand, the consumer is starved of the supply while, on the other, huge stocks are lying with the mills and distributing agencies. Thus, an artificial shortage of controlled variety of cloth has occurred... The normal channel has stood the test of time and they know by experience as to the size the quality design and colour of the articles required in a particular area during a particular season. The cooperatives and other establishments run by people who do not have the experience of

the trade have miserably failed to deliver the goods." Government were, therefore, asked to state whether the existing channels of distribution of controlled cloth, namely, mills' retail shops, super-bazars, cooperatives and fair price shops had or would have adequate retail outlets to replace the traditional channels and reach the cloth to the weaker sections of the society both in the urban areas and in the remote rural areas. In reply, Government have admitted that "these channels of distribution do not have adequate retail outlets to replace the traditional channels and reach the cloth to the weaker sections of the society both in the urban and in the remote rural areas and that it is difficult to create infra-structure of that magnitude in all States." They, however, maintained that the responsibility of distributing the available quantity in the various States is that of the concerned State Governments, who should endeavour to make suitable arrangements for the purpose."

The Committee had gone on to recommend as follows:

"It is admitted that the existing channels of distribution of controlled cloth namely mills' retail shops, cooperatives, super bazars and fair price shops etc. do not have adequate retail outlets to replace the traditional channels and reach the cloth to the weaker sections of society both in the urban and in the rural areas. It is also admitted that at present Central Government have no machinery to keep a check on the distribution machinery to ensure that the controlled cloth actually reaches the sections of society for which it is meant. The Committee have a doubt whether even the limited quantity of controlled cloth produced at present, is really distributed to the consumers at the controlled rates through the existing distribution channels. During their tours, the Committee received general complaints about the non-availability of the controlled cloth both in urban as well as in rural areas. The Committee feel that at present a large quantity of controlled cloth gets diverted to unauthorised channels. The Committee would suggest that Government should have an independent investigation made by one of their own economic intelligence agencies as to who are the actual beneficiaries of the controlled cloth scheme and in the light of the facts gathered review the existing channels of distribution."

2.5. The National Council of Applied Economic Research had conducted, in September-October, 1974, a sample survey of the marketing of controlled cloth, sponsored by the Indian Cotton Mills Federation. According to this sample survey, the metropolitan, urban and rural buyers accounted for 27.4 per cent, 59.1 per cent and 14.5 per cent respectively of the total purchases of controlled cloth. The following table indicates the details of this survey:

Place	No. of Households	Total cloth bought in metres)	Percentage of households	Percentage to total
City	2090	45,545	23.6	27.4
Towns	5368	96,758	60.7	58.1
Village	1380	24,091	15.77	14.5
TOTAL	8838	166,394	100.0	100.0

2.6. Since the survey of consumers had been confined only to about 100 retail outlets in nine States, there can be a margin of error in generalising over the results gathered. The relevance of the survey, however, lies in the fact that it throws light on some of the weak spots in the scheme, which have vitiated the attainment of the objective. Since nearly 80 per cent of the households are located in rural areas (according to the 1971 census), this should have been the basis for allocation of controlled cloth for distribution as between the metropolitan and urban areas and the rural areas. On this basis, the rural areas should have received a greater quantum of controlled cloth relative to the urban and metropolitan areas. But unfortunately, while the rural areas, according to the NCAER study, accounted for only 15 per cent of the releases (purchases) the metropolitan and urban areas had taken up the balance. It would, therefore, appear that the retail outlets in the rural areas are insufficient. For instance, the Survey points out that Maharashtra, with 9.4 million households (out of the total of 100 million in the whole country) has only about 800 retail outlets, of which nearly 350 are located in Bombay metropolitan complex.

2.7. Since this Survey appeared to indicate that the facilities available for the sale of controlled cloth in the rural and semi-

urban areas were inadequate and that controlled cloth was mostly sold to people residing in metropolitan cities, the Committee desired to know whether the existing arrangements for the marketing and distribution of controlled cloth were adequate and satisfactory and the measures taken by Government to augment the distribution arrangements in small towns and rural areas. In a note, the Ministry of Commerce, *inter alia*, stated:

“Before the 1st April, 1974, controlled cloth production was to the extent of 400 million sq. metres per annum, which was thereafter stepped-up to 800 million sq. metres per annum. To cope with the distribution of this increased availability of controlled cloth, the State Governments were advised to utilise the net-work of consumer co-operatives in urban areas and marketing and service co-operatives in rural areas throughout the country. The NCCF had also impressed on the State Cooperative Federations that the key-note of Central Government's policy is that controlled cloth should reach the vulnerable sections of the community in rural areas as well as urban areas at controlled prices.

In pursuance of the specific measures initiated to expand the distribution system for controlled cloth, the total number of retail outlets for controlled cloth increased from 18646 as on 30-6-1974 to 28035 as on 31-3-1975. (A statement furnished by the Ministry indicating, State-wise, the number of outlets in urban and rural areas is reproduced in Appendix VIII).”

2.8. The Ministry added that according to the information furnished by the State Governments, in March, 1975, out of the 28035 retail outlets for controlled cloth as on 31st March, 1975, 21089 were in rural areas and 6946 in urban areas, which would mean that approximately 75 per cent of the outlets were in rural areas and 25 per cent in urban areas, and that the quantity of controlled cloth distributed in rural areas accounted for about 68 per cent of the total sales during 1974-75.

2.9. According to the Ministry, besides these retail outlets, some cooperatives had also been selling cloth through mobile vans, particularly in areas/localities with concentration of industrial labour and other vulnerable sections.

The Ministry further stated:

“Subsequent to March, 1975, further advice has been sent by the Central Government to the State Governments to take measures for increasing the number of retail outlets in rural areas, where necessary, and ensure that controlled cloth reaches particularly the vulnerable sections of the community. Details about the actual impact of such advice in different States will be known after some time.

It may thus be observed that measures have been taken to substantially step-up the number of retail outlets for distribution of controlled cloth in the country. In urban areas, the consumer cooperative structure has a total of 18,000 retail outlets. In rural areas, there are nearly 50,000 consumer goods distribution points run by primary credit/marketing societies. There should not, therefore, be difficulty in further expanding the retail points for distribution of controlled cloth either in urban areas or rural areas, if and when actual need arises. For this purpose, there would be need for extending financial assistance to the cooperatives particularly in the shape of share capital contribution by the concerned State Governments, so as to provide the requisite margin money, to enable the societies to obtain bank credit for controlled cloth distribution work.”

2.10. When the Committee referred, in this context, to the sample survey conducted by the National Council of Applied Economic Research, the representative of the Ministry of Industry and Civil Supplies stated in evidence:

“The study by the NCAER was based only on 144 retail outlets out of a total of 28,035 such outlets in the country. It does not come even to half a percent of the total outlets, through which controlled cloth is sold in the country. It was conducted during September-October, 1974. The Study report itself says that it was done on the basis of incomplete data. Our submission is that since this report was written, there have been many improvements made by the State Governments themselves. Whatever be the worth of this report, Government of India did not sit idle. They sent out people and reiterated their policy directives.”

2.11. Since it had been stated that the NCAER survey was not comprehensive enough, the Committee asked whether any survey had been carried out by Government to determine the type of people who purchased controlled cloth. In a note, the Ministry of Commerce stated:

“No scientific survey has been conducted by the Government.”

2.12. According to the NCAER Survey, “62 per cent of the sample buyers can be regarded as vulnerable sections for whose benefit this scheme is launched.” This survey also showed that in metropolitan areas, only about 30 per cent of the buyers sampled could be classified as ‘vulnerable’ or belonging to the weaker sections of the community (household income of Rs. 4,000 and less or *per capita* income of Rs. 636 per annum). In regard to the urban buyers, 71 per cent were below this income level whereas in the rural areas, 81 per cent of the buyers belonged to vulnerable sections.

2.13. The average quantity of controlled cloth purchased by households in different income ranges was indicated by the sample survey as follows:

Income groups (Rupees)	(In metres)			
	Dhoties	Sarees	Long cloth etc.	Total
Upto— 1000	2·02	0·32	10·81	13·15
1001—1500	2·08	0·31	11·96	14·35
1501—2000	2·33	0·64	13·95	16·92
2001—2500	2·76	0·45	13·85	17·06
2501—3000	3·27	0·54	16·30	20·11
3001—4000	3·88	1·36	15·30	20·54
4001—5000	2·99	0·50	15·37	18·86
5001—7500	2·94	0·79	15·67	19·40
8501—10000	3·82	1·07	20·66	25·55
above—10000	2·16	0·69	19·75	22·60
Average for all income groups	2·90	0·69	15·23	18·82

2.14. The NCAER survey also points out that about 70 per cent of the controlled cloth buyers are of the salaried classes employed in manufacturing industries or other organisations including Government. Cultivators and agricultural labourers account for less than 10 per cent of the controlled cloth buyers. The following table indicates the results of the sample survey, Income-wise and Occupation-wise:

Income groups (Rupees)	OCCUPATION				Total
	Agriculture and allied activities	Salaried class	Transport Storage to cons- truction	Trade and Commerce	
Upto—1000	24	108	9	17	15
1001—1500	191	483	52	94	820
1501—2000	187	638	8	137	1047
2001—2500	159	921	95	232	1407
2501—3000	55	637	56	124	872
3001—4000	65	851	83	223	1222
4001—5000	56	832	35	141	1064
5001—7500	56	948	36	200	1240
7501—10000	10	354	12	62	438
Above—10000	15	441	16	98	570
Total	815	6213	479	1328	8838
Percentages	9.3	70.3	5.4	15.0	100.0

2.15. Pointing out that in States such as Maharashtra and Tamil Nadu, 65 per cent of the controlled cloth buyers 'cannot be classified as belonging to vulnerable sections of the community', the NCAER study had come to the conclusion that the controlled cloth scheme, primarily intended to accord protection to the economically weaker sections of the society 'is not fully serving its purpose'.

2.16. This appeared, to indicate that the distribution system was not geared to take the income variant into account and had not equipped itself to serve exclusively the vulnerable or economically weaker sections of society and that the controlled cloth scheme, under the existing arrangements served the non-intended sections

to a greater extent than the needy ones. The Bureau of Industrial Costs & Prices had also pointed out, in its interim report on cotton textiles, submitted in September 1972, that the distribution arrangements for the sale of controlled cloth should be considerably streamlined to meet the requirements of the retarded sections of the society in rural areas. The Committee, therefore, enquired into the steps taken by Government to ensure the proper and equitable distribution of controlled cloth amongst the vulnerable sections of the society in the rural areas. In a note, the Ministry of Commerce replied:

“From 9th October, 1972, the distribution of controlled cloth was brought under statutory control and its sale was restricted through the following five prescribed channels:

- (1) (a) Mills' own retail shops (b) Mills' authorised retail shops in semi-urban/semi-rural areas;
- (2) Super Bazars in the Cooperative Sector;
- (3) N.C.C.F. and the chain of cooperative institutions affiliated to them;
- (4) Fair Price shops run under the aegis of the State Government; and
- (5) Any other agency in the cooperative sector specified by the State Government concerned.

The distribution of controlled cloth in the State Union Territories is the responsibility of the respective State Governments and Union Territory Administrations. The Government of India have, however, advised the State Governments, Union Territory Administrations to ensure that controlled cloth reaches the weaker and vulnerable sections particularly in rural areas. The State Governments/Union Territory Administrations were advised as follows by the Textile Commissioner/Central Government from time to time:—

- (i) As production of controlled cloth is mainly designed to meet the requirements of the weaker sections of the community, cloth may be sold to the people with monthly income of less than Rs. 400/- per month. Accordingly, the State Governments have regulated sale of controlled cloth and imposed quantitative and other restrictions on

sale of controlled cloth in some States, the sale is restricted to certain income groups.

- (ii) To ensure sales of controlled cloth to *bonafide* consumers, it was suggested that this cloth could be sold on the basis of existing ration cards etc. In these States where statutory or informal rationing was not in force, kerosene or other cards in vogue for distribution of essential commodities, could be made the basis for sale of controlled cloth. It had also been suggested to the State Governments/Union Territory Administrations that not more than one pair of Dhoti or one pair of Saree or 10 metres of other varieties of controlled cloth should be sold to a person at a time.
- (iii) To ensure smooth distribution of controlled cloth, Advisory Committees may be set up at various levels to supervise its distribution among the *bonafide* consumers. The State Governments/Union Territory Administrations had also been advised that Members of Parliament may be associated with Advisory Committee Coordination Committee set up for supervising the distribution of controlled cloth.
- (iv) The number of retail outlets, particularly in rural areas through service cooperatives and primary marketing societies should be increased. In predominantly tribal areas good working tribal cooperatives may be entrusted with retail distribution, so that controlled cloth reaches the weakest sections of the society. In rural areas, good working marketing societies may be entrusted to act as wholesalers for getting cloth stocks directly from the mills. Appointment of tribal cooperatives, service cooperatives and primary marketing societies was suggested not only to broadbase the distribution system, but also to provide focal points for developing a wider network of retail outlets in rural areas."

2.17. The Committee asked whether it would not be better and socially more desirable to prescribe suitable ceilings of income for the entitlement to controlled cloth, in order to ensure that only persons in the lower income brackets were sold controlled cloth. The Textile Commissioner replied in evidence:

"Various State Governments have evolved various schemes to suit their own requirements. They have indicated

that in all cases, controlled cloth distribution is regulated by ration cards, but in some States a man drawing Rs. 400/- can get this cloth, in some others those drawing upto Rs. 750/- can get it while in some, even those drawing upto Rs. 1300/- can get it. From each of the States we have got this information. The distribution of controlled cloth has essentially to be done with the help and active assistance and involvement of the State Governments and cooperative institutions. In fact, it is well known that the State of Maharashtra and Delhi have their own control systems. In Delhi Government are making a model scheme."

2.18 The Committee desired to know whether separate cooperative societies existed to cater to the needs of the vulnerable sections like the scheduled castes and scheduled tribes. In reply, the representative of the Ministry of Industry & Civil Supplies stated that the approach of the Government was not to have separate societies for these communities in so far as the general villages were concerned but in states like Andhra Pradesh and Orissa, where there was a sizeable population of scheduled tribes separate tribal cooperatives were involved in the distribution of controlled cloth.

2.19. Asked whether the weaker sections had any say in the management of cooperative societies which sold controlled cloth, the witness replied:

"We, in the Department of Cooperation have advised the State Governments that as far as the village societies are concerned, the co-operative law should be amended to ensure that the weaker sections have a say in the management and that one or two or three members of the village co-operatives should be members belonging to the weaker sections. We are trying to ensure that even in the management of the village society the predominant voice is given to the weaker section.

2.20. Another sample survey was also undertaken by the National Council of Applied Economic Research to determine the extent of awareness of the controlled cloth scheme among those classes of people for whom it is implemented. Though the conclusions drawn from this survey cannot be generalised since the sample is small, the survey nevertheless focuses attention on certain interesting aspects.

2.21. The following table indicates the extent of awareness of the scheme among a representative cross-section of the country's population:

State	Households who are not aware of the scheme	Households who are aware, but did not buy cloth	Households who are aware and purchased cloth	Total
Andhra Pradesh	131 (65.5)	41 (20.5)	28 (14.0)	200 (100.0)
Kerala . . . . .	..	61 (40.7)	89 (59.3)	150 (100.0)
Madhya Pradesh . . . . .	..	4 (7.3)	51 (92.7)	55 (100.0)
Maharashtra	177 (62.5)	65 (23.0)	41 (14.5)	283 (100.0)
Rajasthan	1 (0.1)	14 (12.8)	101 (87.1)	116 (100.0)
Tamil Nadu	40 (15.1)	115 (43.2)	111 (41.7)	266 (100.0)
Uttar Pradesh	2 (0.7)	18 (6.2)	270 (93.1)	290 (100.0)
West Bengal	23 (14.5)	136 (68.0)	35 (17.5)	200 (100.0)
Delhi	4 (1.2)	140 (41.2)	196 (57.6)	340 (100.0)
	384 (20.2)	594 (31.3)	922 (48.5)	1900 (100.0)

(Figures in brackets are percentages).

2.22. According to the survey, nearly 80 per cent of the households contacted were aware of the controlled cloth scheme and over half of these had also purchased the cloth whereas the remaining, though aware of the scheme did not buy any controlled cloth. Only about 20 per cent of the households did not know anything about the scheme to enable them to derive any benefit. Further, a very high degree of variation had been noticed in the States as regards the knowledge about the scheme.

2.23. The survey also revealed that among the households who showed lack of knowledge, 44 per cent were city dwellers, while the remaining lived in towns. In rural areas, where literacy as well as distribution facilities are currently low, the proportion of households was expected to be higher.

2.24. The survey further points out that about 60 per cent of the respondent displaying lack of knowledge belonged to the vulnerable sections of the society while the remaining were of the non-vulnerable category. Similarly, about 57 per cent of the households who did not buy the cloth belonged to economically vulnerable sections whereas the remaining were outside this category. The reasons for not buying the cloth, as reported by the households, are summarised in the table below:

	Cannot buy or not interested	Poor quality	Long queues	Don't know the cloth is available	Knew no Ration card hence did not buy	Shop far away	Not a member of coop. society	Total
Andhra Pradesh	18	11	12	..	..	..	..	41
Kerala . . .	4	20	33	4	..	..	..	61
Maharashtra . . .	..	9	1	2	1	35	..	48
Tamil Nadu . . .	14	10	14	1	..	..	57	96
Uttar Pradesh . . .	1	2	5	4	4	..	..	16
West Bengal . . .	79	13	26	5	13	..	..	136
Delhi	21	3	65	38	..	1	22	150
Total	137	68	156	54	18	36	79	548
Percentages	(23.5)	(11.4)	(26.2)	(9.0)	(3.0)	(6.0)	(13.3)	(100.0)

2.25. The Committee desired to know whether mills which produced controlled cloth could sell part of their production through their own retail shops. In a note, the Ministry of Commerce stated:

"No mill can sell any controlled cloth without Textile Commissioner's permission. The Textile Commissioner's Office allocates 10 per cent of the production of controlled cloth on cross-section basis for distribution through mills' own retail shops or retail shops authorised by the mills. In any case sale of controlled cloth even by the mills' retail shop remains subject to the discipline imposed by the State Governments."

2.26. Asked whether the Textile Commissioner had any machinery to supervise the efficiency of the distribution system and to take note of abuses, the Textile Commissioner replied in evidence:

"Textile Commissioner has about forty inspectors in all in the whole country. In fact, for distribution work, the Tex-

tile Commissioner depends entirely on the State Governments . . . The Textile Commissioner's organisation has its head office in Bombay and has five regional offices for the whole country."

2.27. In a note furnished subsequently in this regard, the Ministry of Commerce stated:

"From time to time guidelines have been issued to the State Governments for distribution of controlled cloth. The enforcement of these arrangements is the responsibility of the State Government. The Textile Commissioner does not have any arrangements to inspect and supervise the distribution of controlled cloth at retail level."

2.28. In reply to another question whether the Textile Commissioner had powers to deal with breaches of control orders, the Textile Commissioner stated:

"The powers to deal with any breach of Control Orders are delegated to the State Governments."

2.29. Asked whether it was not feasible for the Textile Commissioner to have an effective control over the distribution of controlled cloth upto the level of the retail outlets, the Textile Commissioner replied:

"Thousands of retail outlets have to be opened and if the Textile Commissioner ever tried to have a control upto that level, the cost to the Government in terms of creating administrative machinery on that account will be very very excessive."

The representative of the Ministry of Industry and Civil Supplies added:

"Neither the Textile Commissioner nor the Government of India from New Delhi can see as to what is actually going on in regard to the implementation of policy in different villages in the country. That does not mean that Government of India do not have an responsibility in the matter."

2.30. One of the modifications incorporated in the Controlled Cloth Scheme in April, 1974 was 'the compulsory selvedge printing

of prices on every metre of controlled cloth' to be 'introduced progressively'. (The Committee desired to know how far this had been implemented. The Textile Commissioner stated in evidence:

"We have impressed on the State Government that anybody selling controlled cloth at higher prices should be booked; and the State Governments have been alert in this regard. Previously, the prices were just stamped on the face plait of the cloth itself. Now the price fixed is stamped all along the selvedge. Even if 4 or 5 metres are removed, the consumer will know the price he has to pay for it. In its survey report, the NCAER has commended this. They have said that more than 99 per cent of the people interviewed, had confirmed that the cloth was made available to them at the controlled price as fixed by the Textile Commissioner."

Clandestine Sales

2.31. Various news media had carried reports of clandestine sale of controlled cloth to bulk buyers either for reprocessing or conversion into readymade garments. For instance, an article in the 8 September, 1974 issue of 'Indian Express' states:

"A visit to the cloth shops, both large and small, amply substantiates the fact that virtually no controlled cloth is available or it is hidden under the counter to be sold at a premium. . . . Another *modus operandi* of the black marketeers is that a considerable amount of controlled cloth finds its way from the co-operatives into private processing houses. Here it is converted into bleached, dyed and printed fabrics and then sold as non-controlled cloth at higher prices."

2.32. The Bureau of Industrial Costs and Prices, in its report, had observed:

"It appears that the definition of controlled cloth as provided in the control order has a lacuna, which renders it possible for mills to produce cloth which is inferior in construction and, being controlled, it can be sold at a price higher than that of controlled cloth. Another weakness seems to be that the incentive that is, subsidy, for the production of controlled cloth is the same for grey and processed cloth and is not linked with Reeds

and Picks. The temptation therefore would be to produce firstly grey cloth and secondly with such Reeds and Picks per c.m. as would involve the least expense. It has been noticed that grey cloth is being sold to processing houses and there is the possibility of processed cloth not being sold as controlled. As regards sale to processing houses, the mill authorities stated that they knew only the wholesalers or the retailers to whom grey cloth was sold and they did not know how the wholesalers and retailers disposed of the cloth. These aspects need fuller examination."

2.33. Even the then Minister of Foreign Trade, while addressing a conference convened by the Indian Cotton Mills Federation on 7 October, 1972 had stated:

"...it appears that the moment the controlled cloth leaves the mills gate, it disappears, without leaving any trace behind....I believe a fair quantity reaches the processing houses where it changes shade and colour and re-emerges as non-controlled processed cloth with a high unit value."

2.34. The Committee, therefore, enquired into the nature of the effective steps taken to prevent the diversion of controlled cloth to unauthorised channels. In a note, the Ministry of Commerce stated that the following measures had been taken in this regard:

- (i) Since 1st November, 1972, the NCCF and State Co-operative Consumer Marketing Federations, have been functioning as the co-ordinating agencies at the National and State levels respectively. This has ensured that controlled cloth allotted to the States reaches the States to whom it is meant and also the wholesale points in the district and Taluka levels without any diversion at mid-points.
- (ii) The channels through which controlled cloth is to be distributed has been indicated by the Textile Commissioner to the State Government.
- (iii) The Textile Commissioner had also advised the State Governments that, as the production of controlled cloth is mainly designed to meet the requirements of weaker sections of the community, cloth may be sold to people with monthly income of less than Rs. 400'-. In pursu-

ance of the suggestions made by the Textile Commissioner, the State Governments are regulating sale of controlled cloth and have imposed quantitative and other restrictions on sale of controlled cloth; in some States, the sale is restricted to certain income groups.

(iv) The State Governments were also advised that the sales to the bonafide consumers could be ensured if they could be organised on the basis of existing ration-cards etc., and where statutory or informal rationing is not in force, the sugar, kerosene or other cards in vogue for distribution of essential commodities, may be the basis for sale of controlled cloth as well. It was also suggested that not more than one pair of dhoties and one pair of saris and 10 metres of any other variety of controlled cloth should be sold to a person at a time. All these instructions were aimed at preventing the possibility of controlled cloth from reaching unauthorised channels and to ensure equitable distribution, as far as possible. However, it needs to be stated here that, in view of large scale accumulation of controlled cloth with the distribution channels in different States during some time past, as a result of supply of sub-standard qualities by the textile mills and consequent consumer resistance, the restrictions have been fully or partially waived by some State government on an *ad hoc* basis to enable the distribution agencies to dispose of the accumulated stocks expeditiously so that the distribution channels do not get choked up due to blocking of their funds.

(v) As the primary responsibility for ensuring proper supervision over the distribution of controlled cloth is that of the State Governments, the District Collector and the district administrative machinery are fully associated with the programme of distribution of controlled cloth. In some States, Committees have been set up at various levels, including District and Block levels, in which non-officials are also associated to supervise distribution arrangements."

2.35. The representative of the Ministry of Industry and Civil Supplies also admitted during evidence that, prior to November 1972, before the distribution system introduced by the Commerce Ministry came into force, complaints of controlled cloth being largely diverted to processing units were received and were found to have some basis.

2.36. Explaining, at the Committee's instance, the specific steps taken to check the diversion of controlled cloth to processing units, the representative of the Commerce Ministry stated in evidence:

"The malpractices that are alleged largely related to the long cloth component. Long cloth does constitute a substantial portion of the total production. Apart from meeting the requirements of the people, in order to remove the malpractices, one of the steps taken was to bring down the proportion of long cloth in the total production. The second and more important step taken by the Textile Commissioner was to order that long cloth should be produced only in the bleached form, and not in the grey form. In other words, the mills were prohibited from producing for purposes of controlled cloth grey long cloth, which is susceptible to be taken out by convertors for processing. So, orders were issued in September, 1974, directing the mills to make available controlled long cloth only in the form of bleached and not as grey long cloth. Still, the fact remains that we have to be very very vigilant all the time."

Quality of Controlled Cloth

2.37. Another common complaint about the working of the Controlled Cloth Scheme relates to the quality of the cloth produced and supplied by the mills. According to the PTI survey referred to earlier in this Report, co-operative societies and other agencies which distribute controlled cloth maintained that the controlled cloth which the textile mills were required to produce was turned out in the form of grey long cloth of poor texture, quality and width. They had also complained that the present specifications as laid down by the Textile Commissioner for the production of long cloth and shirting were not adequate to ensure minimum quality standards in these varieties.

2.38. The National Consumers Co-operative Federation, entrusted with the distribution of controlled cloth had also, according to press reports, come out strongly against the textile industry. The NCCF felt that the industry seemed to be interested "only in statistical data" in terms of square metres of controlled cloth produced, but was "completely blind" to the aspect whether the cloth produced was meant for wearing purposes or "to be used as dusters and packing cloth". The Federation also alleged that "the worst possible cotton with minimum permissible picks are used in pro-

duction. A mere scrutiny of the cloth will reveal that they are nothing but netting cloth." A still more pernicious practice followed by the mills, according to the NCCF, was that they passed off even fents as a full bale of cloth.

2.39. Drawing attention to such criticisms and complaints, the Committee asked whether it was a fact that much of the controlled cloth produced by the mills was sub-standard, resulting often in accumulation of stocks with the co-operatives and bottlenecks in production. The representative of the Ministry of Industry and Civil Supplies stated in evidence that "it was a well-known fact" that the private textile industry produced sub-standard cloth between September 1974 and February 1975 and that the "quality of controlled cloth was so bad that even the poorest sections felt that it was not fit for wearing." The witness added:

"As a matter of fact, these sarees and dhotis were more or less transparent and were more suitable for netting rather than for wearing apparel purposes. We have also received reports that some of the controlled cloth that has been actually produced by the private mill industry in these months was good only for bandage cloth. This was the position faced by the distribution channels throughout the country. In all good faith they lifted the stock from the mills and they found themselves saddled with stocks which were not lifted by the consumers. The poor people would rather pay a few naye paise more and get non-controlled cloth rather than buy something which is not worthwhile. I am not saying all these things just as a complaint to anybody, but I am stating facts which are very much well known to the entire country now. The Co-operative system was faced with a very real problem, because its controlled cloth accumulation had reached approximately Rs. 5 crores throughout the country. Of course, it has now been reduced to about Rs. 3.55 crores at the end of June, 1975; but, that was done after a great deal of effort, with severe strain on the co-operatives distribution system, because the co-operatives are very small institutions. In these days of credit squeeze they had to take money on loan from banks and pay 16 to 18 per cent interest. Added to that, they had to hold stocks for six months or so. This caused losses to the co-operatives system. Their capacity to extend the distribution channels was affected. We brought it to the notice of the authorities concerned in the various forums. The Textile Commissioner has revised the specifications since February, 1975 and now considerably

different varieties according to the revised specifications are produced by the Textile mills. We shall see to what extent improvement takes place."

2.40. Since the success of quality control measures largely depended on its enforcement at the production stage itself, the Committee asked whether the quality control organisation of the Textile Commissioner was adequately geared up for this task and responsibility. The representative of the Ministry of Industry and Civil Supplies replied:

"We have made the submission that the quality control organisation of the Textile Commissioner's Office has to take effective steps to ensure that there is proper inspection of the qualities and they conform to the actual specifications prescribed by them, right at the production stage. If it does not conform to specifications, it becomes a waste of the limited national resources because it is not worthwhile if it does not fulfil the requirements of the consumers or if it is diverted for other purposes."

2.41. Asked when the revised specifications for controlled cloth were introduced, the Textile Commissioner replied:

"As I was submitting, the general minimum standards were laid down by the Textile Commissioner. Generally, speaking, the mills are expected to produce cloth within the range which they themselves know, by experience; but, at the same time, some of the cloth produced was of the lowest standard, though not below the norms. This was a subject matter of criticism and as soon as this position came to light, the Textile Commissioner reviewed the situation and the standards were immediately revised with effect from January. Three months time was given to the mills to revise their production programmes and, as far as we know, from the 1st March 1975 onwards the packing is according to the revised standards. We have information from various consumer agencies that the present quality of cloth is acceptable to the consumer."

2.42. The Committee desired to know whether the standards and specifications of controlled cloth were kept constantly under review. The Textile Commissioner stated:

"While fixing the standards, the Textile Commissioner has necessarily to keep in view on fact that he should go

on improving the quality of cloth but, as the quality of cloth goes on improving, the price of cloth also goes up. So, we have to keep this in view while revising the standards. We now hear from the NCCF and other consumers and from the State Governments that they are satisfied with the quality of cloth which is now going into the market from 1st March, 1975. Earlier also, when defects were pointed out, it was only about 4 crores worth of cloth out of a total production of 120 crores which was found to be not acceptable to the customer."

Pricing

2.43. The prices of cotton textiles were, for the first time, fixed by the Textile Control Board about 30 years back under a scheme of realisation multipliers for the different groups under which the various varieties of cotton textiles could be classified. In the year 1948, the Tariff Board evolved a revised set of fair realisation multipliers at varying rates per unit of yarn woven at the grey stage, by dividing the cloth into 13 groups and recommended suitable differentials for all subsequent processing and finishing of fabrics beyond the grey stage. The Tariff Commission in 1962 deviated from this method and suggested various price schedules to enable the fixation of prices for the individual varieties of cloth. As the Tariff Commission's formula was found to be rather complicated, the Government of India appointed a Technical Committee of three persons under the Chairmanship of the Textile Commissioner in order to ensure that the Tariff Commission's formulae could be worked in practice, and be capable of easy application administratively to the numerous varieties of cotton yarn and cloth. This Committee submitted its Report in August, 1963. Subsequently, a panel of Technologists was asked to go into the Tariff Commission's Report as also the Technical Committee's Report and to give suggestions on the applicability of the method devised by the Tariff Commission as also the schedules prescribed by them for fixation and revision of prices from time to time. This panel submitted its report in August, 1964 suggesting that the realisation multipliers as evolved by the Tariff Board in 1948 may be adopted duly modified on the lines suggested by them. The realisation multipliers were finally revised on the basis of the Tariff Commission's Report of 1962 as subsequently modified by the Panel of Technologists and were adopted at the time of introduction of statutory Price Control Order of 20th October, 1964.

2.44. Under the Control Scheme introduced in October, 1964, formulae had been prescribed for periodical review of the prices

of cloth after taking into account the various elements entering into the cost of production such as cotton, labour, other material charges etc. Adjustments were made in the statutory prices of cloth from time to time so as to allow for major fluctuations in the elements of cost.

2.45. The prices of controlled cloth have been revised seven times since October, 1964. The first revision was made with effect from 1st March, 1965 allowing a marginal increase. This was followed by adjustment of prices every six months till April 1966. Thereafter the prices were revised twice after an interval of 12 months between each revision. In terms of the revision effective from 15th April, 1967, a uniform increase of 4½ per cent was allowed in the prices of controlled cloth. Another revision took place with effect from 2nd May, 1968 when a price increase of 2 per cent was allowed for the varieties retained under control, excepting grey dhoties and sarees, and it was expected that this price increase and other measures simultaneously taken, as a package deal would fully neutralise the entire rise in the cost of production on the controlled varieties till then.

2.46. In May, 1969 the Indian Cotton Mills' Federation demanded an increase in prices of controlled cloth to the extent of 17 per cent to 18 per cent over the previous prices. The demand of the ICMF was examined and it was decided not to revise the prices of controlled cloth on the basis of the then prevailing prices of cotton.

2.47. Again, on 20 February 1970, the ICMF had pressed for an upward revision of multiplier to the extent of 29 per cent to 30 per cent of grey cloth. However, keeping in view the repercussions which the increase in the prices of controlled cloth will have on the prices of non-controlled varieties, it was decided to refer the matter to the Bureau of Industrial Costs and Prices.

2.48. While the recommendations of the Bureau of Industrial Costs and Prices were still awaited, the Minister of Foreign Trade was stated to have held a meeting with the representatives of ICMF on 13th April, 1971 with a view to arrest the declining trends in the production of controlled cloth. Expressing concern over the highly unsatisfactory packing of controlled cloth during the last quarter of 1970-71, the Minister had indicated that ways and means should be found to ensure that the production of controlled cloth was immediately stepped up to the extent originally contemplated. As per the Minister's directions, a high level committee was set up under the Chairmanship of the Additional Secretary in the Ministry, to examine the problem and to suggest measures which could be immediately implemented.

2.49. This Committee had noted that "the production of controlled cloth involved a loss of 63 paise per metre", and that it was, therefore, evident that the controlled price "did not even cover the cost of cotton consumed in the production of such cloth."

2.50. While conceding that the price of controlled cloth had to be suitably refixed, "in order to enable the mills to produce controlled cloth without crutches", the Committee, however, recommended that a request should be made to the Bureau of Costs and Prices to submit their report as early as possible, or at least give an interim recommendation which could be considered before 30th November, 1971. It was also agreed that in the prevailing socio-economic context, it would not be advisable to increase the prices of controlled cloth, without obtaining the Bureau's report.

2.51. The Committee had, however, recommended assistance to the industry in other forms. In this context, the representative of the Commerce Ministry stated:

"The Committee felt that the only way of achieving the result was to neutralise the loss that the mills were incurring. They also came to the conclusion that the amount of money to be required for a full year was to the extent of Rs. 20 crores, that is to say, it was roughly about Rs. 5 crores per annum. They had given various details and calculations. Then they came to the conclusion that the production of 400 million metres in a year would involve loss of Rs. 20 crores every year and some measures would have to be found for realising Rs. 5 crores. So, the committee again suggested or recommended that Rs. 5 crores per quarter would be found out like this: premium that the industry would pay to the Fund—Rs. 3.75 crores; money realised from the sale of foreign cotton; money realised through a levy on the imported American cotton, which was at that time to the extent of 1.25 lakh bales; Rs. 60 lakhs by cash contribution; and an amount of Rs. 75 lakhs would be found from the Textile Commissioner's controlled cloth compensatory fund, that is, a fund which had been built up in the past out of the levy by way of penalty recovered from the mills. So, this total came to Rs. 5.10 crores. The amount that was given from the Textile Commissioner's fund was adjusted on a quarter to quarter basis on the assessment made by the committee. In regard to the quantum of loss, I might mention that the quantum of loss and other details were examined by

this Committee. So, the Committee, did not in fact, stop-working. After its first report was submitted, they continued to make the assessment for every quarter so much so that during the 4th quarter of 1971-72, which is the period in question, the total amount that was given from the Government side was to the extent, I think, of Rs. 1.89 crores. Thus, the total amount found was about Rs. 20 crores. Then the scheme came to a close, really speaking, at the end of May 1972."

2.52. In their Interim Report, submitted to Government in September 1972, the Bureau of Industrial Costs and Prices had, however, pointed out as follows:—

"...Even on the basis of an assumed production of minimum 20 per cent controlled cloth, the margin for the individual mills would generally work out at well over 15 per cent, and ranging from 13.30 per cent to 86.44 per cent on the capital employed. These figures are somewhat in the nature of underestimates since they presuppose the same set of working conditions as in the costed year, and contain no corrections on account of the improvement in efficiency of operations like spinning and weaving, reduction in cotton waste, etc.—matters which we shall deal with in our final report. We would, however, and that the projections of absolute profit or return are inherent in any projection based on statistical averages and index numbers. Nevertheless, we see no reasons to doubt the correctness of the conclusion that taking industry as a whole and assuming production of controlled cloth at a minimum of 20 per cent of total at each mill, the position of the mills as judged by the return on capital employed will be quite comfortable and would be well over even 15 per cent. In the circumstances, we are of the view that there is no justification for continuing the subsidy to the textile industry for production of controlled cloth."

2.53. The Committee desired to know the reasons for Government deciding to assist the industry on the basis of the statistics supplied by the vested interests, when the Bureau's findings, based on a scientific collation of material, were still awaited, particularly in view of the fact that the later findings of the Bureau appeared to indicate that the assistance was unjustified. The representative of the Commerce Ministry stated:

"The Bureau's interim report was made available to the Government in September, 1972."

2.54. When asked whether this did not imply that the Committee, under the Chairmanship of the Additional Secretary, had relied more on whatever data were furnished by the millowners and giving them advantage after advantage, the witness replied:

"I thought you had raised the point as to when the interim report was made available to the Government."

2.55. As regards the study undertaken by the Bureau of Industrial Costs and Prices, a representative of the Bureau stated in evidence:

"The Bureau's interim report was submitted in September, 1972. We had analysed the profits and losses of 20 selected units on the production of standard cloth and on the total production. We had noted that in the matter of production of standard cloth, all the 20 units will suffer losses. The minimum loss suffered by one unit was about Rs. 8,000 and the maximum loss suffered by another unit was about Rs. 37.43 lakhs. When we said that on the whole there was good profitability, it depends on two factors. This was the sum total of all operation of all units for projected period at current level of cotton price. During the cost analysis period, total profitability of all 20 units was good, but as a result of the total operations 7 units out of 20 units had suffered actual loss. That is to say, during the period for which detailed cost analysis had been undertaken, all the 20 units had suffered losses on the production of standard cloth but only 7 units had suffered losses on their total operations as well. We made the cost analysis on the basis of cotton prices prevailing during that period. For the current period, we took the cotton prices as they were prevailing during the period April to June, 1972. We found that at this level of cotton prices and at the multiplier which was then existing most of the units would be gaining. For the projected period, 1973-75, we found that most of them would be in a comfortable position. Though on the whole they would be making profits, in the matter of production of standard cloth, all the mills would be losing. That was

the finding submitted in September, 1972."

2.56. Asked whether this implied that the Bureau was resiling from the earlier position indicated in their report, the witness replied:—

"The Bureau still holds that all the calculations are quite correct in the sense that if these 20 mills are able to attain the same efficiency that they had attained during the cost analysis period and if they produce 20 per cent of their capacity as standard cloth, on the whole, these 20 mills would be making well over 15 per cent profit on the capital employed."

2.57. The index of Cotton price moved from 138.3 in 1968-69 to 257.9 in 1973-74 (vide details in para 1.44). The price of controlled cloth was revised upwards by 30 per cent from April, 1974. Simultaneously retailers margin was also raised from 12½ to 20 per cent. This increase was necessitated because the price of cotton had gone up considerably.

2.58 Justifying the 30 per cent increase in prices of controlled cloth ordered from April, 1974, the Textile Commissioner stated in evidence:—

"Prices were revised on 1st March, 1975, 1st November, 1965, 1st April, 1966, 1st October, 1966, 15th April, 1967 and 2nd May, 1968. Thereafter, in spite of the fact that the cotton prices and labour costs continued to rise, controlled cloth price was not raised. They were kept pegged down at this stage. From 1964 to 1968 it was a scheme of almost cloth being supplied at reasonable price. From 1968 to 1974, it became a scheme for providing cloth at subsidised prices. In April, 1974, the 1968 prices which were fixed earlier were revised upwards by 30 per cent although at that time the increase justified by that formula of multipliers as evolved in 1964 was ranging between 87 and 93 per cent with regard to various varieties of cloth in order to neutralise the increases which have taken place between the years 1968 and 1974, but yet, the Government revised the prices by 30 per cent leaving a gap of say, 50 or 60 per cent."

2.59. The Secretary, Ministry of Commerce disclosed during evidence that even after the 30 per cent rise in prices of controlled cloth, the Mills, it was felt, were suffering a loss of rupee one per sq. metre, which meant the obligation of production of 800

million sq. metres of controlled cloth had placed a burden of Rs. 80 crores on the industry.

2.60. The following table indicates the details of the dividends, paid according to the Reserve Bank of India Bulletin, by the cotton textile mills during 1965-66 to 1972-73.

1965-66	9.5
1966-67	9.2
1967-68	8.0
1968-69	7.3
1969-70	7.9
1970-71	7.2
1971-72	8.9
1972-73	9.3

2.61. Drawing attention to those figures, the Committee asked whether this did not indicate that claims that the textile industry suffered unmitigated losses were unfounded and that an adequate profit margin was in fact, available to the industry. The Textile Commissioner replied:

"If I may be permitted to say, these are the facts you have read out and the fact is that this has to be compared with the performance of the other industries. Now, if you look at those figures, then the story may be slightly different and one will know what is the position of other industries. That is one of the reasons which one has to see and look into from time to time, as to what is the profitability or the opportunity cost available to other industries."

2.62. Asked whether the Textile Commissioner was more concerned about the profitability of the textile industry and guaranteeing its profits than ensuring that the interests of the common man and thereby the national interests were safeguarded, the witness replied:

"I would put it this way that the Textile Commissioner's job is to keep on examining the national objectives which are fixed for the textile industry and see that they are fulfilled, that is to see that the quantum of cloth is increased, employment opportunity is increased, the development of the industry both in centralised and decentralised centres takes place and whatever we come to know we pass it on to the Government from time to time from the national interests point of view."

He added:

"I still maintain that my job as civil servant in any capacity would be to see that the national interest is served, when the development of a particular industry is in the interest of the nation then see that this development takes place. I do not want to pinpoint that this industry has not made a good profit. What I was saying was that the textile industry's profitability ratio compared to the profitability ratios of other industries was not better and this fact I was bringing to the notice of the hon. Committee."

2.63. The primary objective of the Controlled Cloth Scheme is to make cheap and durable cloth available to the weaker sections of society. However, complaints have persisted about its poor quality as well as non-availability, the inadequacy of its distribution machinery, the prevalence of questionable practices at all levels and other defaults. It will not be unfair to state that the social objectives of the scheme have largely failed and there has been a pitiful chasm between demand and supply and between promise and performance. Evidently, imaginative changes and effective steps are called for if the controlled cloth scheme is to be rescued and our long suffering people are to have some little amelioration.

2.64. In this context, the findings of a sample survey of controlled cloth marketing conducted during September-October 1974, by the National Council of Applied Economic Research, have some relevance. The survey, of course, covered a small sample, being confined to only 144 outlets in nine States and offers no basis for large generalisations. However, it focuses attention on some of the weak spots in the scheme, which should serve as pointers to Government for taking necessary remedial measures. Since, according to the 1971 Census, nearly 80 per cent of the weaker sections of the community live in rural areas, this fact should have been the basis for the allocation of controlled cloth for distribution between the urban and rural areas and the latter should have, therefore, received a much larger quantity of controlled cloth than the former. The NCAER Survey points out, on the contrary, that rural areas accounted for only about 15 per cent of the releases of controlled cloth. Maharashtra, for instance, with 9.4 million households had only about 800 rural outlets, out of which, paradoxically, some 350 were located in the Bombay metropolitan area.

2.65. The Committee have learnt that in pursuance of the specific measures initiated by Government to expand the distribution net-

work for controlled cloth, the total number of retail outlets for controlled cloth increased from 18,646 as on 30th June, 1974 to 28,035 on 31st March 1975, out of which 21,089 were in rural areas, and that the quantity of controlled cloth distributed in rural areas accounted for about 68 per cent of the total sales during 1974-75. That it was found necessary to add as many as 9,389 retail outlets in a single year would indicate that the earlier distribution arrangements were inadequate and also that it required almost some sort of a crisis to develop before remedial measures were taken. The Committee would urge Government to keep a vigilant eye on the adequacy of the retail outlets for controlled cloth and constantly evaluate their performance so that timely corrective measures can be initiated.

2.66. The distribution of controlled cloth is at present done through four channels, namely, (i) Super Bazars in the cooperative sector, (ii) the National Cooperative Consumers' Federation (NCCF) and the chain of cooperatives affiliated to it, (iii) fair-price shops run under the aegis of the State Governments and (iv) any other agency in the cooperative sector specified by the State Governments. The National Cooperative Consumers' Federation is the coordinating agency, at the national level, for the onward distribution of 90 per cent of the controlled cloth produced to the wholesale and retail channels nominated by the State Governments. While it was legitimately expected that the widely alleged malpractices in the sale of controlled cloth would be checked, if not altogether eliminated, by entrusting its distribution and sale to reliably run cooperatives, the Committee understand that cooperatives in some States did not have the necessary expertise and experience for shouldering this responsibility. It is also a known fact that our cooperatives have a lot of leeway to make up before they became effective instruments of service. Besides, financial constraints and lack of professional skills further aggravate the situation. Even as recently as two years ago, Government had stated before the Estimates Committee that the existing channels of distribution 'do not have adequate retail outlets to replace the traditional channels and reach the cloth to the weaker sections of society both in the urban and remote rural areas'. While the steps stated to have been taken subsequently are welcome, the Committee feel that a lot more needs to be done in this regard. The Central Government, instead of merely maintaining that the responsibility for the distribution of controlled cloth is that of the concerned State Governments, should play a more constructive and far-reaching role. Apart from maintaining close watch over the performance of the distribution machinery, Government should evolve and work out long-term policies and programmes of developing and

sustaining the cooperative sector in its different facets as an immediate and inescapable task.

2.67. The Committee find particularly that the distribution system is not geared to take the income variant into account and hardly performs its primary obligation, namely, service of the vulnerable, often too pitifully poor, sections of our people. The NCAER Survey points out, for instance, that about 70 per cent of the sample of controlled cloth buyers belonged to the salaried class employed in manufacturing industries and other organisations including Government, while cultivators and agricultural labourers accounted for less than 10 per cent of the buyers. Observing that in States such as Maharashtra and Tamil Nadu, 65 per cent of the buyers 'cannot be classified as belonging to vulnerable sections of the community', the survey concludes that the controlled cloth scheme, primarily intended to accord protection to the economically weaker sections of the society 'is not fully serving its purpose'. The Bureau of Industrial Costs and Prices had also, in its interim report on cotton textile (September 1972) expressed substantially the same view. The Committee urge on Government that this basic drawback in the operation of the scheme is removed without delay.

2.68. There is at present no uniformity in regard to the entitlement to controlled cloth and various State Governments have prescribed different monetary limits in this regard. The Committee have been informed that while in some States, persons in the income range upto Rs. 400 per month are entitled to draw their quota of controlled cloth on ration cards, those with an income upto Rs. 750 and even upto Rs. 1300 can, in some other States, get controlled cloth. This is entirely unsatisfactory, as it discriminates against those who cannot easily acquire a basic necessity of life. The Committee would suggest that the feasibility of laying down a uniform ceiling of income throughout the country for entitlement of controlled cloth should be examined, in consultation with the State Governments.

2.69. The Committee are surprised that though the controlled cloth scheme has now been in operation for over a decade, no scientific survey has yet been conducted by the Government to determine the type of people who purchased controlled cloth and how far the objectives envisaged by the scheme had been achieved. Such a survey should be undertaken by the Central Government soon and on the basis of its findings, which should not take too long, all essential steps should be adopted.

2.70. Apart from the inadequacies and deficiencies in the distribution arrangements there appears to have been a peculiar and pernicious

cious gap in the controlled cloth scheme. A large proportion of the consumers is, according to the NCAER Survey, unaware of the scheme itself, and this does not by any means speak well of the government's publicity campaign. The Committee desire that urgent and adequate steps should be taken to disseminate information about the controlled cloth scheme and the outlets for its distribution. Facts about the availability of cloth, prices, etc. should also invariably be displayed at a prominent point by all the retail outlets.

2.71. The Committee have been informed that Government's approach, generally, was not to have separate societies to cater to the needs of different communities in the vulnerable sections of society, such as scheduled castes, scheduled tribes, etc. However, in States like Andhra Pradesh and Orissa where there was a sizeable population of scheduled tribes, separate tribal cooperatives were involved in the distribution of controlled cloth. The Committee recommend that the scope for setting up cooperative societies to serve specially vulnerable communities in places where there is concentration of such people may be explored.

2.72. There have also been a number of complaints that the Industry itself has been indulging in a systematic sabotage of the controlled cloth scheme. Various news media have also carried reports on the clandestine sale of controlled cloth at different times to bulk buyers either for reprocessing or conversion into readymade garments. In fact, even the then Minister of Foreign Trade, while addressing an ICMF Conference on 7th October 1972, had stated:

"...it appears that the moment the controlled cloth leaves the mills gate, it disappears, without leaving any trace behind... I believe a fair quantity reaches the processing houses where it changes shade and colour and re-emerges as non-controlled processed cloth with a high unit value."

The Bureau of Industrial Costs and Prices had also alluded to this fact, in September 1972, and had recommended 'fuller examination' of this aspect. Admittedly, prior to November 1972, before the distribution system introduced by the Commerce Ministry came into force, complaints of controlled cloth being largely diverted to processing units were received by Government and were found to have some basis. Though the clandestine sales of long cloth to the processing houses was apparently within the knowledge of Government for a fairly long time and Government were also aware that the malpractices alleged related largely to the long cloth component which constitutes a substantial portion of the total production, the Commit-

tee are surprised and perturbed that it was only in September 1974 that orders were issued by the Textile Commissioner directing the mills to bring down the proportion of long cloth in the total production and to produce long cloth only in the bleached form instead of the grey form which is susceptible to reprocessing and conversion. The Committee seriously deplore the delay in taking these remedial measures and would like urgently to know the reasons therefor. They would ask Government to be truly vigilant in this regard and come down heavily on those mills/dealers whose self-interested and clandestine transactions tended clearly to sabotage a national welfare scheme.

2.73. Another common complaint about the working of the controlled cloth scheme relates to the quality of cloth produced and supplied by the mills. The textile industry had been criticised, in no uncertain terms, by the National Consumers Cooperative Federation, which pointed out that the industry was interested 'only in statistical data' in terms of square metres of controlled cloth produced, but was 'completely blind' to the aspect whether the cloth produced were meant for wearing purposes or 'to be used as dustors and packing cloth'. The Federation had also alleged that 'the worst type of cotton with minimum permissible picks' were used in production and added that a mere scrutiny of the cloth 'will reveal that they are nothing but netting cloth'. These complaints were also corroborated by a Government spokesman before the Committee when he conceded that 'it was a well-known fact' that the private textile industry produced sub-standard cloth, especially between September 1974 and February 1975, and that the quality of the cloth was so bad that 'even the poorest sections felt that it was not fit for wearing'. The sarees and dhoties, according to him, were 'more or less transparent and were more suitable for netting rather than for wearing purposes'. Some of the controlled cloth produced during this period was so bad that it could be used only as bandage cloth. This, in the opinion of the Committee, represents a shocking state of affairs and is indicative of the extent to which a scheme evolved for the common good had been distorted and shamelessly exploited by powerful and unscrupulous elements in the industry.

2.74. The upshot of all this bungling and worse was the accumulation of stocks valued at approximately Rs. 5 crores throughout the country, which caused heavy loss and 'severe strain' on the cooperative distribution system. It would appear that the Textile Commissioner's quality control organisation had dismally failed to take effective steps to ensure that there was proper and genuine inspection of the quality of cloth produced and to enforce rigidly the stipulated

specifications. It is otherwise inconceivable to the Committee how such a large-scale deterioration in quality could take place suddenly. The Committee would like to be satisfied that the inspection machinery did, at least attempt to discharge the responsibilities cast on it and would like the circumstances leading to the large-scale production of sub-standard cloth to be investigated and responsibility for default fixed. The Committee repeat that they take a grave view of the matter and call for stringent action, on the basis of the investigation, against those who had been remiss in their duties. The results of such investigation must come soon to the Committee.

2.75. The Committee have been assured, in this context, that the situation was reviewed as soon as this position came to light, that the standards were immediately revised in January 1975, and that packing of controlled cloth is being done according to the revised standards from March 1975 onwards. The present quality of controlled cloth is also stated to be acceptable to the consumer. While the Committee concede that the quality of controlled cloth can be improved only upto a certain limit without seriously affecting the existing price structure, the Committee feel that it should be possible for the industry to bring down the cost of the production by improved methods of production and management, research and development, etc. and also to impose on itself a certain amount of self-discipline and a commitment to subserve the common cause. The Committee would urge Government also to keep the standards and specifications for controlled cloth under constant review and enforce vigorous inspection and quality control at the production stage itself so as to ensure that the prescribed standards are rigidly observed. The Committee are of the view that drastic measures are necessary to discipline the truant textile industry and make sure that it fulfils its larger social obligations and commitments.

2.76. Another aspect which compels attention is the pricing of controlled cloth. Prices of controlled cloth were revised, under a scheme of 'realisation multipliers', on two occasions in 1965, twice in 1966, once in 1967 and again once in 1968. Subsequently, it was only in April 1974 that Government allowed a 30 per cent increase in the prices of controlled cloth, allegedly to neutralise, 'to the extent possible', the increases in the cost of production, arising, particularly, from the increase in cotton prices. Simultaneously, the retailers' margin was also raised from 12½ per cent to 20 per cent. Though the prices of controlled cloth were pegged down at the 1968 level, despite repeated pleas from the industry for an upward revision, assistance in other forms were given to the industry, on the recommendation of a committee set up, under the chairmanship of the Additional Secretary in the Ministry of Foreign Trade, to find ways and means

to ensure that the production of controlled cloth was immediately stepped up to the extent originally contemplated. It is significant that the decision to give cash assistance out of the Textile Commissioner's Controlled Cloth Compensatory Fund, built up out of the penalties recovered in the past from defaulting mills, which resulted in the payment of Rs. 1.89 crores to the industry, between January 1972 and March 1973, had been arrived at on the basis of the statistics supplied by the industry, even when the findings of the Industrial Costs and Prices, which was then engaged in a cost price study of the cotton textile industry, were still awaited.

2.77. The Committee fear that the assistance extended to the industry by the Ministerial Committee was entirely premature, particularly in view of the fact that the findings of the Bureau subsequently made available, on the basis of a scientific collation of material, appeared to indicate that this assistance was unjustified. In its Interim Report based on a cost study of certain selected units, submitted in September 1972, the Bureau had concluded that even on the basis of an assumed production of 20 per cent controlled cloth, the industry as a whole would have well over 15 per cent return on the capital employed. An analysis of the dividends paid by the cotton textile mills during 1965-66 to 1972-73 also indicates that reports about the textile industry suffering heavy losses were exaggerated and that an adequate profit margin was, in fact, available to it. The Committee fear that Government have virtually permitted the industry to follow a 'Heads I win, tails you lose' policy.

2.78. The Committee learn from the Commerce Secretary that even after the 30 per cent price increase allowed from April 1974, the mills are supposed to be incurring a loss of Re. 1 per square metre of controlled cloth produced, which meant that the obligation to produce 800 million square metres of controlled cloth had placed a burden of Rs. 80 crores on the industry. In the context of what has been said before, the Committee cannot help feeling that there is perhaps in certain quarters a greater concern and solicitude for something like an optimum profitability of the by no means impecunious textile industry of this country than for the needs of our people. The Committee stress that Government should take concerted measures to see that the basic necessities of the common-man including the requirements for cloth are met and that the textile mills are made to realise this national obligation. Apart from assessing the financial implications of the controlled cloth scheme on the industry on the basis only of an investment analysis it would be more appropriate to assess the importance of the scheme on the criteria evolved by a social cost-benefit analysis. The considerable margin of profit clearly found

available over the years to the industry by the production and sale of non-controlled varieties of cloth must also be taken into account. Having due regard to the socio-economic objectives underlying the controlled cloth scheme, the Committee would call on Government to ensure that the right type of national discipline is brought to bear on the textile industry which should, with a reasonable effort, be able to ensure generally uninterrupted supply of acceptable quality cloth in adequate quantities and at moderate and regulated prices.

NEW DELHI;
April 29, 1976

Vaisakha 9, 1898 (Saka).

H. N. MUKERJEE,
Chairman,
Public Accounts Committee.

APPENDIX I
(Vide Paragraph 1.3)

Details showing the mills from whom penalty is recoverable for short-fall in production of controlled cloth during October 1964 to April, 1968.

Sl. No.	Name of the Mill	Amount recoverable	Amount of incentive kept in abeyance
(1)	(2)	(3)	(4)
		Rs.	Rs.
*1	Jhangir Vakil Mills	7,016.94	11,494.71
*2	Rajnagar Mills	55,634.28	2,167.99
3	Rustom Jahangir Vakil Mills	8,193.60	..
4	Navjivan Mills	68,969.82	..
5	Modi Mills	46,175.52	..
6	Broach Textiles	14,698.68	11.73
*7	Shree Bharathi Mills	@11,528.28	@Remittance omitted
8	Khatau Mills	1,14,358.80	..
9	R. S. Rekhchand Mohatta Mills	53,403.36	12,820.83
10	Laxmirattan Cotton Mills	85,180.86	2,084.91
*11	Digvijay Mills	1,70,927.88	29,457.92
*12	Swadeshi Cotton & Flour Mills	1,40,924.64	92,387.40
13	Madhusudan & Shree Niwas	53,802.18	..
*14	Chaganlal Textiles	38,798.94	39,719.89
15	New Commercial	6,403.32	..
*16	Coimbatore Murugan	15,387.72	..
17	Maharaja Shri Umaid Mill	28,717.98	..
18	Manek Chowk, Ahmedabad	29,233.20	..
*19	Keshav Mills	4,782.30	..
20	Laxmi Vishnu Mills	41,974.32	2,411.80
*21	Central Cotton Mills	2,870.88	..
		9,88,983.50	1,92,357.18

*Mills management of which has been taken over by Government.

Statements showing the obligation of mills to produce controlled cloth, how much was actually produced, the rates of incentive and compensation, the amounts paid as incentive, the amounts due as compensation and actually recovered.

APPENDIX II
(Vide Paragraph 1.9)

Period	Quantity Obligation (in million square metre)	Actual Production (in million square metres)	Rate of incentive per square metre)	Rate of compensation per square metre)	Amount of incentive paid (Lakhs of rupees)	Amount of compensation due (Lakhs of rupees)	Amount of compensation received (Lakhs of rupees)	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
October 1964 to April 1968.	40 to 50 (October 1964-45 April 1965-50 October 1966-40)	..	..	..	..	..	..	5.34
May 1968 to May 1971.	25	..	1397.70	1/2 to 6	6	163.59	544.18	520.12
June 1971 to March 1974.	12	1133	1000.48	50 to 20 1971 (30-June 1972 upto December 1972)	25 upto December 1972	..	..	..
						(A) —	(B) —	(B) —
								(A) Rs. 1.89 crores were paid to ICMF during January 1972 to March 1973.
								*Not actually provided in Control Textiles Order—Adopted as an alternative to prosecution.

(B) Compensation
was recovered by
ICMP.

ber 1971 January
30--March 1973
1972
20-June
1972)

April 1974 to October 1974	24	400	388	..	250	--	300	..
----------------------------------	----	-----	-----	----	-----	----	-----	----

APPENDIX III

(Vide paragraph 1.17)

Statement showing the packing of controlled cloth and its percentage in relation to the total packing period-wise

Period	Total Quantity of controlled cloth packed	Percentage in relation to the total packing
	(million metres)	
October/December 1964	345	32.95
January/March 1965	483	47.77
April/June 1965	484	47.54
July/September 1965	385	37.78
October/December 1965	412	43.05
January/March 1966	372	43.16
April/June 1966	391	40.14
July/September 1966	449	45.31
October/December 1966	393	40.10
January/March 1967	398	46.44
April/June 1967	425	47.12
July/September 1967	453	48.87
October/December 1967	448	44.76
January/March 1968	374	39.79
April 1968	125	40.72
TOTAL	5,937	
	(Million Square Metres)	
May/July 1968	168.13	15.69
August/October 1968	199.94	19.23
November 1968/January 1969	201.22	19.95
February/April 1969	187.49	20.93
May/July 1969	154.71	16.90
August/October 1969	119.26	13.35
November 1969/January 1970	118.57	12.41
February/April 1970	96.48	10.82

1	2	3
May/July 1970	73.74	8.17
August/October 1970	40.76	4.56
November 1970/January 1971	25.24	2.98
February/April 1971	9.14	1.23
May 1971	2.56	1.22
TOTAL	1397.24	

VOLUNTARY SCHEME

(Million Square Metres)

June/August 1971	104
September/November 1971	103
December 1971/February 1972	101
March/May 1972	93
June, 1972 . . . . .	..
July/December 1972	152
January/June 1973	229
July/September 1973	101
October/December 1973	99
January/March 1974	78
TOTAL	1060

STATUTORY SCHEME

(Million Square Metres)

April/September 1974	388
October/December 1974	224
January/March 1975	211
TOTAL	823

APPENDIX IV

(Vide Paragraph 1.24)

Statement showing Profits after Tax as a percentage of Net Worth of Cotton Textile Industry

Year	Cotton Textile	All Industry
1964-65	7.7	9.3
1965-66	1.2	8.7
1966-67	5.3	9.1
1967-68	2.4	7.3
1968-69	-0.2	7.0
1969-70	6.4	9.5
1970-71	4.8	10.1
1971-72	0.1	9.7
1972-73	11.1	9.3

Source: Reserve Bank of India's studies on the finances of Medium and Large Public Ltd. Companies.

APPENDIX V

(Vide Paragraph 1.50)

Statement showing details of mills from whom penalty is recoverable for shortfall in production of controlled cloth

	Name of the Mill	Qty of shortfall (in sq. metres)	Amount of compensation (Rupees)
Private Sector Mills	1. M/s. New Commercial Mills Limited, Ahmedabad	1,06,722	6403.32
	2 Laxmirattan Cotton Mills Co. Ltd., Kanpur	14,19,681	85180.86
		15,26,403	91,584.18
NTC Mills	1 M/s. Jehangir Vakil Mills Ahmedabad	1,16,949	7016.94
	2 M/s. Rajnagar Mills, Ahmedabad	9,27,238	55634.28
	3 M/s. Digvijay Mills, Bombay	28,48,798	170927.88
	4 M/s. Swadeshi Cotton & Flour Mills, Indore	23,48,744	140924.64
	5 M/s. Chaganlal Textiles, Chaligton	6,46,649	38798.94
	6 M/s. Coimbatore Murgan Mills, Coimbatore	2,55,462	15387.72
	7 M/s. Keshav Mills, Petled	79,705	4782.30
	8 M/s. Central Cotton Mills, Calcutta	47,848	2870.88
	72,72,393	436,343.58	
	GRAND TOTAL	87,98,796	527,927.76

APPENDIX VI

(Vide paragraph 1.64)

Note on legal position of clause 21C(1)(b) of the Cotton Textiles (Control) Order, 1948.

When the question of introducing clause 21C was under consideration, Special Secretary (Commerce) had a discussion with the then Law Secretary, who pointed out that the proposal to levy a fee on the mills in lieu of their obligation to produce the prescribed quantities of varieties of cloth is essentially a proposal to levy a fee, if not a tax. Such levy requires the authority of law. There is no enabling provision authorising such levy of fee or tax, and the proposal to make the levy by means of an executive order is liable to be challenged as being *ultra vires*. The Special Secretary (Commerce) agreed that though there was an element of risk from the legal point of view, as the proposal was sponsored more or less at the instance of the affected industry, there was no great risk of any one taking the matter to a court of law. Law Secretary stated that if the Department was satisfied that there was no such risk of challenge, they may go ahead with the proposal. It was also further pointed out that such contemplated levy by means of executive orders was not strictly legal, the question of sponsoring legislation for the amendment of the Essential Commodities Act should be taken up as early as possible, and that such law may have to be given retrospective effect, if in the meanwhile there was any challenge.

2. A writ petition was filed in the Bombay High Court by M/s. Vishnu Lakshmi Cotton Mills Ltd. Challenging the validity of Clause 21C(1)(b) of the Cotton Textiles (Control) Order, 1948. The Ministry of Commerce made a proposal to amend the Essential Commodities Act so as to legalise with retrospective effect the provisions of clause 21C(1)(b). While examining the said proposal this Ministry opined (Note recorded by Joint Secretary and Legal Adviser Shri Manjrekar) that any statutory provision requiring the textile mills to pay in cash to make good, so to say, the failure or omission to manufacture and pack the minimum or any quantity of the controlled cloth cannot be said to be reasonable restriction under article 19(5) and (6) of the Constitution, in the matter of

trade and commerce in certain commodities. The object of the Essential Commodities Act being "to provide in the interest of the general public for the control and the production, supply and distribution of, and trade and commerce in, certain commodities", the levy and collection of cash in lieu of production of the controlled cloth is in effect a negation of the very object of the Essential Commodities Act. Levy of cash amounts on the textile mills which, having regard to the particular machinery installed with them, are not capable of manufacturing controlled varieties of cloth would amount to expropriation of the property consisting of cash belonging to the mills and would be hit by article 31. The levy, it was pointed out, was neither tax nor a fee but was in the nature of penalty imposed and recovered by executive act. The said clause which empowers the Textile Commissioner to levy cash in lieu of prosecution in effect amounts to compounding of offence out of court. The Ministry was of the view that the said clause was illegal and cannot be legalised by any amendment of the Essential Commodities Act, because any such amendment would be constitutionally bad as offending article 19(1) (f) and (g) and article 31 of the Constitution.

3. Commerce Ministry then had requested that the matter may be reconsidered and a meeting was fixed with officers of the Ministry of Commerce for the purpose, but the meeting did not come off as a different scheme was in force and it was likely to continue. The matter was not pursued by the Ministry of Commerce and clause 21C was ultimately deleted.

4. Clause 21C was as under:

"21C. (1) Where the Textile Commissioner has issued directions under sub-clause (1) of clause 21A to any producer to pack a specified quantity of cloth during the period specified in the direction—

- (a) the producer who packs quantities of such cloth during the period in excess of the minimum quantity shall be eligible for receiving cash payment by way of assistance from the Textile Commissioner in respect of such excess quantity packed at such rates and in respect of such maximum quantity as may be specified by the Central Government from time to time;
- (b) such producer may, in lieu of packing the whole or part of the minimum quantity of cloth specified in the

said direction, make payment to the Textile Commissioner in respect of the deficiency at such rates as may be specified by the Central Government and with such time as may be determined by the Textile Commissioner.

- (2) All payments received from producers under paragraph (b) of sub-clause (1) shall as far as may be, be utilised towards payments, if any, to producers under paragraph (a) of the said sub-clause.

Explanation: In this clause "producer" includes a group of producers."

5. It would be seen that the scheme of the clause is that a producer who is required to pack a minimum quantity of cloth is eligible for receiving cash payments by way of assistance from the Textile Commissioner in respect of excess quantity packed at such rates as may be specified by the Central Government and the producer is given also an option that instead of packing the minimum quantity of cloth he may, in lieu of packing, make payment to the Textile Commissioner in respect of the deficiency at such rates as may be specified and the payment so received from producer is to be utilised towards payment, if any, to producers who are eligible for receiving cash in respect of excess quantity of cloth packed.

6. The scheme of the above clause indicates that if clause 21A and clause 21C are read together, the direction given by the Textile Commissioner to produce a specified quantity of cloth ceases to have any binding force if the producer exercises his option to make the payment as provided for in 21C(1) (b). Initially, therefore, if a producer chooses to make such payment, there is no question of any obligation arising under the direction issued by the Textile Commissioner under clause 21A. A penalty postulates a breach of an obligation. If, there is no obligation at all, then the question of penalty also does not arise. For recovery of such payment, authority of law was required and therefore it was suggested to amend the provisions of the Essential Commodities Act. As the option to make payment was a voluntary one, strictly speaking, the question of considering whether it amounts to a reasonable restriction under article 19(5) and (6) may also not arise. The provisions of article 31 (2) are also not strictly attracted and therefore if making voluntary payment, if at all, amounts to deprivation of property, the only legal necessity required was to have an authority of law to cover such payments. On a further reconsider-

ation therefore it would have been possible to take a view that the amendment of the Essential Commodities Act was possible to cover such voluntary payments made by producers. Further, even if such payment was treated as penalty, it would have been possible to provide for a machinery and procedure for the purpose of imposing the penalty.

Sd/-

V. N. LOKUR,

Joint Secretary and Legal Adviser.

27th October, 1975.

APPENDIX VII

(Vide Paragraph 1.91)

Statement showing Ex-Factory cost of Cloth (Dhoties/Sarees) in Mill and in Handloom Sector

Price Rs. per sq. metre

Manufacturing Particulars	Ex-factory cost of mill cloth	Ex-factory cost of handloom cloth	
		on basis of yarn supplied at ex-mills rate	on basis of yarn purchased from market
DHOTI			
1 20s x26s 48Rx44P width & length per piece 121.92 cmsx3.66 mts.	1.94	2.24	2.40
2 26s x32s 48Rx44P width & length per piece 121.92 cms x3.66 metres	1.76	2.14	2.26
3 26s x36s 52Rx48P width & length per piece 121.92cmsx3.66 metres	1.85	2.25	2.38
SAREE			
4 20s x26s 44 Rx40P width & length per piece 114.3 cmsx5.5 metres	1.82	2.01	2.14
5 21s x28s 44Rx44P width and length per piece 114.3 cmsx 5.5 metres	1.88	2.11	2.24
6 26s x32s 48Rx44P width & length per piece 114.3 x5.5 metres	1.80	2.14	2.26

APPENDIX VIII

(Vide paragraph 2.7)

S. No.	State/U.T.	Retail outlets for distribution of controlled cloth in June, 1974 as reported earlier by respective State Govts./NCCF/State Federations			Retail outlets for distribution of controlled cloth as in March 1975 as reported by respective State Govts./NCCF/State Federations		
		Rural	Urban	Total	Rural	Urban	Total
1	Andhra Pradesh	223	233	456	971	410	1381
2	Assam	506	65	571	421	31	452
3	Bihar	1449	143	1592	883	645	1528
4	Gujarat	812	406	1218	2504	779	3283
5	Haryana	164	43	207	198	88	286
6	Himachal Pradesh	472	61	533	1658	134	1792
7	Jammu & Kashmir	472	2	474	258	99	357
8	Karnataka	980	120	1100	874	226	1100
9	Kerala	1136	210	1346	1540	176	1716
10	Madhya Pradesh	694	435	1129	1017	567	1584
11	Maharashtra	900	388	1283	697	731	1428
12	Manipur	..	1	1	19	10	29
13	Meghalaya	41	15	56	67	16	83

14. Nagaland	60	4	64	60	4	64
15 Orissa	704	33	737	1034	113	1147
16 Punjab	1066	108	1174	1096	234	1330
17 Rajasthan	232	32	264	565	102	667
18 Tamil Nadu	1699	401	2100	1539	793	2332
19 Tripura	..	..	..	618	9	627
20 Uttar Pradesh	2719	636	3355	3340	836	4176
21 West Bengal	955	141	1096	1907	141	2048
U. Tr.						
22 A. & N. Islands	7	..	7	10	2	12
23 Arunachal Pradesh	..	..	..	48	4	52
24 Chandigarh	1	4	5	20	16	36
25 D. Nagar Haveli	10	..	10	38	..	38
26 Delhi	9	43	52	8	108	116
27 Goa, Daman & Diu	41	11	52	59	12	71
28 Lakshadweep	9	..	9	9	..	9
29 Mizoram	48	11	59	150	23	173
30 Pondicherry	11	3	14	46	5	51
	15,420	3,549	18,969	21,654	6,314	27,968

As on 30-6-74

(As in 9/75)

APPENDIX IX

Statement showing Conclusions|Recommendations

S.No.	Para No.	Ministry|Department	Conclusion|Recommendation
1	2	3	4
1	I. 132	Commerce	<p>The primary objective, professedly, of the Controlled Cloth Scheme has been to make available cheap, durable cloth to the weaker sections of our people. The Audit paragraph and the narrative thereafter indicates that the scheme has been modified periodically. In spite of all the refinements, incentives and penalties introduced from time to time, Government have yet to come truly to grips with this major problem. The social objectives of the Scheme have remained largely unfulfilled on account of various factors. The Committee concede that some of the difficulties and hurdles encountered in the process of trying to implement the gigantic task of clothing the masses of our people have been daunting. Even so, the Committee fear that there had been much avoidable vacillation in policies which continued to favour the industry even when it became intransigent to the detriment of the larger public interest.</p>
2	I. 133	—do—	<p>The Committee regret that in May 1968 not only was control on fine and superfine cloth withdrawn but the obligation of the mills for the production of controlled cloth was reduced from 40 to 25 per cent of the total production, without making any precise</p>

assessment of the actual requirements of controlled cloth. The Committee have been informed, in extenuation, that the cotton textile industry was facing 'difficult times' during the preceding two to three years on account of the increase in cotton prices, wage costs, loss of production-efficiency as a result of the obsolescence of machinery in a large number of units, all of which factors, had in turn, led to an 'erosion in overall profitability'. (The cost of cotton is stated to account for 50 per cent of the cost of production and the cotton price index moved from 139.9 during 1966-67 to 176.9 in January 1968). The industry had, therefore, suggested an increase in the price of controlled cloth and a substantial reduction in the volume of cloth under control. The Committee learn that after discussion between the Commerce Ministry, Finance Ministry and the Indian Cotton Mills Federation, 'sizeable reduction in the quantity of cloth under control seemed inescapable', and the other alternative of total decontrol or price rise were ruled out.

111

3

I-134

—do—

It would appear that greater concern had been shown for preventing an 'erosion in the profitability' of the industry than for working out special measures for ensuring that the weaker sections of the community were provided with a basic necessity of life at reasonable prices. Even when 40 per cent of the production of the mills had been earmarked for controlled cloth, the per capita availability of cloth was less than 1.7 square metres. As pointed out elsewhere in this Report, the plea of losses incurred in the production of controlled cloth, which had prompted the Government from time to time, to rush to the rescue of the industry appears to

be, on closer scrutiny, considerably exaggerated. Even assuming that it was necessary, in 1968, for Government to come to the assistance of an allegedly ailing industry, the Committee are unable to appreciate the rationale for the simultaneous withdrawal of controls on fine and superfine varieties of cloth and the reduction in the obligation of the mills for the production of controlled cloth from 40 to 25 per cent. In the Committee's view, Government should have, in the first instance, confined the concession to the withdrawal of control on fine and superfine cloth so as to enable the industry to stabilise itself, and only after having watched the impact of that measure for a year or two, Government should have considered whether, if at all, the obligation of the mills also needed to be reduced. The Committee feel that in a vital matter like the reduction of the mills' obligation of production of controlled cloth, which was bound to affect adversely the *per capita* availability of cloth to the weaker sections of society, nothing would have been lost if Government moved with wisdom and circumspection. What happened, however, produces, on the contrary, an impression that Government was less anxious about ensuring adequate production and availability of controlled cloth for the poor, than about stemming the alleged erosion of the industry's profitability.

When in May, 1968, the obligation of the mills to produce controlled cloth was reduced to 25 per cent of the total production, a

provision was also made that in the event of any shortfall in the production of controlled cloth, a mill would pay compensation to Government at the rate of 6 paise per square metre of controlled cloth not produced under the obligation. The rationale for fixing what, *prima facie*, appeared to be a ridiculously low rate of compensation was stated to be that this amount was considered to be higher than the losses faced by the mills in the production of controlled cloth. Subsequently, however, when on account of the increase in cotton prices and consequential increase in production costs, the losses on the production of controlled cloth turned out to be more than the petty penalty of 6 paise per square metre, most of the mills preferred paying the compensation rather than producing controlled cloth at a higher loss and the actual packing of controlled cloth declined sharply from 201 million square metres (November 1968—January 1969) to only 9.14 million square metres (February 1971—April 1971). The Committee are amazed that even though the production of controlled cloth had so drastically and sharply declined and had almost come to a grinding halt by April 1971, Government was no more than a helpless spectator and took no steps whatsoever to raise at least the rate of compensation to an adequate level or otherwise persuade or compel the mills to honour their obligation to serve the needs of our own people. The Committee are convinced that if Government had increased the rate of compensation, the mills would have found it difficult to evade their obligation, as can be seen from the performance of the mills from April 1974, when the rate of compensation was increas-

ed to Rs. 2.50 per square metre. This appears to have had some salutary effect, for the production by the mills was 810 million square metres of controlled cloth as against the obligation of 800 million square metres. The Committee deplore Government's unaccountable passivity in the matter, especially when it was not unknown that the mills were finding it easier to pay the paltry compensation of 6 paise rather than produce controlled cloth for the masses. Since this inaction on Government's part led to serious shortfalls in the production of controlled cloth and consequent distress for the people, the Committee urge that the matter be closely looked into and responsibility for the lapse be squarely fixed and appropriate action taken.

6 1.136 Commerce

What is also peculiarly distressing is the fact that though mills which fail to produce and pack the stipulated minimum quantity of controlled cloth are liable to be prosecuted for a contravention of clause 21A of the Cotton Textile (Control) Order, 1948 and punished under section 7 of the Essential Commodities Act, the Ministry of Commerce glibly went ahead and incorporated, in May 1968, clause 21(1)(b) in the said Order which gave an option to the mills to pay a compensation to the Textile Commissioner in respect of the deficiency in production of controlled cloth. This appears to have been done despite the apprehensions of the Law Ministry that the levy imposed by means of an 'executive order' was liable to be challenged as being *ultra vires* since it amounted

to expropriation of property consisting of cash belonging to the mills. The Commerce Ministry, however, appears to have felt that as the proposal had been sponsored more or less at the instance of the affected industry, there was no great risk of the matter being taken to a Court of Law. The fears of the Law Ministry came true when, on 16th March, 1970, a private textile mill filed a writ petition in the Bombay High Court, impugning the various provisions including clause 21C of the Cotton Textile (Control) Order. In October, 1970, the Law Ministry pointed out that in view of the provisions for prosecution, clause 21C(1)(b) which empowered the Textile Commissioner to levy a cash compensation amounted in effect to 'compounding the said offence out of court'. While, however, this question was being reconsidered, the 'voluntary scheme' of controlled cloth was introduced in June 1971 and, therefore the issue was not pursued further and the aforesaid clause was deleted.

115

6 1.137

—do—

After the controlled cloth scheme was again placed on a statutory footing from April 1974 and a penalty of Rs. 2.50 per square metre was prescribed, the Textile Commissioner pointed out that it was open to a mill to pay the penalty of Rs. 2.50 per square metre and thus compound the offence instead of facing prosecution. He also felt that it might be necessary to acquire powers under the authority of Parliament to levy a penalty for non-performance of the obligations. There was no ambiguity in the earlier advice of the Law Ministry, but, strangely, the Com-

1	2	3	4
			<p>merce Ministry advised the Textile Commissioner, <i>inter alia</i>, that the scheme of payment of penalty might be operated as 'an informal arrangements' by the industry outside the statutory scheme.</p>
7.	1-138	Commerce	<p>The Committee are unhappy with the manner in which the entire issue relating to the legal validity of the penalty clause was handled. It appears that even though the Law Ministry had pointed out several times that such a provision required the authority and force of law to sustain it, and even the Textile Commissioner had, though belatedly, felt that Parliament's authority was necessary to provide for such a levy, the Commerce Ministry had reservations about it and was not inclined to come up before Parliament with a proposal for the imposition of such a levy. The Committee do not appreciate this peculiar approach and would urge that rather than operating the penalty provision as an 'informal arrangement', Government should, in consultation with the Law Ministry, consider the desirability of integrating the penalty provision in the statutory scheme itself.</p>
8.	1-139	—do—	<p>The Committee have been informed that during the period 1964 to 1968, as against an amount of Rs. 15.22 lakhs recoverable as compensation from mills, (at the rate of 6 paise per square metre for deficiencies in production) two private mills and eight mills now under the National Textile Corporation were in default to the extent of Rs. 0.91 lakh and Rs. 4.36 lakhs respectively. While F.I.R.</p>

had been lodged with the U.P. Police against one of the private mills, the other mill had been granted an injunction prohibiting the Textile Commissioner from taking any action against that mill. The default in respect of the subsequent period from 1968 to 1971 was stated to be Rs. 24 lakhs, out of which 2.12 lakhs were due from private mills. The Committee would like to be informed of the steps which Government propose to take to enforce their claim. The Committee would also very much like to know why Government have shied away from prosecuting the defaulting mills when adequate powers in this regard are already available with Government.

9. I-140

—do—

The Committee find that from October 1964 to April 1968, there was no provision for any payment of cash assistance for production in excess of the minimum quantity of controlled cloth prescribed. However, when the scheme was modified in May 1968, a provision was made for the payment of cash assistance at the rate of $\frac{1}{2}$ to 6 paise per square metre for controlled cloth produced in excess of the obligation fixed. When the controlled cloth scheme was operated on a voluntary basis by the Indian Cotton Mills Federation from June 1971 to March 1974, it was provided that from out of the premium on sale of imported cotton and contributions from Government and mills, the losses on production of controlled cloth would be subsidised. The rate of subsidy was first fixed at 50 paise per square metre but was reduced subsequently to 35 paise from December 1971, 30 paise from March 1972 and 20 paise from June 1972. When statutory control was resumed in April 1974, no pro-

vision was made for compensation or subsidy. The Committee are surprised that in spite of the liberal concessions allowed (quota for controlled cloth was reduced to less than half and cash assistance was more liberal) to the industry during the period when the voluntary scheme was in operation, the production was only 1000.18 million square metres against 1133 million square metres undertaken to be provided by the industry. In other words, the liberal incentives not only had not resulted in excess production of controlled cloth but even the minimum obligation was not fulfilled. In the circumstances, it is a moot point whether the persistent pampering of the industry by the grant of liberal incentives was at all justified. In any case, even if such incentives were considered inescapable, they should have been inseparably linked with the fulfilment of the production obligation in full. This question has been discussed in some detail in Chapter II of this Report the Committee would urge Government to take serious note of their observations.

10.

I-141

Commorec

Yet another provision being operated without any statutory basis is 'Inter-Mill Transfer of obligation'. The Committee find that this provision was introduced in May, 1968 (when Medium 'A' Fine and Superfine categories of cloth were excluded from the ambit of the controlled cloth scheme) when it was felt that it was not technically feasible for some mills to produce controlled varie-

ties in the Medium 'B' and coarse categories, while others were predominantly structured to produce these varieties. The provision of Inter-Mill transfer of obligation was accordingly made, whereunder mills of the former category could opt out of their obligation by paying a compensation and the mills in the latter category were entitled to incentives for producing controlled varieties in excess of their obligation. When the voluntary scheme remained in operation (May, 1971—March, 1974), the mills were allowed to get their obligation fulfilled by another mill on the payment of a premium to be settled among the mills themselves. The Committee find that even though the controlled cloth scheme was placed on a statutory basis from April, 1974, the aforesaid facility was still continued. The Committee were informed that out of the total obligation of 800 million square metres of controlled cloth fixed from April 1974, inter-mill transfers had been of the order of 200 to 240 million square metres, i.e., about 25 per cent of the total obligation. In support of this provision it was stated that it had enabled Government to get the full quota of controlled cloth produced. The Committee, while not happy with the somewhat tortuous nature of the scheme, might conceivably concede that it might have worked as a practical arrangement, they are of the view that such a provision, if really thought satisfactory, should have been sought to be operated as an integral part of the statutory scheme. It may be added that during evidence the representative of the Law Ministry himself doubted the legal validity of this arrangement.

I	2	3	4
II.	I-142	Commerce	<p>The Committee find that during the period April, 1974 to March 1975, as many as 118 private mills had transferred their controlled cloth obligation to the NTC mills. The obligation thus accepted amounted to 90.47 million square metres. The rates of premium payable for the performance of the obligation on behalf of other mills is understood to have been fluctuating, but the ruling premium was stated to be about 80 paise per square metre. The Committee found during evidence that while the NTC mills had, on an average, been incurring a loss of Rs. 1.10 per square metre of controlled cloth produced towards their 'own' obligation, they made a profit of Rs. 1.19 crores on 'transferred' obligation. The Committee are not averse to the idea of NTC mills accepting the controlled cloth obligation of private mills especially when such a transfer appears to have been a profitable proposition and perhaps enabled the NTC mills to utilise more fully their manufacturing capacity. The Committee, however, do not approve of a situation where private mills, no doubt hunting for higher profit arenas, can shove off their own obligation to the shoulders of NTC, particularly when the latter's experience shows that controlled cloth production by no means necessarily involves loss. Here is clearly yet another instance of our cotton mill industry, which once upon a time had patriotic motivations, having turned out to be profit-oriented to the extent even of being allergic towards national obligations.</p>

12. I·143

—do—

The Committee were informed during evidence that by producing 8,000 million metres of cloth, *per capita* availability of cloth (after excluding exports and non-wearable varieties or industrial varieties of cloth from the total production) worked out to 12 metres by the end of the Fourth Five Year Plan (1973-74). As far as the vulnerable sections of the population, (those having an annual earning below Rs. 3,000 for a house-hold) are concerned, their number was assessed at 230 millions and *per capita* consumption of cloth at 7.5 metres by the end of the Fourth Plan. According to the projections made for the Fifth Five Year Plan, while the *per capita* availability of cloth in the country is expected to be in the vicinity of 14 or 14.5 metres, requirements of cloth for the weaker sections is estimated to be 3070 million metres by the end of the Fifth Plan. The Committee were also informed that since the formulation of the draft Fifth Plan, there have been various developments, including rise in prices as a result of which these estimates have been affected and are, therefore, likely to undergo changes. The Committee regret that even after the lapse of the first two years of the Fifth Plan, final estimates of annual requirements of cloth for the vulnerable sections of population are yet unavailable. This failure calls for rapid rectification.

13. I·144

—do—

Another disturbing phenomenon of the operation of the Controlled Cloth Scheme is that there has been a steady decline in the production of *dhoties* and *sarees* since 1968. Perhaps, the most important factor which has come in the way of the smooth functioning of the scheme is that the production pattern was not in

conformity with the actual requirements of the people, and the mills were producing more long cloth (presumably because of the opportunities available for clandestine sales by their conversion and reprocessing) and shirting and less *sarees* and *dhoties*. While in 1968, the mill sector produced 465 million metres of *dhoties* and *sarees*, the production was 440 million in 1969, 242 million in 1970, 230 million in 1971, 219 million in 1972 and only 180 million metres in 1973. During 1974 (upto September 1974), while the percentage requirement under the scheme was assessed at 20 per cent, the actual production of *dhoties* was 6.3 per cent and that of *sarees* only a meagre 2.7 per cent. Apart from this tremendous shortfall in production, *dhoties* and *sarees* produced under the controlled cloth scheme were of such a bysmally poor quality and width that they could be of hardly any use to the poorer sections of the population, especially in the countryside. This is an intolerable situation and the Committee ask for stringent measures to ensure adequate production of *dhoties* and *sarees* by the mill sector. An early report on this issue is particularly called for.

14. I-145 Commerce

In spite of the Controlled Cloth Scheme having now been in operation for more than a decade, no genuine survey or even broadly reliable data on the estimated requirements of *dhoties* and *sarees* for the vulnerable sections of the people are available. It is no wonder that in 1974 (upto September 1974), while the pro-

duction of long cloth was 53.7 per cent in excess of requirement, the production of all other categories (shirts, sarees, dhoties, drill) was far short of requirements. While the Committee feel strongly that Government through the Textile Commissioner should have enforced corrective measures in time, they urge on Government to collect relevant data without any delay to ensure that the production pattern of the mills conform to actual requirements.

15. 1.146

—do—

The Committee find that during the years 1966-67 to 1972-73, India imported 4907 thousand bales of cotton, valued at Rs. 609.98 crores. The bulk of these imports were confined to the long-staple varieties. Till a few years back, cotton was being imported against free foreign exchange, against PL-480 Agreements and against Bilateral Trade Agreements. In 1975, under a special arrangement, 2 lakh bales of medium staple cotton were imported from Pakistan. Justifying these imports it was stated by the Commerce Ministry that over the years the overall production of cotton had remained far short of the requirements of the mill industry. This reason does not, by itself, appear to be plausible, in view of the fact, which was also admitted during evidence, that India has in recent years successfully achieved a breakthrough in the development of long-staple cotton. As this variety commanded a higher price of Rs. 900 per quintal as against the price of Rs. 200—300 of other varieties, the production picked up to such an extent that there was even a glut in the home market in 1974-75 and Government had to permit a portion of it to be exported. The Committee were

informed that the low off-take of long staple cotton was due to the higher requirements of the medium varieties. In April 1974, the production of controlled cloth, which depended for its production on short and medium varieties of cotton, was doubled from 400 to 800 million square metres. There was also a spurt in our export of cotton textiles which too depended on those varieties. Explaining this paradox of imports in the face of a glut of long-staple cotton, the representative of the Agriculture Ministry stated that "once we introduce a variety, it takes time even to discourage it." The Committee are not impressed by this statement. The hardships and puzzling dilemma which the growers of that variety must have faced when they found to their dismay that the very variety they were encouraged to grow was no longer required by the mills can be visualised. The Committee recommend that in order to avoid such unhappy situations in the future, Government should follow what may broadly be termed an integrated policy so that varieties of cotton produced in the country are not out of tune with the trends in consumption.

16. 1147 Commerce

The Committee note that while imports of cotton are canalised through the Cotton Corporation of India to whom a bulk license is issued for the imports, it was the Indian Cotton Mills Federation which not only functioned as the sponsoring authority for recommending applications from individual units but also collected a

premium at the rate of Rs. 300 per bale of imported cotton. As the amount was collected from the mills by the ICMF under a voluntary arrangement, the same was not credited into Government account. As far back as April 1966, the Committee had in their 50th Report (Third Lok Sabha) pointed out that the levy of premium had all the ingredients of a tax and as such it should be operated by an official agency. In their reply, the Ministry of Commerce had pointed out that such voluntary and indirect methods and modalities of export promotion were recognised and practised in many countries. The Committee did not at that time pursue their recommendation further. It is surprising, however, to learn that Government did not even go into the question of how the ICMF collected premium on imported cotton during the period the voluntary scheme was in force, i.e., from June 1971 to March 1974. A much better arrangement would have been for Government to use its power of levying import duty on cotton and out of the amount so collected consider subsidising the production of controlled cloth. The Committee recommend that whenever private bodies manage to impose levies on or make collections of premium from industries, Government should not acquiesce in such an arrangement on the plea of its being 'informal', but should, on the contrary, examine fully the implications of such levy/collections and place it if thought fit, on an appropriate statutory basis.

It is distressing that during the years 1971-72 to 1973-74, while the production of long-staple cotton increased by 15 per cent (from

1,779 thousand bales in 1971-72 to 2059 thousand bales in 1973-74), the production of medium and short staple, which was 3807 and 978 thousand bales respectively in 1971-72, decreased to 2883 and 880 thousand bales respectively in 1973-74, the percentage decline being 24 and 10 per cent respectively. The Committee would like the Agriculture Ministry to go into the reasons for this decline and give greater encouragement to the production of medium and short staple varieties of cotton in the country with a view to ensuring that the controlled cloth scheme which is dependent on these varieties of cotton, does not come to grief on this account. There should, in other words, be a well thought-out plan for growing all required varieties of cotton, with an eye particularly to the cloth requirements of the weaker sections of our society.

18.

2-63

Commerce

The primary objective of the Controlled Cloth Scheme is to make cheap and durable cloth available to the weaker sections of society. However, complaints have persisted about its poor quality as well as non-availability, the inadequacy of its distribution machinery, the prevalence of questionable practices at all levels and other defaults. It will not be unfair to state that the social objectives of the scheme have largely failed and there has been a pitiful chasm between demand and supply and between promise and performance. Evidently, imaginative changes and effective steps are called for if the controlled cloth scheme is to be rescued and our long suffering people are to have some little amelioration.

19. 2.64

—do—

In this context, the findings of a sample survey of controlled cloth marketing conducted, during September-October 1974, by the National Council of Applied Economic Research, have some relevance. The survey, of course, covered a small sample, being confined to only 144 outlets in nine States and offers no basis for large generalisations. However, it focusses attention on some of the weak spots in the scheme, which should serve as pointers to Government for taking necessary remedial measures. Since, according to the 1971 Census, nearly 80 per cent of the weaker sections of the community live in rural areas, this fact should have been the basis for the allocation of controlled cloth for distribution between the urban and rural areas and the latter should have, therefore, received a much larger quantity of controlled cloth than the former. The NCAER Survey points out, on the contrary, that rural areas accounted for only about 15 per cent of the releases of controlled cloth. Maharashtra, for instance, with 9.4 million households had only about 800 rural outlets, out of which, paradoxically, some 350 were located in the Bombay metropolitan area.

20. 2.65

—do—

The Committee have learnt that in pursuance of the specific measures initiated by Government to expand the distribution network for controlled cloth, the total number of retail outlets for controlled cloth increased from 18,646 as on 30 June 1974 to 28,035 on 31 March 1975, out of which 21,089 were in rural areas, and that the quantity of controlled cloth distributed in rural areas accounted for about 68 per cent of the total sales during 1974-75. That it was found necessary to add as many as 9,389 retail outlets in a single

year would indicate that the earlier distribution arrangements were inadequate and also that it required almost some sort of a crisis to develop before remedial measures were taken. The Committee would urge Government to keep a vigilant eye on the adequacy of the retail outlets for controlled cloth and constantly evaluate their performance so that timely corrective measures can be initiated.

21.

2-66

Commerce

The distribution of controlled cloth is at present done through four channels, namely, (i) Super Bazars in the cooperative sector, (ii) the National Cooperative Consumers' Federation (NCCF) and the chain of cooperatives affiliated to it, (iii) fair-price shops run under the aegis of the State Governments and (iv) any other agency in the cooperative sector specified by the State Governments. The National Cooperative Consumers' Federation is the coordinating agency, at the national level, for the onward distribution of 90 per cent of the controlled cloth produced to the wholesale and retail channels nominated by the State Governments. While it was legitimately expected that the widely alleged malpractices in the sale of controlled cloth would be checked, if not altogether eliminated, by entrusting its distribution and sale to reliably run cooperatives, the Committee understand that cooperatives in some States did not have the necessary expertise and experience for shouldering this responsibility. It is also a known fact that our cooperatives have a lot of leeway to make up before they become effective instruments of service. Besides, financial constraints and lack of profes-

sional skills further aggravate the situation. Even as recently as two years ago, Government had stated before the Estimates Committee that the existing channels of distribution 'do not have adequate retail outlets to replace the traditional channels and reach the cloth to the weaker sections of society both in the urban and remote rural areas'. While the steps stated to have been taken subsequently are welcome, the Committee feel that a lot more needs to be done in this regard. The Central Government, instead of merely maintaining that the responsibility for the distribution of controlled cloth is that of the concerned State Governments, should play a more constructive and far-reaching role. Apart from maintaining close watch over the performance of the distribution machinery, Government should evolve and work out long-term policies and programmes of developing and sustaining the cooperative sector in its different facets as an immediate and inescapable task.

129

22. 2-67

—do—

The Committee find particularly that the distribution system is not geared to take the income variant into account and hardly performs its primary obligation, namely, service of the vulnerable, often too pitifully poor, sections of our people. The NCAER Survey points out, for instance, that about 70 per cent of the sample of controlled cloth buyers belonged to the salaried class employed in manufacturing industries and other organisations including Government, while cultivators and agricultural labourers accounted for less than 10 per cent of the buyers. Observing that in States such as Maharashtra and Tamil Nadu, 65 per cent of the buyers 'cannot

1	2	3	4
---	---	---	---

be classified as belonging to vulnerable sections of the community', the survey concludes that the controlled cloth scheme, primarily intended to accord protection to the economically weaker sections of the society 'is not fully serving its purpose'. The Bureau of Industrial Costs & Prices had also, in its interim report on cotton textiles (September 1972) expressed substantially the same view. The Committee urge on Government that this basic drawback in the operation of the scheme is removed without delay.

23. 2-68 Commerce

There is at present no uniformity in regard to the entitlement to controlled cloth and various State Governments have prescribed different monetary limits in this regard. The Committee have been informed that while in some States, persons in the income range upto Rs. 400/- per month are entitled to draw their quota of controlled cloth on ration cards, those with an income upto Rs. 750/- and even upto Rs. 1,300 can, in some other States, get controlled cloth. This is entirely unsatisfactory, as it discriminates against those who cannot easily acquire a basic necessity of life. The Committee would suggest that the feasibility of laying down a uniform ceiling of income throughout the country for entitlement of controlled cloth should be examined, in consultation with the State Governments.

24. 2-69 —do—

The Committee are surprised that though the controlled cloth scheme has now been in operation for over a decade, no scientific

survey has yet been conducted by the Government to determine the type of people who purchased controlled cloth and how far the objectives envisaged by the scheme had been achieved. Such a survey should be undertaken by the Central Government soon and on the basis of its findings, which should not take too long, all essential steps should be adopted.

25. 2.70

--do--

Apart from the inadequacies and deficiencies in the distribution arrangements there appears to have been a peculiar and pernicious gap in the controlled cloth scheme. A large proportion of the consumers is, according to the NCAER Survey, unaware of the scheme itself, and this does not by any means speak well of the government's publicity campaign. The Committee desire that urgent and adequate steps should be taken to disseminate information about the controlled cloth scheme and the outlets for its distribution. Facts about the availability of cloth, prices, etc. should also invariably be displayed at a prominent point by all the retail outlets.

26. 2.71

--do--

The Committee have been informed that Government's approach, generally, was not to have separate societies to cater to the needs of different communities in the vulnerable sections of society, such as scheduled castes, scheduled tribes, etc. However, in States like Andhra Pradesh and Orissa where there was a sizeable population of scheduled tribes, separate tribal cooperatives were involved in the distribution of controlled cloth. The Committee recommend that the scope for setting up cooperative societies to serve specially vul-

27.

2-72

Commerce

nerable communities in places where there is concentration of such people may be explored.

There have also been a number of complaints that the Industry itself has been indulging in a systematic sabotage of the controlled cloth scheme. Various news media have also carried reports on the clandestine sale of controlled cloth at different times to bulk buyers either for reprocessing or conversion into readymade garments. In fact, even the then Minister of Foreign Trade, while addressing an ICMF Conference on 7 October 1972, had stated:

“...it appears that the moment the controlled cloth leaves the mills gate, it disappears, without leaving any trace behind.... I believe a fair quantity reaches the processing houses where it changes shade and colour and re-emerges as non-controlled processed cloth with a high unit value.”

The Bureau of Industrial Costs & Prices had also alluded to this fact, in September 1972, and had recommended ‘fuller examination’ of this aspect. Admittedly, prior to November 1972, before the distribution system introduced by the Commerce Ministry came into force, complaints of controlled cloth being largely diverted to processing units were received by Government and were found to have some basis. Though the clandestine sales of long cloth to the processing houses was apparently within the knowledge of Government for a

fairly long time and Government were also aware that the malpractices alleged related largely to the long cloth component which constitutes a substantial portion of the total production, the Committee are surprised and perturbed that it was only in September 1974 that orders were issued by the Textile Commissioner directing the mills to bring down the proportion of long cloth in the total production and to produce long cloth only in the bleached form instead of the grey form which is susceptible to reprocessing and conversion. The Committee seriously deplore the delay in taking these remedial measures and would like urgently to know the reasons therefor. They would ask Government to be truly vigilant in this regard and come down heavily on those mills/dealers whose self-interested and clandestine transactions tended clearly to sabotage a national welfare scheme.

133

28.

2.73

—do—

Another common complaint about the working of the controlled cloth scheme relates to the quality of cloth produced and supplied by the mills. The textile industry had been criticised, in no uncertain terms, by the National Consumers Cooperative Federation, which pointed out that the industry was interested 'only in statistical data' in terms of square metres of controlled cloth produced, but was 'completely blind' to the aspect whether the cloth produced were meant for wearing purposes or 'to be used as dustors and packing cloth'. The Federation had also alleged that 'the worst type of cotton with minimum permissible picks' were used in production and added that a mere scrutiny of the cloth 'will reveal that they are nothing but netting cloth'. These complaints were also corro-

borated by a Government spokesman before the Committee when he conceded that 'it was a well-known fact' that the private textile industry produced sub-standard cloth, especially between September 1974 and February 1975, and that the quality of the cloth was so bad that 'even the poorest sections felt that it was not fit for wearing'. The saris and dhoties, according to him, were 'more or less transparent and were more suitable for netting rather than for wearing purposes'. Some of the controlled cloth produced during this period was so bad that it could be used only as bandage cloth. This, in the opinion of the Committee, represents a shocking state of affairs and is indicative of the extent to which a scheme evolved for the common good had been distorted and shamelessly exploited by powerful and unscrupulous elements in the industry.

29.

2-74

Commerce

The upshot of all this bungling and worse was the accumulation of stocks valued at approximately Rs. 5 crores throughout the country, which caused heavy loss and 'severe strain' on the cooperative distribution system. It would appear that the Textile Commissioner's quality control organisation had dismally failed to take effective steps to ensure that there was proper and genuine inspection of the quality of cloth produced and to enforce rigidly the stipulated specifications. It is otherwise inconceivable to the Committee how such a large-scale deterioration in quality could take place suddenly. The Committee would like to be satisfied that the inspection machinery did, at least, attempt to discharge the responsibilities cast on it and

30.

2.75

—do—

Would like the circumstances leading to the large-scale production of sub-standard cloth to be investigated and responsibility for default fixed. The Committee repeat that they take a grave view of the matter and call for stringent action, on the basis of the investigation, against those who had been remiss in their duties. The results of such investigation must come soon to the Committee.

The Committee have been assured, in this context, that the situation was reviewed as soon as this position came to light, that the standards were immediately revised in January 1975, and that packing of controlled cloth is being done according to the revised standards from March 1975 onwards. The present quality of controlled cloth is also stated to be acceptable to the consumer. While the Committee concede that the quality of controlled cloth can be improved only upto a certain limit without seriously affecting the existing price structure, the Committee feel that it should be possible for the industry to bring down the cost of production by improved methods of production and management, research and development, etc. and also to impose on itself a certain amount of self-discipline and a commitment to subserve the common cause. The Committee would urge Government also to keep the standards and specifications for controlled cloth under constant review and enforce vigorous inspection and quality control at the production stage itself so as to ensure that the prescribed standards are rigidly observed. The Committee are of the view that drastic measures are necessary to discipline the truant textile industry and make sure that it fulfils its larger social obligations and commitments.

1	2	3	4
31.	2.76	Commerce	<p>Another aspect which compels attention is the pricing of controlled cloth. Prices of controlled cloth were revised, under a scheme of 'realisation multipliers', on two occasions in 1965, twice in 1966, once in 1967 and again once in 1968. Subsequently, it was only in April 1974 that Government allowed a 30 per cent increase in the prices of controlled cloth, allegedly to neutralise, 'to the extent possible', the increases in the cost of production, arising particularly, from the increase in cotton prices. Simultaneously, the retailers' margin was also raised from 12½ per cent to 20 per cent. Though the prices of controlled cloth were pegged down at the 1968 level, despite repeated pleas from the industry for an upward revision, assistance in other forms were given to the industry, on the recommendation of a committee set up, under the chairmanship of the Additional Secretary in the Ministry of Foreign Trade, to find ways and means to ensure that the production of controlled cloth was immediately stepped up to the extent originally contemplated. It is significant that the decision to give cash assistance out of the Textile Commissioner's Controlled Cloth Compensatory Fund, built up out of the penalties recovered in the past from defaulting mills, which resulted in the payment of Rs. 1.89 crores to the industry, between January 1972 and March 1973, had been arrived at on the basis of the statistics supplied by the industry, even when the findings of the Industrial Costs and Prices, which was then engaged in a cost price study of the cotton textile industry, were still awaited,</p>

32. 2.77

—do—

The Committee fear that the assistance extended to the industry by the Ministerial Committee was entirely premature, particularly in view of the fact that the findings of the Bureau subsequently made available, on the basis of a scientific collation of material, appeared to indicate that this assistance was unjustified. In its Interim Report based on a cost study of certain selected units, submitted in September 1972, the Bureau had concluded that even on the basis of an assumed production of 20 per cent controlled cloth, the industry as a whole would have well over 15 per cent return on the capital employed. An analysis of the dividends paid by the cotton textile mills during 1965-66 to 1972-73 also indicates that reports about the textile industry suffering heavy losses were exaggerated and that an adequate profit margin was, in fact, available to it. The Committee fear that Government have virtually permitted the industry to follow a 'Heads I win, tails you lose' policy.

33. 2.78

—do—

The Committee learn from the Commerce Secretary that even after the 30 per cent price increase allowed from April 1974, the mills are supposed to be incurring a loss of Re. 1 per square metre of controlled cloth produced, which meant that the obligation to produce 800 million square metres of controlled cloth had placed a burden of Rs. 80 crores on the industry. In the context of what has been said before, the Committee cannot help feeling that there is perhaps in certain quarters a greater concern and solicitude for something like an optimum profitability of the by no means impetuous textile industry of this country than for the needs of our

people. The Committee stress that Government should take concerted measures to see that the basic necessities of the common-man including the requirements for cloth are met and that the textile mills are made to realise this national obligation. Apart from assessing the financial implications of the controlled cloth scheme on the industry on the basis only of an investment analysis it would be more appropriate to assess the importance of the scheme on the criteria evolved by a social cost-benefit analysis. The considerable margin of profit clearly found available over the years to the industry by the production and sale of non-controlled varieties of cloth must also be taken into account. Having due regard to the socio-economic objectives underlying the controlled cloth scheme, the Committee would call on Government to ensure that the right type of national discipline is brought to bear on the textile industry which should, with a reasonable effort, be able to ensure generally uninterrupted supply of acceptable quality cloth in adequate quantities and at moderate and regulated prices.

