NINETY-THIRD REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84)

(SEVENTH LOK SABHA)

COTTON CORPORATION OF INDIA LIMITED

(MINISTRY OF COMMERCE—DEPARTMENT OF TEXTILES)

[Action Taken by Government on the Recommendations contained in the 62nd Report of the Committee on Public Undertakings (Seventh Lok Sabha)]

सत्यमेव जयते

Presented to Lok Sabha on 27 APR 1984
Laid in Rajya Sabha on 27 APR 1984

LOK SABHA SECRETARIAT
NEW DELHI

April, 1984/Chaitra, 1906 (Saka)

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CORRIGENDA TO THE NINETY-THIRD ACTION TAKEN REPORT OF COMMITTEE ON PUBLIC UNDERTAKINGS (1983-84) ON COTTON CORPORATION OF INDIA LTD.

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7. Shri Satyendra Narain Sinha
8. *Shri Hari Shankar Bhabhra
9. Shri Syed Sibtey Razi

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*Ceased to be a Member consequent on his retirement from Rajya Sabha on 9 April, 1984.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 93rd Report on Action Taken by Government on the recommendations contained in the 62nd Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Cotton Corporation of India Ltd.

2. The 62nd Report of the Committee on Public Undertakings was presented to Lok Sabha on 19 April, 1983. Replies of Government to all the recommendations contained in the Report were received by 4th January, 1984. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Uudertakings on 6 April, 1984. The Committee also considered and adopted this Report at their sitting held on 6 April, 1984.

3. An analysis of the action taken by Government on the recommendations contained in the 62nd Report (1982-83) of the Committee is given in Appendix II.

New Delhi ;
April 19, 1984
Chaitra, 30, 1906 (Saka)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

This Report of the committee deals with the action taken by Goverment on the recommendations contained in the Sixty-Second Report (Seventh Lok Sabha) of the Committee on Public Undertakings on Cotton Corporation of India Ltd. which was presented to Lok Sabha on 19th April, 1983.

2. Action Taken notes have been received from Government in respect of all the 37 recommendations contained in the Report. These have been categorised as follows :—

(i) Recommendations/observations that have been accepted by Government :

S. Nos. 2-4, 6, 7, 9, 11-16, 18, 23, 28, 30-34, and 37.

(ii) Recaommendations/observations which the Committee do not desire to pursue in view of Government's replies :

S. Nos. 22, 24, 25 and 29.

(iii) Recommendations/observations in respect of which the Government's replies have not been accepted by the Committee and which require reiteration :

S. Nos. 1, 5, 10, 20-21 and 27.

(iv) Recommendations/observations in respect of which final replies of Government are still awaited :

S. Nos. 8, 17, 19, 26, 35 and 36.

3. The Committee desire that the final replies in respect of recommendations for which only interim replies have been given by Government, should be furnished to the Committee expeditiously.

The Committee will now deal with the action taken by Govornment on some of their recommendations.

A. Targets of Procurement

Recommendation, Sl. No. 1 (Paras 1.17 and 1.18)

4. The National Commission on Agriculture had recommended in 1975 that the Cotton Corporation of India Ltd., should be suitably strengthened so as to be in a position to buy 25 to 30 per cent of the indigenous cotton crop. But the Committee found that during the period 1970-71 to 1977-78 the Company's share of the cotton market ranged from 0.2 per cent to 11.2 per cent only. Even after the Textile policy statement of August, 1978 when the role of CCI was enlarged its share in the cotton market ranged from 12 to 15 per cent. The Committee observed that it was possible for the CCI to have a decisive role in the market only if it stepped up its procurement at least to the level recommended by the National Commission on Agriculture. They, therefore, desired that in future targets in this regard should be fixed and the performance of CCI watched.

5. Government have stated in their reply that it was not considered necessary or possible to change the present procurement strategy of the Cotton Corporation of India to cover 25% to 30% of the total cotton grown in the country. It should be left to the commercial judgement of the Corporation to decide how much quantity should be purchased. Accordingly there would be no target of procurement. The present pattern of operations of the CCI could ensure remunerative prices to the cotton growers.

6. Cotton Corporation of India was set up not only for adequately protecting the interests of growers but also for ensuring healthy growth of the cotton economy of the country by making available cotton to the textile industry at reasonable prices and without wide fluctuations throughout the year. For achieving this, the CCI has to have a decisive say in the market which is possible only if it acquires a sizeable weight in the cotton trade. The Committee, therefore, reiterate that targets for procurement of cotton by CCI should be fixed by Government every season along with the announcement of minimum support prices.

B. Nexus between the prices of cotton and cotton yarn/Cloth

Recommendation, S. No. 5 (Para 1.55)

7. The Committee had noted that there was a general feeling that the cotton growers were not getting remunerative prices for thair produce, whereas a large number of textile mill owners were making substantial profits. In this context the Committee had recommended that the question regarding the nexus between the prices of kapas paid to the growers and prices fixed for

yarn/cloth should be examined afresh by the Government. The Committee had also expressed the view that whenever textile prices go up substantially the cotton growers also ought to get a share and the prices of cotton paid to them should be raised accordingly.

8. In their reply Government have stated that the matter was examined and it has been found that it is difficult to have a linkage between prices of cotton and prices of cloth/yarn. It has also been stated :

> "Considering the structure and organisation of markets for both cotton, cloth and yarn, it will not be expedient to establish any direct linkage between the three. However, basic thoughts that the industry should not fatten itself on the cotton growers is unexceptionable."

9. The Committee are unable to appreciate the position taken by the Ministry that it is difficult to establish a linkage between prices of cotton and prices of cloth/yarn to arrive at a remunerative price for the raw cotton. The Committee have received an unmistakable impression that in our developing situation the agriculturists, as compared to the industrialists and organised industrial labour, do not get adequate reward. Even as agriculture supports industry, the latter shoud be in a position to share adequately its profits with the agricultural sector. It is in this context that the Committee strongly felt that there ought to be a correlation between the cotton prices and the cloth prices. They would recall that in reply to a recommendation contained in their 40th Report (1981-82), Government had informed them that the cotton cost constituted around 45 to 50 per cent of the total production cost in the NTC mills. The Committee are not impressed by the statistics regarding movement of wholesale price index of cotton yarn and cloth now placed before them obstensibly to prove that the price of cotton has kept pace with the upward movement of the price of cloth. The question that arises here is whether the increase in the cotton price index was comparable to the increase in indices of cost of other factors of production of cloth. The Committee would, therefore, reiterate that a scientific study of the costs and prices of yarn and cotton cloth with a view to correlating the raw cotton price to the yarn/cloth price should be made, associating among others, a textile technologist, an economist and a financial expert. This study could be organised in profitable composite NTC mills. The outcome of this study should be made available to the Agricultural prices Commission in order to fix a really remunerative price for cotton which could offer adequate incentive to the growers.

C. Payment to growers

Recommendation, Serial No. 10 (Para 1.79)

10. In certain states like Punjab, Haryana and Rajasthan, even though

regulated markets were functioning, procurement was being carried through Adtyas who worked as agents of the cotton growers in disposing of their produce. The institution of Adtyas was provided for in the Agricultural Produce Marketing Acts in these States. The CCI had no means to ascertain whether the payment had been actually made by the Adtyas to the growers. The Committee had recommended that CCI should aim at eliminating the institution of middlemen. They desired that the question of issuing cards to the farmers should be seriously considered and taken up with the State Governments and it should be ensured that the growers got the right price.

11. In their reply, the Government have stated that it would be difficult to do away with the present system of Adtyas unless the Marketing Committees are prepared to undertake the functions of Adtyas or there is some alternative agency to undertake their functions. The payment to the growers by the Adtyas could be verified from the records maintained by the latter.

12. The present system of payment to the growers does not appear to the Committee to be foolproof. They would, therefore, recommend that in order to ensure right and timely payment to the growers the matter should be taken up with the Stata Governments and wherever the Marketing Committees exist, procurement of cotton and payment to farmers should be made through them.

13. The Committee had also suggested that the question of issuing cards to the farmers should be seriously considered and taken up with the State Governments. Government's reply is silent on this point. The Committee cannot but reiterate their earlier suggestion, which needs to be considered with a sense of seriousness.

D. Accumulation of stocks of undisposed cotton

Recommendation Serial No. 12 (Para 2.21)

14. The Committee had observed that in spite of the fact that CCI was burdened with unsold stocks at the end of the year 1978-79, it continued to pile up stocks during the subsequent years on the plea that the Company had to protect the interest of the growers. In this context, the Committee had recommended that the Government should thoroughly investigate the causes leading to huge accumulation of stocks resulting in financial loss to the company.

15. In their reply Government have stated that on the advice of the Government, the Corporation had re-oriented its sales policy as a result of which they have been able to bring down their stocks to a level of 2.42 lakhs

bales at the end of 1982-83 cotton season as against a balance of 5.45 lakhs bales at the end of 1981-82 cotton season. It has been further stated that CCI had now been advised to keep their inventory low by selling their stocks simultaneous to purchases.

16. At the instance of the Committee, Government have furnished the following figures regarding State-Wise purchases by CCI and their sales during the current cotton season (September-August) as on 12th March, 1984 :—

	Quantity in lakh bales of 170 kgs. each
Andhra Pradesh	0.85
Gujarat	0.18
Haryana) Punjab) Rajasthan)	1.53
Karnataka	0.29
Madhya Pradesh	0.55
Tamil Nadu	0.05
	3.45
Opening stock as on 1.9.83	3.90
Sales as on 12.3.84	6.94
Present stock (unsold) as on 12.3.84	0.41

17. The Committee are glad to note that as a result of a reorientation in the policy, CCI was now selling cotton simultaneously with its purchases ; thereby the Corporation has been able to reduce its stocks to an appreciable extent. The Committee feel confident that this sales policy will enable CCI to keep its inventory low and economise on carrying cost.

E. Sales to NTC Mills

Recommendation Serial Nos. 20-21 (Paras 2.76-2.77)

18. Although one of the main functions of CCI is to supply cotton to NTC mills, the actual sale of cotton by CCI to NTC during 1975-76 to 1981-82 varied between 1.44 lakh bales to 7.82 lakh bales against the annual consumption of 12 lakh bales of cotton by NTC mills. The Rest of the purchases of cotton were made by NTC from other State Cooperative Federations and private traders. One of the main difficulties faced by CCI in increasing its sales to NTC mills was the credit limitation imposed by the Reserve

Bank of India. Against the credit of Rs.25 crores allowed to CCI, an amount of Rs. 45 crores was outstanding against NTC mills. Both the CCI mills. Both the CCI and NTC being under the administrative control of the Ministry of Commerce, the Committee had desired the Ministry to ensure that the two Corporations evolved an agreed arrangement under which the NTC made maximum purchases from CCI and the latter provided all necessary facilities for timely supply of cotton.

19. Government have stated in their reply that NTC was under no obligation to purchase its entire requirements of 12 lakh bales from CCI. Apart from price consideration, depending on the geographical location of mills and the variety of cotton required by them to suit the 'mixing', NTC covered substantial quantity of its requirements from other public sector agencies as well.

20. The Committee are not satisfied with the reply of the Government. In spite of the fact that it had been decided by Goverment in October, 1975 that the Cotton Corporation of India should be used by NTC for purchase of cotton for its requirements, the purchases by the latter from CCI have been low. With the reduction in the outstandings against NTC, the Committee expect the CCI to substantially step up its sales to NTC mills. The Committee would like the Ministry of Commerce to consider whether it would not be desirable to issue a directive to NTC to ensure that the maximum of their cotton requirements were purchased by NTC mills from CCI.

F. Ginning Losses

Recommendation Serial No. 27 (Para 4.28)

21. The Cotton Corporation of India suffered a loss of Rs. 297.25 lakhs (excluding centres in Tamil Nadu and certain other centres for which information was not available) during the years 1971-72 to 1977-78 on account of the ginning losses exceeding norm of 1 percent fixed by the Company. The loss on account of short fall in lint out-turn during the same period was Rs. 347.03 lakhs. The Committee desired to be furnished with figures of losses incurred on these accounts during the period 1978-79 to 1981-82. While pointing out that no uniform norms about the ginning loss had been fixed ; the Committee had also desired that the Company should go into the reasons for ginning loss and take suitable remedial measures.

22. In their reply, the Government have stated that no fixed norms for ginning loss are available in any of the literature being dependent on various factors. However, the norms for ginning loss based on experience have been considered at 3% for Southern Branches and 2% for other Branches. The

total losses for the year 1981-82 in excess of these norms would be Rs. 18.64 lakhs. As regards shortfall in lint out-turn, it has been stated that based on the norms accepted by the Cotton Technological Research Laboratory and East India Cotton Association, loss for 1981-82 worked out to Rs. 174.04 lakhs.

23. The Committee on Public Undertakings in their 68th Report (Fifth Lok Sabha) had observed that norms for ginning losses should be realistic and practical and once prescribed, these should be enforced strictly. It was after this observation of the Committee that the norms were revised from 1/4 per cent to 1 per cent based on experience of CCI. The Committee have now been informed that the norms for ginning loss based on the experience has been considered at 3% for Southern Branches and 2% for other Branches. Obviously the Company has not been able to evolve realistic norms for ginning losses even after 13 years of its operation. The Committee would like to be informed as to when the norms of 3% for Southern Branches and 2% for other Branches were fixed. They expect that these norms would now be strictly adhered to and not altered frequently to the detriment of company's profitability.

G. Losses due to accumulation of stocks

Recommendation Serial No 31 (Para 4.53)

24. The quantity of cotton lifted from the CCI by NTC fell short of the quantity indented during the years 1975-76 to 1977-78 resulting in sizeable accumulation of stock with the CCI. CCI had to incur a loss of Rs 40.81 lakhs on the sale of this stock to non-NTC mills which was shared between NTC & CCI on 50 : 50 basis. According to CCI the situation arose due to a directive from Government forbidding it to sell the cotton to non-NTC mills. This was denied by the Ministry. The Committee desired the matter to be sorted out between the Ministry and the CCI.

25. In their reply, Government have stated that no direction was issued to the CCI forbidding them to sell the accumulated stocks to mills other than NTC mills. On the other hand, the Government permitted the Corporation on 23.8.1977 to sell the unsold stocks of cotton lying with them to the mills other than the NTC mills.

26. The Committee hope that such instances of uncertainty and confusion would not recur so that the company is saved from avoidable losses.

H. Losses incurred by CCI on account of heavy interest rate on Bank Borrowings

Recommendation No. 35 (Paragraph 5.10)

27. Taking note of the fact that one of the main reasons for the heavy losses incurred by CCI was the high rate of bank borrowings, the Committee

had recommended that the question regarding charging of a concessional rate of interest from CCI as was being charged by the Reserve Bank from State Marketing Federations should be urgently considered by the Reserve Bank of India

28. Government have stated in their reply that although the matter was taken up with the Reserve Bank, it has refused to extend concessional rate of interest to CCI. It has been further stated that the matter had again been taken up with the Reserve Bank of India and a reply from them was still awaited.

29. The Committee would await the outcome of the negotiations being held with the Reserve Bank of India. The Committee would, however, like to point out that there is a strong case for making a distinction between the interest paid by the traders and the CCI to the Bank. The CCI is not only trading in cotton like any other trading agency in the private sector, but it is simultaneously obliged to hold large stocks of cotton for maintaining stability in prices. Further, while the Cooperative Marketing Federations engaged in the same line of business are able to get bank finance at concessional rates, it is not clear why this concession is being denied to CCI. Taking into consideration the role of CCI in country's cotton economy, its plea for getting concessional rate on its borrowings deserves sympathetic consideration by the Reserve Bank of India.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 2) (Paraqraph Nos. 1.26 & 1.27)

The Committe note that one of the main ingredients of the role assigned to the Cotton Corporation of India under the Textile Policy announced by Government is to purchase cotton on commercial basis. So that cotton prices do not fall below a prescribed minimun and also to prevent cotton prices from going above a prescrived limit. The genuine handicap in implementing this policy as indicated by the company is that Government have not clearly spelt out the ceiling limit. According to the Ministry the support prices annouced by the Agricultural Prices Commission from year to year are the minimun prices and in regard to the upper limit it is for the CCI to exercise its judgement.

The Committee feel that the floor and ceiling limits have to be defined keeping in view the twin objective of the Company which are payment of remunerative prices to farmers and stabilisation of prices of cotton for the benefit of the consumers. The question of remunerative prices have been discussed in detail in the following section of this Report. It would be seen that both the Company and the ministry have admitted that the support prices are not remunerative to the farmers as they do not cover even the cost of production. It would, therefore, be essential for the Ministry to prescribe the lower limit so as to ensure that the cotton growers got adequate return for their produce. For the upper limit the Committee are of the opinion that on the basis of the experience gained so far the Ministry in consultation with the CCI and the Textile Commissioner undertake an exercise to lay down broad guidelines which would also be the basis for determining the quantum of purchases by the company as recommended by the Committee earlier. The Committee further wish to stress that CCI should exercise prudent commercial judgement in its trading activities while following the broad guidelines.

Reply of the Government

The Ministry of Agriculture were consulted in the matter and they are of the opinion that the minimum support prices recommended by Agricultural

Prices Commission are remunerative. The APC considers, inter-alia, the cost of production of the commodity while recommending the price policy. The cost of production includes, in addition to all the direct cash costs incurred by the farmers, the imputed rental value of owned land, interest on owned capital as well as imputed value of family labour. Further, expenditure incurred by the farmer in arranging the supply of inputs, machinery etc. are included in the cost. The latest availablc estimates of cost of production are also updated by the APC with the help of a variable input price index specifically constructed for this purpose for each crop in order to take into account the increase in inputs prices subsequent to the period for which cost data are available. Besides, cost of production, the APC also consider other factors like inter-crop price parity, demand and supply situation of the concerned crop, ruling market prices and of trade between agriculture and industry.

The above substantiates that the minimun support prices can be considered to be remunerative and can be adopted as the minimum price at which the Cotton Corpporation would purchase cotton. It is submitted that the Cotton Corporation of India purchases those varieties of cotton as price supporting agency at minimum support prices, when the prices fall below support level. It has been observed that generally cotton prices rule above minimum support prices level and Cotton Corporation has been purchasing generally at prices much higher than the minimum level.

So far as fixation of the upper limit upto which CCI can purchase cotton is concernen, though it would be difficult to fix any particular figure or percentage it has been suggested that a guideline may be followed, at around 40% above the minimum support prices.

[Ministry of Commerce, Deptt. of Textiles O. M. No. 7/27/83—CTM dated 4-1-1984.]

Recommendations (Sl. No. 3 and 4) (Paragraph No. 1.41 and 1.42)

The Committee note that CCI had been extending support to the growers of extra long staple cotton like Varalaxmi and Suvin consistent with the national objective of encouraging these varieties of cotton. The Committee regret that in view of adverse financial position the company had to limit its purcheses particularly of Suvin only at the minimum support price which according to its own and the Ministry's admission is not at all the remunerative prices. This has resulted in fall in production of these varieties. Production of Suvin was not expected to go beyond 15,000 bales during 1981-82 as against 50,000 bales during 1980-81. The Ministry has stated that increasing the support price substantially was under consideration. It is not clear to the Committee why such step had not been taken so far in spite of the fact that Company had taken up the matter with the Ministry two years back. Equally disturding is the fact that the ministry did not extend any financial support to the CCI when specifically it was brought to its notice that it would not be possible for the company to carry on with its operations without reimbursement of the losses likely to be suffered on this account.

The Committee strongly recommended that the question of fixing support prices for all varieties of cotton on the basis of actual cost of production and at the same time assuring reasonable return to the growers should be urgently taken up with the Agricultural Prices Commission. The Committee would expect the Commission to go into this aspect afresh and ensure that the support prices announced by them are really the remunerative prices. They suggest that the issue of incresing the support prices specially for the Suvin variety should be decided without any further delaly. The Committee also recommend that some system could be devised for the Minisery and the State Governments concerned to extend necessary financial support to the CCI so that its operation could be directed effectively towards the fulfilment of the objective of ensuring remunerative prices to the growers without being hampered unduly by financial constraints.

Reply of the Government

With regard to fixation of minimum support prices of cotton, the Ministry of Agriculture is of the opinion that Agricultural Prices Commission, while recommending the support prices, take into consideration, as basic element, the cost of production of the commodity. This cost includes not only paid out costs of the farmer, but also the value of imputed inputs, family labour, interest on owned capital and rental value of owned land. Further A.P.C. updates the latest available cost of production estimates to be taken into account subsequent increase in input price. The actual price realised by the cotton grower for his produce is generally much higher than the minimum support price. As regards the price of Suvin variety of cotton, it is submitted that during 1982-83 cotton season, the A. P. C. had recommended support price, which were about 25% above the support price fixed by Government during 1980-81 cotton season. The support price for cotton have been further revised upwards by Government for 1983-84 cotton season. The support prices for Suvin variety was raised from 675/- per quintal during 1980-81 to Rs. 850/- per quintal during 82-83 and Rs. 900/- per quintal for 1983-84.

With a view to enabing the Cotton Corporation of India to direct its operations effectively towards the fulfilment of the objective of ensuring remunerative prices to the growers, Government have taken following steps to strengthen its financial position :—

(i) Government have already augmented its paid-up share capital by increasing it to Rs. 8 crores against authorised share capital of Rs. 15 crores. Govt. are also taking steps to augment the share capital base further.

(ii) As regards the requirement for working capital, Government have taken up the matter with the Reserve Bank of India, who have promised to make available the required finance for financing the operations of the Corporation during 1983-84.

(iii) Government have already taken decision with approval of Cabinet to reimburse an amount of Rs. 28.23 crores to the CCI on account of loss suffered by them on import of cotton few years back. Arrangements are being made to pay amount to the Corporation in a phased manner.

(iv) Government are also examining a proposal for reimbursement of cash losses amounting to about Rs. 73 crores to the Corporation.

Regarding the suggertion of the Committee for financial support to the CCI by the state Governments, it is submitted that though no formal request has been made to the State Government either by CCI or by the Central Government, the attitude of the State Governments has not been very helpful and encouraging, as is evident from their response to the Corporation's request for exempting its cotton purchase from purchase tax and other related matters.

[Ministry of Commerce, Department of Textiles O. M. No. 10/68/83—CTM dated the 29 December, 1983.]

Recommendation (Sl. No. 6) (Paragraph No. 1.60)

The Committee share the concern of the CCI that lack of coordination between it and the State Agencies can defeat the objective of price stabili sation. They hope that the setting up of coordination Committees in the States where they have not been set up so far will be expedited and the Ministry will be able to ensure that the coordination is purposeful and meaningful.

The CCI has expressed the apprehension that if there is further erosion in the function of the company by other State monoplies then the CCI's role will be considerably reduced. In the opinion of the Committee, multiple agencies having almost the same functions are bound to work at cross purposes and generate unhealthy competition. Therefore, the Committee would like Government to keep a constant watch on the developments in the States and ensure that no more State Agencies are set up which may dilute the functions of CCI.

Reply of the Government

With regard to desirability of Coordination and Cooperation between CCI and State federations/Cooperatives, it may be stated that with a view to bringing about effective coordination between the CCI a nd State Federations in the matter of purchase of cotton, the representatives of all the Federations and CCI and others concerned with cotton are meeting with regular interval to workout this coordination between the CCI and State Cooperative Marketing Federations. Steps are being taken by the respective cotton growing States to form Coordination Committee at the state levels. As per the present information the states like Madhya Pradesh, Rajasthan, Gujarat and Punjab have already constituted cotton coordination committee in their respective states. It is informed that the matter regarding constitution of coordination committees by the State Governments of Haryana, Tamil Nadu, Andhra Pradesh ahd Karnataka is under their active consideration. We have taken up the matter with these State Government at the highest level. Regarding setting np of more State Monopolies on the line of Maharashtra Monopoly Procurement Scheme, Govt. of India entirely agree with the Committee that multiple agencies having almost same functions are bound to work at cross purposes and generate unhealthy competition between the CCI and the State Agencies. The Policy of Govt. has been so far not to encourage formation of more monopoly procurement schemes in the cotton growing states.

[Committee Ministry of Commerce, Deptt. of Textiles, O. M. No. 10/49/83-CTM, dated the 19 October 1983.]

Recommendation (Sl. No. 7) (Paragraph No. 1.76)

The Committee note that village sales take place due to absence or non-functioning of regulated markets as also due to non-availability of infrastructural facilities in various cotton growing States. For want of transportation facilities the growers are unable to bring their kapas to the regulated markets and are compelled to sell it in villages, even on forward basis. The implementation of regulated market programme and provision of necessary infra-structural facilities are the concern of the State Governments. The Committee need hardly stress that the Ministry should monitor and coordinate the efforts in this regard to ensure that growers are not deprived of the support being extended by the central agency.

Reply of the Government

Department of Textiles entirely agree with the observation of the Committee that due to absence or non-functioning of regulated markets as also due to non-availability of infrastructural facilities in various cotton growing states, cotton growers are experiencing problem in disposing of their produce and we growers are deprived of the support being extended by Cotton Corporation of India as the Central Agency. The matter has been taken up with the State Govts. at the highest levels.

[Ministry of Commerce, Department of Textiles, O. M. No. 10/51/83—CTM, dated the 11-10-1983.]

Recommendation. (Sl. No. 9) (Paragraph No. 1.78)

The Committee are concerned to note that there are certain areas in the cotton growing states where neither the CCI nor the State Cooperative Marketing Federations operate. The Committee recomended that the matter should be urgently taken up by the Coordination Committees so as to arrive at an understanding between CCI and State agencies to earmark the areas where they have to concentrate their efforts. It should be ensured that the cotton growers even in remote/interior areas are not denied the benefit of getting adequate retum for their labour.

Reply of the Government

It has been the endeavour of the Corporation to expand its operations by opening as many centres as possible taking in to consideration the available marketing infrastructure as also its commercial viability. In certain States where the regulated markets are either non-existent or are dormant, the Corporation even goes to the door steps of the growers for making village purchases or opens purchase depots at ginning and pressing factories to enable the growers to find convenient outlet for the disposal of their stocks. However, at certain centres, in order to obviate unhealthy competition with State Marketing Federation, at times it becomes necessary for the Corporation to withdraw from that centre. In fact, the allocation of the centres to the Corporation vis-a-vis State Federation, Gujarat, is already in vogue under the guidance of State level Coordination Committee. Now that similar committees have been or are being formed in other States, it is expected that ways and means would be found to expand the marketing facilities for the growers even in remote/interior areas with out overlaping.

[Ministry of Commerce, Deptt. of Textiles, O.M. No. 10/46/83-CTM dated the 11-10-1983.]

Recommendation. (Sl. No. 11) (Paragraph No. 2.20)

The Committee note that at the end of the years 1978-79, 1979-80, 1980-81 and 1981-82 the CCI had stocks of undisposed cotton valued at Rs. 127.22 crores, Rs. 95.87 crores, Rs. 92.69 crores and Rs. 142.49 crores respectively. Stock at the end of 1981-82 included cotton worth Rs. 62 lakhs purchased during 1976-77 to 1978-79. The company was carrying these stocks at an huge carring cost which amounted to more than Rs. 64 crores during these years. This alarming picture reveals that the affairs of the Company both in regard to procurement and marketing had not been conducted in a business like manner. According to its own version sizeable stock of cotton was purchased during 1978-79 in anticipation of Goverment's decision on buffer stock with the result that it was carrying a huge quantity of 7.60 lakh bales at the end of the year. The Ministry has categorically stated that it never authorised the company to make purchases for the purpose of maintaining buffer stocks. It has also been stated that no such decision was taken by the Board. As stated by the Secretary, who had talks with the Chairman-cum-Managing Director of the Company, it was only "a wishful hope and not a confident anticipation." It is thus amazing that purchase operations on such a large scale were undertaken on the basis of merely a wishful hope."

Reply of the Government

The observation of the Conmittee has been noted for future guidance of Cotton Corporation of India in its purchase and sales operation. It may, however, be stated that in any event without Buffer Stock, the Corporation had to extend its purchase operations, which were done with a view to protecting the interests of the cotton growers. The Corporation has, at present, modified its purchase and sales policy and is generally pursuing the policy of selling cotton simultaneous to its purchases.

[Ministry of Commerce, Deptt. of Textiles, O. M. No. 10/48/83 CTM dated the 11-10-1983.]

Recommendation (SI. No. 12) (Paragraph No. 2. 21)

Inspite of the fact that CCI was burdened with unsold stock at the end of the year 1978-79 it conitnued to pile up stocks during the subsequent years on the plea that the Company had to protect the interest of the growers. There can not be two opinions that the growers must get remunerative price for their produce but the Company has to satisfy that its purchase operations during all these years were carried on only as a price support measure. The Committee recommend that the Govt. should thoroughly investigate the causes leading to huge accumulation of stocks resulting in financial lose to the Company.

Reply of the Government

According to the textile policy statement announoed on 7th August, 1978, the CCI was allowed to make commercial purchases in the market so that the cotton prices did not fall below the prescribed minimum. As it was also stated in the textile policy statement that the CCI would be allowed to operate buffer stock of cotton, the CCI in fulfilment of its objectives to stabilize cotton prices at a reasonable level and with a view to building buffer stock of cotton started making huge purchases of cotton. It was not prudent on the part of the Corporation to start making purchases of cotton for building buffer stock without the prior consent of the Government. However, whether it was required to build buffer stock or not the Corporation had to make purchases with a view to influencing the cotton prices to stabilize them at a reasonable level. The CCI should have disposed of its stocks by way of sale in the domestic market and in foreign markets simultaneous to purchases. The sale agency of the CCI took some time to stabilize. CCI was directed by the Government to reorient its sales policy. Now on the advice of the Government the Corpn. has reoriented its sales policy as a result of which they have been able to bring down their stocks to a level of 2.42 lakhs bales at the end of 1982-83 cotton season as against a balance of 5.45 lakh bales at the end of 1981-82 cotton season. The CCI has now been advised to keep their inventory low by selling their stocks simultaneous to purchases. They have now taken various steps for disposing of their stocks by way of sale in the domestic market and in the international market.

[Ministry of Commerce, Deptt. of Textiles, O. M. No. 10/69/83-CTM. dated the 19 October, 1983].

Comments of the Committee

(Please *see* Paragraph 17 of Chapter I of the Report)

Further reaply of Government

State-wise purchases by C C I during the current cotton season (Sept.-Aug.) as on 12th March, 1984 :

	Quantity in lakh bales of 170 Kgs. each
Andhra Pradesh	0.85
Gujarat	0.18
Haryana, Punjab, Rajasthan	1.53
Karnataka	0.29
Madhya Pradesh	0.55
Tamil Nadu	0.05
	3.45
Opening stock as on 1.9.83	3.90
Sales as on 12.3.84	6.94
Present stock (unsold) as on 12.3.84	0.41

[Ministry of Commerce, Deptt. of Textiles D. O. No. 10/22/83-C.T.M. dated 28-3-84].

Recommendation (Sl. No. 13) (Paragraph No. 2.22)

About the disposal of stocks the Secretary stated "We would expect the CCI, knowing their circumstances, to try to be a little more resourceful than possible they have been all those years because this is an experience now to them to be able to sell their stock and reduce their inventory level both by sales within the country and by exports." That after more than 10 years of experience the company has not been able to evolve a satisfactory marketing ability indicates that there is something inherently wrong with its organisation. The Committee, therefore, recommend that the Government should examine this aspect in depth and take appropriate action to reorganise and strengthen the marketing structure of the Company. Performance of the Company both in regard to procurement and marketing should be carefully watched by Government periodically so as to give proper guidance and avoid serious lapses of the type described above.

Reply of the Government

While reviewing the performance of the CCI the question of reorientation of the procurement and marketing structure of the Company has been discussed from time to time. Government has stressed the need of restructuring the marketing policy of the company with a view to reducing large inventory. As a result of this, the Corpn. has taken the following measures to boost up its sales.

(a) Sales simultaneous to purchase;

(b) Relaxation in terms and conditions;

(c) Increased sales to institotional buyers by allowing revolving Credit Facility;

(d) Sales against Usance Bills/L/C facilities as against earlier practice of cash and carry basis;

(e) Opening of Sales Depot at Calcutta to cater to the needs of Textile Mills in Eastern Sector by making available cotton off the shelf, and

(f) De-centralisation of sales at the Branch level on the basis of floot prices fixed by Head Office.

The above efforts have enabled the Corporation in reducing its inventories and resultant saving of carrying charges ; details of the sales during the last two years are as under :—

	1982-83	1981-82
		(No. of Bales in Lakhs)
Opening Stock	5.91	3.09
Obtained	9.37	10 06
Total	15 28	13 15
Sales	11.54	7.24
Closing Stock	3.74	5.91

In matter of sale of cotton the Corporation is facing the following problems.

(1) As a matter of policy the Corporation sells cotton only to mills directly and not to middlemen. Its sales, therefore, depend to a large extent on the position of the textile industry and are indirectly linked up with offtake of yarn cloth, etc. Because of this policy of selling directly to mills, the Corporation has succeded in eliminating middlemen in the trade to a great extent.

(2) Cash Sales

The most important problem faced by the Corporation in effecting sales is that of sales against cash. The Corporation borrows Rs. 250 crores from the banking system and all its cotton is hypothecatd th the consortium of banks. It is not possible for the Corporation to divert such cotton (which is already hypethecated to the banks) to any mill unless it deposites the sales proceeds before withdrawing the cotton. Many times the textile mills are not in position to pay for their requirements of cotton and hence approach traders-cum-Mukedamas, who invest in cotton and extend all facilities to the textile mills. Because of the this policy the sales of the Corporation would always depend on the liquidity of the textile mills.

(3) Spot Sales

As a matter of policy the Corporation has been dealing in cotton on a ready basis i.e. it has never undertaken forward sales which involve huge financial risks because of fluctuations in market prices. It has to compete with private traders, who have the advantage of forward cover as permitted by the Forward Markets Commission. As a public sector organisation, the Corpo. will always have to face this difficulty in its operations."

[Ministy of Commerce, Deptt. of Textile O. M. No. 10/53/83-CTM dt. 11.10.1983.]

Recommendation (Sl. No. 14) (Paragraph No. 2.35)

In order to discharge its social responsibility CCI had no option but to procure varalaxmi and suvin varieties of extra long staple cotton although there was lack of demand for the same. Carring of large quantities of these varieties of cotton for relieving the distress of cotton growers put a heavy financial burden on the Company which affected its financial results. The Committee were informed in Novemcer, 1982 that the Company had 80,000 bales of those varieties of cotton in stock. CCI has suggested that buffer stock of 4 to 5 lakh bales of cotton should be created on Government account particularly to help the company to pay remunerative prices to the growers. The Committee recommend that the Company should immediately work out details and submit its proposal to the ministry in concrets terms. They would expect the Government to examine the same urgently, Government should ensure that at on stage the CCI is forced to withdraw their support to the farmers due to lack of financial resources.

Reply of the Government

In consonance with the observations made by the Committee, the Cotton Corporation of India submitted a proposal for maintenance of a "Buffer Stock" in cotton of 3 to 5 lakh bales on Government account. On examination of the proposal from various angles, Government is of the opinion that maintenance of the said Buffer Stock is not considered necessary in the present circumstances. Government is examining various other measures to strengthen its financial position to enable it to play an effective part in country's cotton economy.

[Ministry of Commerce, Department of Textiles, O. M. No. 7/7/83-—CTM Dated 29-12-1983]

Recommendation (Sl. No. 15) (Paragraph No. 2.36)

Since the international price of long staple cotton are lower than the domestic prices, the CCI has suggested that Govt. should subsidise exports in order to enable the Compny to dispose of the stocks without incurring further losses. The Committee are informed that the suggestion is being examined by Government. The recommend that an early decision be taken on the proposal submitted by CCI.

Reply of the Government

"The minimum export prices for varieties of cottons are fixed by Textile Commissioner after taking into account the domestic price and the price in international markets. The exporting agencies including the Cotton Corpo-ration of India are required to export cottons at the prices not below the level fixed by Textile Commissioner. In case of persistent fall in the iniernational prices, periodical review reviw is undertaken to revise the export price. However, during the 1981-82 cotton season due to the easy international cotton situation, prices in the foreign market were reported to have been somewhat lower than the domestic prices. The CCI and the Maharashtra and Gujarat State Cooperatiive Marketing Federation approached Government for grant of subsidy on the export of cotton. The proposal has been considered by Government in depth and it has been decided to reimburse the loss if any incurred by the CCI on exports at the Protest of Government. The difficulty faced by the CCI in exporting cotton in 1981-82 season was a temporary phenomenon confined to that year only. However, the situation has undergone drastic change and such a difficulty is no-longer there. The international prices of cotton are at present ruling much higher the domestic prices."

[Ministry of Commerce, Department of Textiles, O. M. No. 8/24/82 —CTM dated the 11-10-1983.]

Recommendation (Sl. No. 16) (Paragraph No. 2.37)

The existing excise duty structure inhibits the textile industry from using long staple cotton. The matter has been taken up with the Ministry of Finance who has to take a decision in the matter. The Committee hope that the matter would be examined by the Ministry of Finance urgently and steps will be taken soon to rationalise the duty structure so as to encourage the use of extra long staple cotton by the textile industry in the country.

Reply of the Government

To encourage increased use of long and extra-long staple cotton and on the recommendation of this Department for rationalising excise duty uyto 60s of cloth, i. e. fabrics made from yarns in the counts 41s to 60s be subjected to ad-valorem duty (instead of a fixed basic duty of 15%) as in the case of fabrics with average yarn count upto 40s, vide notification no. CE No. 198/82 dated 25.6.1982, Ministry of Finance have introduced ad-valorem duty on yarn upto 51s. This would be helpful in encouraging increased use of long and extra long staple cotton.

In addition to the above, some proposals for duty restructuring, with a view to encourage the use of long staple cotton, have recently been noted by this Department and being processed.

[Ministry of Commerce, Department of Textiles, O. M. No. 10/32/83—CTM dated 29-12-1983.]

Recommendation (Sl. No. 18) (Paragraph No. 2.55)

The Committee regret to note that when the CCI was burdened with huge stocks of undisposed cotton during the year 1979-80 and 1980-81 and it was receiving sizeable demands from the international buyers, sanction of export quotas was delayed by Government. The Committee hope that there would be no such delays in future as earlier delays had proved very costly.

Reply of the Government

The observation of the Committee has been noted by Government for future action. However, since 1981-82, there has been no delay on the part of the Government to release export quota of cotton. At present, Government have been deciding the export policy fairly in advance and releasing export quota immediately on the request of exporting agencies.

[Ministry of Commerce Deptt. of Textiles O. M. No. 10/50/83—CTM dated the 11-10-1983.]

Recommendation (Sl. No. 23) (Paragraph No 3.32)

Out of the total loss of Rs. 97.30 crores Government have already reimbursed to the Company an amount of Rs. 69.07 crores. The Committee desire that an early decision should be taken on the reimbursement of the remaining amount.

Reply of the Government

The Cotton Corporation of India Limited, Bombay incurred a total loss of Rs 97.30 crores on account of imported cotton, out of which Government had already reimbursed to the Corporation the amount of Rs. 69.07 crores. The question of reimbursement of the balance amount to the tune of Rs. 28.23 orores was examined by this Deptt. in consuetation with Ministry of Finance and it has been agreed to reimburse the same with the approval of Cabinet. The necessary steps are being taken to locate savings within the Department and/or to obtain grants from Parliament during its next session for meeting the said expenditure.

[Ministry of Commerce, Department of Textiles, O.M No. 10/26/83-CTM dated the 11-10-1983.]

Recommendation (Sl. No. 28) (Paragraph No. 4.29)

No uniform norms about the ginning loss have been fixed as the losses very from State to State, season to season, depending upon the soil and noisture condition. The Committee would like the Company to go into the reasons for ginning losses and take suitable remedial measures. Human factors responsible for losses should be looked into more seriously and necessary action taken.

Reply of the Government

It is difficult to fix any norms for ginning loss as the same varies from season to season, State to State, depending on the soil, moisture contents and the condition of the processing units. The Corporation has been trying to go into the reasons for the high shortages and to plug the same wherever possible. The matter was also discussed in detail in the Branch Managers' Conferences and they were instructed as follows :

(1) Brandh Manager with the help of Quality Control Office will arrange to conduct experimental ginning thrice in a year and fix the permissible variety-wise/centre-wise shortages.

(2) Branch Managers will inform well in advance about the permissible shortages of each varities/centres in their respective Branches to Head Office.

(3) Branch Offices will arrange to make comparision of shortages in different factories and shall take up the same with factories where shortages are more.

(4) To improve processing, constant supervision will be carried out by the concerned Cotton Purchase Officer at centre besides surprise checks by the Officers. In case of kapas processed during night shifts due to power cut, checking of the lint after processing will be undertaken next day to take immediate remedial measures.

The Corporation is also taking measures to tighten up supervision from purchasing to processing to minimise the loss in ginning.

[Ministry of Commerce, Department of Texties, O. M. No. 10/57/ 83-CPM dated the 11.10.1983.]

Recommendation (Sl. No. 30) Paragraph (Nos. 4.44 & 4.45)

Since the ruling prices at the commencement of year 1973-74 were very high, the Company's entry in the market at this juncture was not perhaps desirable as the presence of a large scale buyer in the open market itself could act as a firming sentiment. The initial spurt in prices was partly the result of the Company's announcement of its intention to undertake large scale purchases. Having entered the market and made purchases on commercial basis at ruling prices, commercial consideration also demanded that the stocks were sold when the market was most favourable instead of suspending sales at that very point and incurring loss. The Committee have already pointed out that the affairs of the Company at least at times were not being managed in a business like fashion. It is all the more surprising that the Company has not even cared to work out the total loss suffered by it as a result of a faulty decision by the Board of Directors. The matter has been taken so lightly that the loss has been termed by the Director, Purchase & Sales as only a 'notional loss'. The Chairman CCI, however, admitted that it was a loss resulting from the wrong decision on the part of the Board.

The Committee would like to stress that the Board of Directors should draw lessons from the past experience and ensure that decisions are not taken and imposed in utter disregard to the financial and commercial interests of the Company.

Reply of the Government

The observations made by the committee have been noted and the Chairman-cum-Managing Director of CCI has been directed to place the same before the Board of Directors in the ensuing Board meeting for further guidance.

[Ministry of Commerce Department of Textiles, O. M. No. 10/67/83-CTM dated 28.10.1983.]

Recommendation : (Sl. No. 31) (Paragraph No. 4.53)

The Committee note that the quantity of cotton lifted from the CCI by NTC fell short of the quantity indented during the years 1975-76 to 1977-78 which resulted in sizeable accumulation of stock with the CCI. The CCI sold the stock to non-NTC mills incurring a loss of Rs. 40.81 lakhs which was shared between NTC and CCI on 50:50 basis. The CCI has stated that Government had issued a "peculiar directive" forbidding CCI to sell the cotton to non-NTC mills which led to the accumulation of stocks. This has, however, been denied by the Ministry. The Committee would like this to be sorted out between the Ministry and the CCI and the Committee informed how the stocks were allowed to be accumulated.

Reply of the Government

The failure of the NTC mills to lift the entire quantities of cotton indented by them with the Cotton Corporation of India resulted in accumulation of stocks with the CCI. As has already been submitted before the Committee during the evidence of the representative of this Department, no direction was issued by the Government to the CCI forbidding them to sell such accumulated stocks to mills other than the NTC mills. On the other hand the Government permitted the Corporation on 23.8.1977 to sell the unsold stocks of cotton lying with them to the mills other than the NTC mills.

[Ministry of Commerce, Government of India. O. M. No. 7/23/83-CTM dated 4.1.1984.]

Comments of the Committee

(Please *see* Paragraph 26 of Chapter I of the Report)

Recommendation (Sl. No. 32) (Paragraph No. 4.58)

The Committee note that CCI claims that an amount of Rs. 15 crores is outstanding whereas according to NTC account books only Rs. 5 crores are payable. They also note that a reconciliation Committee has been appointed. The Committee hope that the accounts would be reconciled and that the outstanding dues would be cleared by MTC without delay.

Reply of the Government

The matter regarding the reconciliation of accounts between the CCI and NTC and the recovery of outstanding dues by the CCI from NTC has been undertaken and it has been reported that the same has been progressing satisfactorily.

[Ministry of Commerce, Department of Textiles, O. M. No. 7/21/83-CTM dated the 11.10.1983.]

Recommendation (Sl. No. 33) (Paragraph No. 4.73)

The Committee find that for obvious reasons the crop estimates given by the private trade and industry are not reliable and the Cotton Corporation has to relay on the estimates given by the Cotton Advisory Board of the Government. But these estimates are again based on the assessment made by the trade. Estimates of cotton production by the Directorte of Economies and Statistics are released when the season is almost over. The Committee are informed that in the whole country reliable estimates of the crop are not available. This appears to the Committee to be a very sorry state of affairs. Not only the procurement stategy but also the programme for import and export of cotton as well as the extent of buffer stock to ensure stabilisation of prices, has to be chalked out on the basis of the crop estimates. As the work of crop estimation is being looked after by the Ministry of Agriculture the Committee recommend that the Ministry should set up a proper machinery for estimating cotton production on a scientific basis and ensure that accurate and objective estimates of cotton production are made available to CCI in time to enable the Company to plan its operations as realistically as possible.

Reply of the Government

This Department agrees with the observation of Committee that an effective machinery should be set up for estimating cotton production on sicentific basis for having a reliable estimates on the basis of which, procurement statergies of CCI and Government's Policies of export and import can be formulated in time. The matter has been already taken up with the Ministry of Agriculture and that Ministry will be taking necessary action to formulate a scientific procedure for obtaining a reliable and timely cotton corp estimates.

[Ministry of Commerce, Deptt. of Textiles, O. M. No. 7/22/83—CTM dated the 29th December, 1983.]

Recommendation (Sl. No. 34) (Paragraph No. 4.74)

The Committee note that the Company in its anxiety to have reliable date paid fees of Rs. 2 lakhs to Operations Research Group in 1975-76 and spent Rs. 2, 26, 152 during 1978-79 to 1981-82 on the training programme of the staff for the crop estimation work. But all these efforts proved futile and the estimates prepared by the Operations Research Group and by staff trained for the purpose were far from satisfactory. The Committee hope the Company would learn from its past experience and will refrain from such ventures which result in a wastage of financial resources. The estimates should be prepared on a national basis by the concerned Ministry and the data should be made available to all the parties concerned including the CCI well in time.

Reply of the Government

The observations made by the Committee have been accepted for the future guidance of the Corporation. As already stated to the Committee during oral evidence, the Corporation has since discontinued spending money on schemes for crop estimation at its instance.

[Ministry of Commerce, Deptt. of Textiles, O. M. No. 7/22/83—CTM, dated the October 19, 1983]

Recommendation (Sl. No. 37) (Paragraph No. 5 12)

The Committee would also like to observe here that the Compny's losses are not only due to heavy interest liability but are also on account of its inefficient functioning and injudicious decisions as revealed in the earlier chapters of this Report. There have been complaints from different quarters including the employees associations in which a number of allegations have been made about wasteful expenditure and malpractices prevailing in different branches of the Company. The Committee are therefore of the view that there should be more meaningful performance reviews of the Company by the Ministry to locate weaknesses and take necessary measures to plug the loopholes. The Committee would await the action proposed to be taken in this regard.

Reply of the Government

Taking into consideration the past experience on the working of the Cotton Corporation of India, the Ministry have been/are reviewing the performance of the Cotton Corporation of India and suggest from time to time ways and means to the Corporation to modify its policies, so that it can lend support to the cotton growers and stabilise cotton prices and at the same time it could improve its commercial ability

[Ministry of Commerce, Deptt. of Textile, O. M. No. 10/25/83—CTM, dated the 11-10-1983.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Sl. No. 22) (Paragraph No. 3.30 & 5.31)

The committee note that in the year 1976-77 a nassive import of cotton was undertaken in view of the shortfall in cotton production in the country. By March 1977 Government had authorised an import of 14 lakh bales of cotton out of which CCI contracted for 9.69 lakh bales upto June, 1977. Thereafter it was decided not to contract for further foregin cotton in view of the easy trend in indigenous cotton. As the supply position in the supplying countries was tight, cotton was purchased at prices higher than the ruling prices of equivalent varieties of indigenous cotton. The sale was allowed subject to the overall loss not exceeding 20% of the landed cost. Subsequent to the import of cotton the prices of indigenous cotton started falling due to better crop during 1977-78. A number of mills backed out of their commitment and did not clear the bales. The CCI had to carry stocks for considerable period and had to sell cotton at low frices either in the domestic market or through exports, thereby incurring a total loss of Rs. 97.30 crores on the sale of imported cotton. In this connection, the following points deserve special attention.

(i) The import of as many as 14 lakhs bales was decided on the basis of shortfall in the production of cotton during 1975-76 and expected low production during 1976-77. During the period from February, 1977 to June 1977 the Company contracted for import of 3.71 lakh bales. Up to January 1977 only 2,73,383 bales had been received in the country. Although the prospects of production during 1977-78 had considerably improved, it appears that no action was taken by the Ministry/Company to review the position in early 1977 to ascertain the future requirement and to take appropriate action to stop further contracts and to avoid the import of cotton already contracted. It would have been perhps beneficial to sell the cotton already purchased in the same country rather than importing it and then selling it in the country at considerably loss or exporting it to other foreign countries at throw away prices.

(ii) 3,53,409 bales of cotton were bought on Company's account. It has been stated that the Government directed the Company not to wait for indents from the mills. CCI was asked to proceed with the import without confirming contracts, without obtaining bank guarantees, without the parties having sub-licences.

(iii) One of the reasons advanced by the Mills for not lifting the cotton was late arrival of cotton in the country when the mills had already changed the pattern of production. It was also claimed that the cotton was found to be of inferior quality, although a technical panel was constituted consisting of representative of the mills who saw the cotton samples.

(iv) There was delay in clearance of imported cotton due to congeestion at ports, bargemen's strike and mixing up of bales with different lot numbers etc. The Company had to incur-demurrages charges amounting to Rs. 34.20 lakhs. An amount of Rs. 3.02 lakh had to be paid because of avoidable delay on the part of a clearing agent. Although notice was stated to have been issued to the Chairman, Cochin Port Trust, not to handover the cheque for refund to the clearing agent the same was not taken note of by Port Trust authorities.

The Committee regret that a huge quantity of cotton was imported not only in haste but without proper consideration and foresight which resulted in a total loss of Rs. 97.30 crores to the Company. The entire matter should have been investigated thoroughly and respensibility for various lapses should have been fixed. Both the Ministry and the Company appear to have remained unconcerned. The committee are unable to agree with the Ministry that there is no scope for fixing responsibility. They strongly feel that though the decision to import cotton may have been justified, the manner in which the decision has been implemented without necessary correctives warranted by subsequent developments cannot be condoned. They would therefore recommend that there should be an enquiry to ascertain the extent of lack of care and prudence in the implementation and the responsibility therefore and to derive lessons for the future to avoid such costly lapses.

Reply of the Government

The matter has again been examined in this Department. It is reiterated that as the loss suffered by the CCI is not due to the lapes on part of the any individual, it is difficult to fix responsibility. However, the fact remains that in view of compelling circumstances arising as a result of actue shortage of cotton within the country, Government had to authorise the Corporation to import cotton of top priority basis with a view to ensuring quick availability of cotton to the industry. In view of this, Government are now circumspect while taking decision for import of cotton necessitated by the relevant cotton situation in the country.

For an example while importing cotton from Pakistan in order to meet the varietal imbalance in the production and consumption in the country during 1980-81 Cotton Season, necessary precautions and steps were taken to ensure that CCI did not incur losses on account of imported cotton. The cotton was imported from Pakistan on Mill's Account and CCI charged Commission on the basis of value of the cotton imported by individual mills.

[Ministry of Commerce, Department of Textiles, O.M. No. 15/42/76-Tex-II/CTM New Delhi, dtd. the 11-10-1983.]

Recommendation (Sl. No. 24) (Paragraph No. 3 40)

The Committee understand that in order to meet the immediate needs of the textile industry a decision was taken in September, 1974 to import about 2 lakh bales of cotton from Pakistan. It has also been stated that 121,061 bales of cotton were imported on Government account as some of the mills to whom quotas were allotted or who were otherwise eligible for quota did not evince any interest in purchasing Pakistan Cotton despite the fact that Government had reduced import duty from 40 per cent to 15 per cent advalorem. The sale of cotton at a lower price resulted in a loss of Rs. 124.50 lakhs and Government had to forego import duty amounting to Rs. 201.77 lakhs. The Committee would like to know whether this loss was anticipated and whether the source of import was determined after ascertaining the possibility of market acceptability in our country and if sufficient precaution was exercised at the time of taking a decision to import the dakistan Cotton, what went wrong subsequently and what action is proposed to be taken.

The Committee further note that in respect of 78,938 bales imported by CCI on behalf of user mills the agreements with the mills did not contain exchange parity clause and ultimately the company had to accept a major part of the loss on account of fluctuations in exchange rate.

The loss borne by CCI was of the order of Rs. 34.94 lakhs. The Committee are surprised that no enquiry was ordered in spite of the fact that serious lacunae in the agreement was brought to light. It has been stated that the officer concerned retired in 1975. The Chairman, CCI has given him a clean chit by saying that he was an 'excellent officer'. The Committee desire that such cases of gross negligence should not have gone unpunished.

Reply of the Government

As the Committee has already been informed by this Department during the evidence the decision to import cotton was taken after taking into account the likely production and consumption of cotton during 1974-75. At that time it was projected that there was an urgent need to import about 8 lakh bales of cotton to fill the gap so that not only the spurt in cotton prices could be avoided but also that the cotton could be made available to exporting mills and for production of controlled cloth. The matter was considered by the then Joint Committee of the Cabinet for Political Affairs and Economic Policy in September, 1974 when, *inter-alia*, the import requirements of cotton were considered and a view was taken that about 2 lakh bales of medium staple cotton may have to be imported to meet the immediate needs of the industry. After exploring the possibility of import of cotton from various countries, it was decided to import two lakh bales of medium staple cotton from Pakistan.

Various global sources considered for import of the above said cotton considered by the Cotton Corporation of India included USA, Russia and Pakistan. Pakistan was considered the best source for import of cotton for the follawing reasons :

(i) Indian Cotton Mills had used this cotton in the past and therefore, they were familiar with the spinning characterstics.

(ii) There was an advantage of nearness of supply which would lead to quick delivery and relatively low freight charges.

(iii) The reports from Pakistan had indicated that there was a very big glut of cotton in Pakistan. In view of that it was felt the import of cotton from Pakistan would be more advantageous as Pakistan Cotton would be available at comparatively low prices.

(iv) With the price advantage in respect of cotton imports from Pakistan the Indian mill would be using cotton for export production.

(v) Trade between Pakistan and India was resumed after 1971 Indo-Pakistan war and there was desire to create adequate good-will between the two neighbouring countries. Cotton was one of the important items of exports offered by Pakistan.

Thus it will be observed that the decision to import two lakh bales from Pakistan was taken after careful and detailed consideration at the highest level.

With regard to the point raised by the Committee, whether the loss was anticipated it may be stated that the loss on accout of waiver of import duty was anticipated. The over-riding consideration for waiver of import duty appeared to be the cost of Pakistan cotton vis-a-vis domestic cotton. It was then felt that industry would not be in a position to bear import duty at 40% advolorem. The loss on account of sale of cotton was not anticipated at the time, the decision was taken. The following factors were responsible for the same :

(i) With the induction of Pakistan Cotton in the domestic market, there was a favourable effect on domestic cotton prices. Consequently, the prices of cotton in the country came down.

(ii) As the season advanced, the size of crop also showed signs of improvement. As against 62 lakh bales expected at the commencement of the season, the estimate rose to 69.5 lakh bales and later on to 72/73 lakh bales.

Consequent to easy availability of cotton in the country the prices of domestic varieties declined with the result that the Pakistan Cotton prices turned out to be disadvantageous to the industry.

4. As regards the question whether the source or import was determined afteter ascertaining the possible of market acceptability in our country, it may be stated that as already mentioned above, the decision to import cotton from Pakistan case taken at the highest level after carefully considering various aspects including acceptability of Pakistan cotton by the Indian Industry. The Cotton Corporation of India has informed that while negotiating import of two lakh bales, Secy. (General) of Indian Cotton Mills Federation; which represented various interests of the Indian Textile Industry, was associated. Besides, the Cotton Advisory Board, on which various interest including the textile industry are represented, had recommended the need for import of medium staple cotton in view of its short supply. It may be stated here that it was not the source of cotton import which led to non acceptability of cotton imported from Pakistan, by Textile Industry in India, but it was essentially the changed cotton situtation in the country which could not be foreseen initially.

5. With regard to the next question of the Committee, whether sufficient precaution was exercised at the time of taking decision to import Pakistan Cotton, it may be stated that the Govt. CCI./took into consideration various factors (mentioned above) while deciding to import two lakh bales of cotton from Pakistan.

6. The committee further desired to know in theirre commendation as to what went wrong subsequently and what action is proposed to be taken. In this connection, it may be stated that the cotton situation in the country underwent a significant change leading to increased availability of cotton on account of improved domestic crop coupled with the imports of cotton from Pakistan. Consequently there was fall in the domestic prices of cotton. As the domestic cotton became cheap, the textile industry chose to go in for domestic cotton in preference to cotton imported from Pakistan. Thus it is evident that it was essentially the changed cotton situation which was responsible for the losses on imported cotton and no individual was responsible for the same. As such the question of any action against any individual does not arise.

7. As regards non-inclusion of price parity clause in the agreement and the action against the officer responsible for lacunae in the agreement, it may be stated that the Cotton Corporation of India was of the view that it might gain something as result of fluctuation in the exchange rate and as such it was not considered necessary by them to include exchange parity clause in the agreement, and therefore the question of taking action against the officer concerned does not arise. The loss on account of exchange fluctuations was not anticipated at that time".

[Ministry of Commerce Department of Textiles, O.M. No. 10/27/83—CTM dated 4-1-1984.]

Recommendation (Sl. No. 25) (Paragraph No. 3.45)

The Committee note that in May, 1977 CCI purchased 31,000 bales of Tanzanian cotton. According to the terms of the contract carrying charges in the exporting country were applicable from 1st December, 1977 at the rate of 1.05 per cent per month. By October/November 1977 the prices of equivalent varieties of indigenous cotton had fallen steeply. In January 1978 the Corporation decided not to bring the Tanzanian cotton into the country to avoid further depression in prices of indigenous cotton but to sell the same in Tanzania itself. A request for a waiver of carrying charges was made and the Tanzanian authorities agree not to levy carrying charges till 31st March, 1978. The economics of importing the cotton and selling the same in Tanzania were, however, worked out only in April, 1978. The company had not given any reason for the delay in taking the final decision. The Committee cannot but deprecate the laxity and negligence on the part of the Company. The loss of 17,885 bales of cotton in Tanznia has also not been explained. The Committee would like to be informed about the total loss suffered by the

Corporation on this transaction. The Committee would like that action be taken against the persons found responsible for the lapses, if not already taken, under advice to them.

Reply of the Government

Tanzanian cotton was not imported into India because the prices of Indigenous cotton were ruling very low at the time and the market would have depressed further, in case these bales were imported. It was, therefore, decided to carry the cotton with the shippers and the Corporation had also succeeded fot waiver of carrying charges upto 31st March 1978 and the Corporation saved about Rs. 30 lakhs by way of carrying charges. The Corporation was hoping that the position may improve in the domestic market, but the market was continued to decline.

In fact, on 9-3-1978 the High Power Committee decided that the Indian High Commissioner in Tanzania should be requested to persuade TACOTA to dispose of the cotton at part to any other buyer, as there was no demand for this cotton at its price in India whereas other countries were buying cotton from Tanzania at fairly high price. Accordingly, Indian Hight Commissioner in Tanzania was requested to persuade TACOTA to sell the cotton at par, so that we can avoid further depression in domestic market. TACOTA agreed to sell the cotton on behalf of the CCI subject to CCI bearing any charges of difference. A decision was taken by the Board in April 1978 that the Corporation should re-sell the cotton with the assistant of TACOTA and bear the loss, if any, on such sale. Thus, it may be seen that there was no delay in taking the final decision and that the Corporation immediately acted for disposal of cotton by not paying carrying charges upto 31-3-1978.

With a view to check up the physical availability of cotton contracted and also to supervise the actual weighment of the bales, the Corporation sent one Officer to Tanzania and found 17,885 bales were not available in the Godown. According to Tanzanian Cotton Authority (TACOTA) the allocation against contracts for the type purchased will be made by the Authority after receiving shipping instructions from the buyers and the vessel is in port ready for loading. Moreover, according to them, they had this particular type of cotton of 1977-78 crop in their different godowns. It was their common practice to replace old stock with new stock whenever old stock likely to remain unshipped and undelivered for a long time and thus deteriorating grade, fibre etc. Thus according to Tanzanian Cotton Authorities, there was no loss of 17,885 bales and that particular type cotton contracted of 1977-78 crop was stored in other godown.

The Government of India had authorised CCI to import 14 lakh bales of cotton against which the Corporation imported 11.61 lakh bales of 170 kgs. and actual of 9.40 lakh bales. The Ministry of Commerce, Department of Textiles vide para 3.29 (62nd Report on COPU) had also clarified that the decision to import cotton was taken with the approval of Committee of Secretaries and Cabinet Committee. As the loss suffered by the CCI is not due to the lapse on the part of any individual, the question of fixing responsibility does not arise.

The import of Tanzanian Cotton was also within the over-all of import of cotton approved by the Committee of Secretaries and Cabinet Committee. The decision to resell the cotton at Tanzania itself was taken by the High Power Committee consisting of officials of diffrent Ministries along with M.D. of the Corporation. Since the loss suffered by the CCI is not due to the lapse on the part of any individual, the question of taking action against the persons docs not arise.

[Ministry of Commerce Department of Textiles, O.M. No. 10/24/83-CTM dated 29-12-1983]

Recommendation (Sl. No. 29) (Paragraph No. 4.43)

As against its announced programme of purchasing 33.5 lakh bales of cotton, the CCI purchased 3.10 lakh bales during 1973-74. When the ruling prices were very favourable and the stock could have been disposed of at a profit, the Board of Directors, on the basic of the recommendation of sub-committee decided to suspend sales. Offers received by the Branch Offices, which were higher than the average purchase prices, were not considered and the stock was held till the prices fell steeply. Bangalore Branch reported a loss of over Rs. 2.03 crores instead of anticipated profit of Rs. 50 lakhs and the sales not been suspended. Bhatinda and Sirsa Branches incurred a loss of Rs. 13.29 lakhs. The loss sustained in other regions had not been worked out. The details in this regard, though called for by the Audit, were not furnished by the Company.

Reply of the Government

The information has been obtained from the Cotton Corporation of India and is as under :

During March, 1974 to May 1974, when the sale was suspended, no officers were considered by the Committee at Head Quarters. The Audit while visting the Bangalore Branch must have collected the information available in the Branch, which has not been considered as offers for sale by Head Office. As per the policy decision, since sale was suspended, no offer was entertained. No such working has been done for other regions in the absence of any specific offers. Moreover, it is stated that greater realisation is not reckoned in terms of a single bale or a lot, but within the over-all perspective of total sales effected and the net realisation thereon. During the year 1973-74, the Coroporation had made a profit of Rs. 3.12 crores before tax and Rs. 0.58 crores after tax.

[Ministry of Commerce, Department of Textiles, O.M. No. 10/75/83—CTM dated 29-12-1983.]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 1) (Paragraph Nos. 1.17 & 1.18)

Cotton Corporation of India was set up as an instrument for ensuring healthy growth of the cotton economy of the country by adequately protecting the interests of growers and making available cotton to the textile industry at reasonable prices and without wide fluctuations through out the year. The National Commission on Agriculture recommended in 1975 that the Company should be suitably strengthened so as to be in a position to buy 25 to 30 per cent of the indigenous crop. Again in its Report on the Price Policy of Raw Cotton for 1977-78 season, the Commission stressed the need for great effort at disciplining cotton prices and felt that these objectives would be better served if the company acquired sizeable weight in the indigenous cotton trade.

The Committee, however, find that during the period 1970-71 to 1977-78 company's share of the cotton market ranged from 0.2 per cent to 11.2 per cent. Defending the low percentage of procurement the Ministry stated that it was only in the textile policy statement of August, 1978, that the role of CCI in disciplining the prices of cotton within reasonable limits was given concrete delineation. Even after the policy statement of August, 1978 the company's share in the cotton market ranged from 12 to 15 per cent of total production in the country and annual target of 15 lakh bales fixed by the Ministry, keeping in view the enlarged role entrusted to the oompany in the textile policy, was never achieved during the years 1978-79 and 1981-82. The Committee were informed by CCI that so long as the company did not procure 20 to 25 per cent of the cotton produced in the country it would not be possible for it to dictate the market. Whereas, the Ministry were of the opinion that the company should not fix any quantitative target for the procurement of cotton. The Ministry's view is somewhat narrow and is relevant only in the context of the role of the CCI to undertake price support operation in the interest of the growers. As the CCI has also to look after the needs of the textile industry including NTC and save them from exploitation by private traders (middlemen) it is necessary that the CCI should have a decisive say in the market and this is possible only if it steps up its procurement at least to the level recommended by the National Commission on Agriculture. The Committee therefore, desire that in future targets in this regard should be fixed and the performance of the CCI watched.

Reply of the Government

The observation of the Committee has been carefully examined by this Department. It has not been considered necessary or possible to change the present procurement startegy of the Cotton Corporation of India to cover 25 to 30% of the total cotton grown in the country. It should be left to the commercial judgement of the Corporation to decide how much quantity should be purchased. Accordingly there would be no target of procurement. The present pattern of operations of the CCI can ensure remunerative prices to the cotton growers. Moreover, the CCI not only the official agency in the field of procurement of raw cotton. Maharashtra State Cooperative Marketing Federation under Monopoly Procurement Scheme and other State Cooperative Marketing Federations are also engaged in the procurement and sale of cotton. Taken together they cover 40 to 45% of the cotton produced in the country and this helps in stabilization of cotton prices.

[Ministry of Commerce, Department of Textiles, O.M. No. 7/26/83—CTM dated 29th December, 1983.]

Comments of the Committee

(Please *see* Paragraph 6 of Chapter I of the Report).

Recommendation (Sl. No. 5) (Paragraph No. 1.55)

A Committee (Kulkarni Committee) appointed by Government in February 1976 to go into the nexus between the prices of kapas paid to the growers and prices fixed for yarn/cloth submitted its report in November 1976. The Report was, however, shelved by Government as according to them it was not possible to establish any linkage between the prices of cotton and cloth in a free economy where prices were subject to fluctuations on the basis of demand and supply position. It was further stated that the conclusions arrived at by the Committee were based on untested assumptions. The

Committee on Public Undertakings are unable to appreciate why the Ministry did not take appropriate action to verify the assumptions on the basis of facts. There is a general feeling that the cotton growers are not getting remunerative price for their produce, whereas a large number of textile mill owners were making substantial profits. The Committee, therefore suggest that the Ministry should examine the whole question afresh so as to find out the exact relationship between the prices of cotton and cloth. Whereever textile prices go up substantially the cotton growers also ought to get a share and the prices of cotton paid to them should be raised accordingly. This would need *inter alia* adjusting the floor and ceiling prices indicated to the CCI from time to time.

Reply of the Government

The matter has been examined afresh and it has been found that it is difficult to have a linkage between prices of cotton and prices of cloth/yarn. This suggestion assumes that the movement of two prices is always against the interest of the cotton growers.

It has happened at times that movement in the prices of cloth has not kept pace with the upward movement of the price of cotton. The figures of the movement of whole sale prices index of the cotton, yarn and cloth for the last 10 years are reproduced below. Considering the structure and organisation of markets for both cotton, cloth and yarn, it will be not expedient to establish any direct linkage between the three. However, basic thoughts that the industry should not fatten itself on the cotton growers is unexceptionable. However, this can be better honoured by the adequate presence of public procurement agencies for the stabilization of market price and remunerative return to the cotton growers. Moreover, it is difficult in a highly diversified product like cloth,—a product whose content in terms of cotton and other man made fibres/yarns is subject to many variations and changes to suit domestic and the international market demands, to arrive at a remunerative price for the raw cotton based on the price of cloth.

It may be mentioned in passing that while a mechanism for fixing and ensuring payment of minimum support prices to the growers, which is considered to be remunerative since it includes the cost of production etc., no detailed thought seems to have been given to the industries case of ensuring that cotton prices do not go up to limits beyond the capacity of the industry to abserbe. Besides, Bomaay city mills strike, one single factor which has contributed to the present crisis in the textile industry is the extra ordinary rise in the prices of cotton in the year 1980-81 and part of 1981-82. The rise proved beyond the capacity of the industry to pay as a result of which the demand for a cotton has gone down resulting into lower prices during the later part of 1981-82 and 1982-83.

Index Numbers of wholesale prices of Raw Cotton, Catton Yarn and Cotton Cloth (Mills).

(Base : 1970-71—188)

Season (Sept. August)	Raw Cotton	Cotton Yarn	Cotton Cloth (Mills).
1971-72	95.4	120.2	113.2
1972-73	106.2	129.0	120.1
1973-74	166.7	174.7	153.7
1974-75	148.9	159.3	170.2
1975-76	155.8	148.3	159.5
1976-77	207.7	192.6	172.4
1977-78	178.3	195.2	181.0
1978-79	164.9	208.1	185.0
1979-80	165.1	233.4	200.2
1980-81	210.8	240.7	218.1
1981-12 (Provisional)	216.0	252.0	237.4

[Ministry of Commerce, Deptt. of Textiles, D.M. No. 10/31/83—CTM, dated the 19 October, 1983.]

Comments of the Committee

(Please *see* Paragraph 9 of Chapter I of the Report)

Recommendation : (Sl. No. 10) (Paragraph No. 1.79)

The Committee are also concerned to note that in certain States like Punjab, Haryana and Rajasthan, even though regulated markets are functioning, procurement is carried through Adtyas who work as agents of the cotton growers in disposing of their produce. It has been stated that the Agricultural produce Marketing Act in these States provide for the institution of Adtyas. The Company has no means to ascertain whether the payment has been actually made by the adtyas to the growers. In Madhya Pradesh however, the marketing Committees perform the functions of Adtyas and make payments to growers directly by means of cheques. The Committee would like to stress that the CCI should aim at eliminating the institution of middlemen. The question of issuing cards to the farmers should be seriously considered and taken up with the State Governments. It should be ensured that the growers get the right price.

Reply of the Government

As per Agricultural Produce Marketing Act, every Commission Agent/ Adtya is liable :

(a) to keep the goods of his member in safe custody adequately insured,

(b) to pay member, as soon as the goods are sold the price thereof irrespective of whether he has or has not received the price from the buyer of such goods.

Every licensed trader/commission agent operating in the notified area (marketing yard) is under obligation to maintain accounts in such a manner and submit such reports and returns, to such authorities as may be specified by the market committee.

In the above context, unless there is some alternative agency to undertake the above functions it would be difficult to do away the present system of Adtyas. The payment to the growers by the Adtyas can always be verified from the records maintained by them. In fact, there has not been a single complaint of non-payment to the growers. On the contrary, there have been some complaints in regard to the payment effected by the Corporation through the market committee in M.P. The subject falls with-in the purview of State Govts. and is being taken up with them.

Under the circumstances, unless the marketing committees are prepared to undertake the functions of Adtyas mentioned above, much that we would like to eliminate the institutional middlemen, it would be a pre-mature move.

[Ministry of Commerce, Department of Textiles, O.M. No. 10/47/83—CTM, dated 11-10-1983.]

Comments of the Committee

(Please *see* Paragraphs 12-13 of Chapter I of the Report)

Recom mendation (Sl. No. 20 and S. No. 21) (Paragraph No. 2.76 and 2.77)

The Committee note that one of the main functions of CCI is to supply cotton to NTC mills. Although the annual consumption of cotton by NTC mills is about 12 lakh bales the actual sale of cotton by CCI to NTC varied between 1.44 lakh bales to 7.82 lakh bales during 1975-76 to 1981-82. About 2 lakh bales are purchased by them from Maharashtra where Monopoly Procurement Scheme is in operation. The rest of the purchases are made by NTC from other States Cooperative Federations and private traders. The Chairman, CCI stated in evidence that if NTC increased their purchases from CCI that would reduce the losses of the Company. However, there is no central directive to NTC in this regard. Sales take place strictly on commercial basis. According to the Ministry it is not its function to ensure whether CCI is able to market the cotton or not. The Committee, however, do not appreciate the stand taken by the Ministry in view of the huge stocks of cotton held by CCI and its inability to dispose of the same in the domestic and International market on a commercial basis.

One of the main difficulties faced by CCI in increasing its sales to NTC mills is the credit limitation imposed by the Reserve Bank of India. Against the credit of Rs. 25 crores allowed to CCI an amount of Rs. 45 crores is outstanding against NTC mills. The NTC and the CCI should evolve an agreed arrahgement under which NTC makes maximum of its purchases from CCI and the latter provides all necessary facilities for timely supply of cotton. As the Ministry of Commerce has administrative control over both those companies the Committee would expect the Ministry to ensure this as early as possibly.

Reply of the Government

Notwithstanding the fact that the Corporation's sales to NTC increased substantially during the past three years, it may be pointed that the latter is under no obligation to purchase its entire requirements of 12 lakhs bales from the former. Apart from price consideration, depending on the geographical location of the mills and the variety of cotton required by them to suit the "mixing", NTC covers substantial qty. of its requirements from other public sector agencies as well. It does not necessarily put any obligation on NTC to purchase the entire cotton consumed by its mills from the CCI. It would be worthwhile to state that during the past three years NTC mills have been purchasing cotton to the extent of 80 to 90% from the CCI and Maharashtra

Federation. However in so far as purchase of cotton from CCI are concerned, the quantum for the same will automatically get increased from the present level in case the prices quoted by the CCI are felt to be pragmatic and competitive by NTC. The matter is being sorted out in the Price Negotiations Meeting between Cotton Corporation of India and NTC from time to time.

[Ministry of Commerce Deptt. of Textile, O. M. No. 10/56/83-CTM, dated 11-10-1983.

Comments of the Committee

(Please *see* Paragraph 20 of Chapter I of the Report.)

Recommendation (Sl. No. 27) (Paragraph No. 4.28)

The Committe note that the Company suffered a loss of Rs. 297.25 lakhs (excluding centres in Tamil Nadu and certain other centres for which information was not available) during the years 1971-72 to 1977-78 on account of the ginning loss exceeding norm of 1 per cent fixed by the Company. The loss on account of shortfall in lint out-turn during the period was stated to be Rs. 347.03 lakhs. The details of the loss suffered during 1978-79 and 1981-82 have, however, not been furnished. The Committee would like to be informed about the losses incurred during these years.

Reply of the Government

No fixed norms for ginning loss are available in any of the literature being dependent on various factors. However, the norms for ginning loss based on the experience has been considered at 3% for Southern Branches and 2% for other Branches. The total losses for the year 1981-82 in excess of the above would be Rs. 18.64 lakhs.

This loss would, however, be only a notional one as all cotton brought to the market by growers is not of a uniform standard. It may vary as regards moisture contents, quality, foreign matter and the lint outturn therefore cannot be uniformally at the same level as the Corporation purchases kapas of all the pickings and not only of the best picking. This calculation of a notional loss is, therefore, only hypothetical and has no relevance to actual practice. Moreover, the prices paid for kapas vary from heap to heap and takes into account these variations into lint-outturn as far as they can be assessed, e.g. in Tamil Nadu where the moisture content is upto 18%, suitable deductions are made by the Corporation while paying the growers as per prevailing practice in the market.

As regards lint outturn, based on the norms accepted by the Cotton Technological Research Laboratory and East India Cotton Association, loss for 1981-82 has been worked out to Rs. 174.04 lakhs. However, it may be clarified that, the loss projected as above in lint outturn may not be realistic in as much as the branches while making purchases takes into consideration the expected outturn and adjust the purchase price accordingly.

[Ministry of Commerce, Department of Textiles, O.M. No. 10/74/83-CTM Dated 29-12-1983]

Comments of the Committee

(Please *see* Paragraph 23 of Chapter I of the Report.)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Sl. No. 8) (Paragraph No. 1.77)

The State Government should be asked to accord priority in supplying power to the ginning and pressing factoies so that the CCI is not compelled to restrict its operation due to power cuts. The question of ginning and pressing factory owners charging rates higher than the rates fixed by the State Governments is another serious matter. The concerned State Governments should be asked to take appropriate action in the matter. The Committee hope that the State Governments will adequately respond to the suggestigns made by the Committee. The Ministry should take up these issues with the State Governments at the highest level. The Committee would like to be informed about the results achieved.

Reply of the Government

The issues have been taken up with the respective State Governments at the highest level.

[Ministry of Commerce Department of Textiles, O.M. No. 10/52/83-CTM
New Delhi, dated 19.10.83]

Recommendation (Sl. No. 17) (Paragraph No. 2.48 & 2.49)

For export of staple cotton Government give quotas to different agencies such as CCI, State Federations and Cooperative Societies. In case of Bengal Desai Cotton, however, the private traders are also given permission to export. According to the CCI, the existence of a number of competing export agencies give scope to the foreign buyers to manocuvre the rates, through the export realisation of CCI has always been better than the other agencies.

The Committee feel that the multiplicity of export agencies all of which are keen to unload their unsold stocks in the international market result in low unit value realisation on exports in the absence of bargaining strength. The Committee, therefore, recommend the Government should examine feasibility of canalising export of cotton including Bengal Deshi through a single agency i.e. CCI. In case Government feel that it is not possible for the time being due to the limited marketing capacity of CCI, then the exports should be entrusted only to CCI and other State Government agencies/Cooperatives.

Reply of the Government

The proposal regarding canalisation of cotton export through the CCI was considered in the Ministry of Commerce and it was not considered advisable to canalise the export of cotton through the CCI. The exports of cotton are at present subject to surveillance by the Textile Commissioner in terms of quantity, quality and the minimum price. No exporter is allowed by the Office of the Textile Commissioner to export cotton at a price less than the floor price fixed by the Textile Commissioner. It has been decided to continue the present policy of export of staple cotton i.e., export of staple cotton being permitted through CCI and the Apex Coop. Marketing Federations. As regards export of Bengal Deshi and Yellow Pickings it has been decided to continue the existing policy. The private traders will be associated with export of these varieties of cotton. However, during the current cotton season more quantities of Bengal Deshi and Yellow Pinkings will be allowed for export to the CCI, Apex State Cooperative Marketing Federations and their performance will be watched. In case their performance is satisfactory, the question of entrusting exports only to CCI and Apex State Cooperative Marketing Fedeartions and eliminating private traders will be considered. So far as the export of other varieties such as Assam Commillas and Zodas etc. is concerned, it has been decided to continue the present policy for free export without quantitative restriction.

[Ministry of Commerce, Department of Textiles, O.M. No. 8/2/82-CTM dated the 19.10.1983]

Recommendation (Sl. No. 19) (Paragraph 2.64)

The committee note that most of the State Governments imposed 4 per cent purchase tax on the cotton purchased by CCI for exports which made them uncompetitive. According to the Ministry purchase tax on the cotton to be exported is both illegal and unconstitutional. The Committee would like the matter to be taken up at the highest level with State Governments so as to stop this levy which is also detrimental to the interests of cotton grovers and the country as a whole.

Reply of the Government

Sales Tax Deptt. of Andhra Pradesh, Tamil Nadu, Karnataka and Rajasthan are insisting to levy purchase tax on exports of Cotton under Section 5(iii) of Central Sales Tax Act. As per the provisions of the said Section, "exports are exempted from purchase tax in case last sale or purchase took place after and was for the purpose of complying with the agreements or order or in relation to such exports". In other words, exports, are exempted from purchase tax in case purchases of raw cotton is made after receipt of confirmed purchase orders from the buyers. In case, this condition is not fulfilled, exports are liable for purchase tax. The matter has been taken up with the respective State Governments for exempting the Corporation from the purchase tax on exports since the stipulation laid down in the Act is not possible to be complied with by the Corporation looking to its nature of operations. The Corporation is purchasing cotton not strictly as per the local demands and demand by overseas buyers but the purchase is being made to ensure remunerative prices to the growers for its produce. In case, the Corporation purchases cotton after obtaining confirmed contracts from the overseas buyers it will not be possible to have massive purchase operations in the States and this will result in exploitation of the cotton growers by middle-men.

Bringing out the above facts to the notice of the State Governments it has been impressed upon to exempt the Corpn. from payment of purchase tax and the reminders are being made from time to time. But still no communication has been received from the State Govt. exempting the Corpn. from purchase tax.

In the Gujarat State exports are exempted from purchase tax provided the exports are made within one year from the date of purchase of raw cotton. Corporation took up the matter with State Govt. to relax the condition of one year since every time it is not possible to export the cotton within a year from the date of purchase. State Govt. has since relaxed this condition for the Corpn. from one year to 2 years and this relaxation has helped CCI to boost up the exports from Gujarat State.

Ministry of Commerce has taken up the matter with the State Governments to exempt the Corporation from the payment of purchase tax on exports as it shall render the cotton unremunerative in the export market. The matter has been taken up with the State Governments even at the level of Commerce Minister.

[Minister of Commerce, (Deptt. of Textiles) O.M. No. 10/55/83-CTM dated the 11-10-1983]

Recommendation (Sl. No. 26) (Paragraph No. 4. 18 & 4. 19)

The Committee note that in 1977 the CCI purchased 13,717 bales of cotton from the Gujarat State Cooperative Marketing Federation at the instance of Govt. when the prices of cotton were falling thereby incurring a loss of over Rs. 220 lakh on the sale of cotton. Anticipating loss the Company was reluctant to buy this cotton as even at the time of purchase there was not enough demand for this cotton. The problem was accentuated with the arrival of imported cotton. The Government however, advised the Company to go to the rescue of the Cooperatives of Gujarat. The Company has requested the Ministry to reimburse the loss incurred by it as a result of Government directives. The Ministry, however, feels that as per role assigned to the CCI it was its bounden duty to help the cotton growers. It is, therefore, of the opinion that the Company should not expect that each and every time Government would reimburse the lose incurred by it in the discharge of its basic function.

The above case clearly demonstrates that in the absence of clear guidelines about the obligations of non-commercial nature and the social role of CCI there could be occasions when clash of opinion between the Ministry and the Company is inevitable. In order to obviate recurrence of such situations in future, the Committee reiterate that the Company on the strength of its marketing knowledge and experience of last 12 years decide the price limit which it feels would be both remunerative to the farmers and financially beneficial to it. The Committee also recommend that the Government should find ways and means to compensate the Company for the losses incurred by it in the process of discharging its social functions, under the directive of Government.

Reply of the Government

The Question of reimbursement of cash losses on this account is under consideration of Government.

[Ministry of Commerce, Deptt. of Textiles, O.M. No. 10/41/83-CTM, dated the 29th December, 1983]

Recommendation (Sl. No. 35) (Paragraph No. 5.10)

The CCI has incurred heavy losses of the order of Rs. 25.96 crores during 1977-80 though there was some profit during 1980-81. Heavy interest rate on borrowings is state to be one of the reasons for the losses. In this connection, the Committee have been informed that whereas the State Marketing Federations pay interest @13.5%, the CCI has to pay 19.5% like private traders. Thus no special consideration is given to CCI despite its social obligations. The Committee recommend that the Reserve Bank of India should urgently examine the proposal submitted by the Deptt. of Textiles and reduce the rate of interest so as to help the Company to discharge its social responsibility without much of financial constraints.

Reyly of the Government

"The Reserve Bank of India had announced a general reduction in the rate of interest from 19.50% to 18% and for State Marketing Federations (Maharashtra) from 13.5% to 12.5% with effect from 1st April, 1983 for commercial operation and from 17.5% to 16.5% towards support price operation. Prior to reduction in the rate of interest, the difference between commercial and support price operation was 2% whereas with effect from 1.4.1983, the difference is only 1.5%. We had requested Reserve Bank of India to maintain the difference of 2% from 1.4.1983 also. We had also requested Reserve Bank of India to extend the concessional rate of interest as applicable for support price operation for the purchase upto 15% higher than the Support Price announced by the Government.

The Reserve Bank of India *vide* their letter dated 4th July, 1983, regretted its inability for reduction in the rate of interest. R.B.I. had also refused to extend concessional rate of interest as applicable for purchases made at prices upto 15% higher than the support price announced by the Government. The Reserve Bank of India had also refused to keep difference of 2% between commercial and support price rate of interest.

The matter has again been taken up with the Reserve Bank of India and reply from them is still awaited. However, the General reduction announced by the RBI in the rate of interest from 19 5% to 18% for commercial purchases and from 17.5% to 16.5% towards support price operation will, no doubt, benefit the Corporation."

[Ministry of Commerce, Department of Textiles, O.M. No. 10/58/83-CTM, dated the 11-10-1983]

Comments of the Committee

(Please *see* Paragraph 29 of Chapter I of the Report)

Recommendation (Sl. No. 36) (Paragraph No. 5.11)

The Committee appreciate that the Ministry are considering to enhance the share capital of the Company from Rs. 8 crores to Rs. 15 crores. This will help Company reduce its borrowings which will lighten the burden of interest. The Committee recommend that an early action should be taken in the matter.

Reply of the Government

The proposal for enhancing the share capital of the Cotton Corpn. of India Ltd. from the present level of Rs. 8 crores to Rs. 15 crores is under consideration of this Department. It is expected that the matter will be settled during the current financial year.*

[Ministry of Commerce. Department of Textiles. O.M. No. 10/59/83-CTM dated 19th October, 1983]

NEW DELHI,
April, 19, 1984
Chaitra 30, 1906 (Saka)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings

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*At the time of factual verification the Ministry stated that "The Government of India have recently increased the share capital of the Cotton Corporation of India Ltd, from Rs. 8 crores to Rs. 9 crores during the fihancial year 1983-84. Further, a provision of Rs. 4 crores has been made in B.E. of 1984-85.

(Ministry of Commerce, Department of Textiles O.M. No. 7/13/84-CTM dt. 17.4.1984)

APPENDIX I

MINUTES OF THE 54TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 6.4.1984

The Committee sat from 15.30 hrs. to 16.00 hrs.

PRESENT

Shri Madhusudan Vairale—*Chairman*

MEMBERS

2. Shri Ramnath Dubey
3. Shri Harish Kumar Gangwar
4. Shri Nihal Singh Jain
5. Shri Lakshman Mallick
6. Shri Krishan Pratap Sinha
7. Shri Satyendra Narain Singh
8. Shri Mahendra Mohan Mishra
9. Shri Syed Sibtey Razi

SECRETARIAT

1. Shri M K. Mathur—*Chief Financial Committee Officer*
2. Shri G.S. Bhasin—*Senior Financial Committee Officer*

The Committee considered and adopted the Action Taken Report on 62nd Report of CPU (1982-83) on Cotton Corporation of India Ltd., as approved by the Action Taken Sub-Committee.

The Committee authorised the Chairman to finalise the Report on the basis of factual verification by the Ministry of Commerce (Department of Textiles) Cotton Corporation of India Ltd. and Audit and to present the same to Parliament.

The Committee then adjourned

APPENDIX II

(*Vide* para 3 of the Introduction

Analysis of the action taken by Government on recommendations contained in the 62nd Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Cotton Corporation of India Ltd.

I.	Total number of recommendations	37
II.	Recommendations that have been accepted by the Government (*Vide* recommendations at S Nos. 2-4, 6, 7, 9, 11-16, 18, 23, 28, 30-34 and 37	21
	Percentage to Total	56 8
III.	Recommendations which the Committee do not desire to pursue in view of Government's reply (*Vide* recommendations at S. Nos. 22, 24, 25 and 29)	4
	Percentage to Total	10 8
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendations at S. Nos. 1, 5, 10, 20-21 and 27)	6
	Percentage to total	16.2
V.	Recommendations in respect of which final replies of Government are still awaited. (*Vide* recommendations at S. Nos. 8, 17, 19, 26, 35 and 36)	6
	Percentage to Total	16 2

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