

**PUBLIC ACCOUNTS COMMITTEE**  
**1956-57**

**TWENTY-FIFTH REPORT**

**[Import and Sale of Japanese Cloth]**



सत्यमेव जयते

**LOK SABHA SECRETARIAT**  
**NEW DELHI**  
*April, 1957*

## CONTENTS

	PAGE
Composition of the Public Accounts Committee . . . . .	(ii)
I. Introductory . . . . .	I
II. Consideration of the Statement intended to be laid before the Lok Sabha pursuant to action taken by Government on Paras 76—79 of the Fifteenth Report of the Public Accounts Committee relating to the 'Import and Sale of Japanese Cloth'. . . . .	2—3

## APPENDICES

I. Statement from the Ministry of Commerce and Consumer Industries on the 'Import and Sale of Japanese Cloth' . . . . .	4—5
II. Summary of the main conclusions/recommendations of the 25th Report . . . . .	6

COMPOSITION OF THE PUBLIC ACCOUNTS  
COMMITTEE, 1956-57

Shri V. B. Gandhi—*Chairman.*

MEMBERS

2. Shri K. G. Deshmukh.
3. Shri U. Srinivasa Malliah.
4. Shri Diwan Chand Sharma.
5. Shri C. D. Pande.
6. Shri Kamal Kumar Basu.
7. Shri V. Boovaraghasamy.
8. Shri Jaipal Singh.
9. Shri Nibaran Chandra Laskar.
10. Shrimati Tarkeshwari Sinha.
11. Shri Tribhuan Narayan Singh.
12. Shri Radhelal Vyas.
13. Shri C. P. Matthen.
14. Shri J. B. Kripalani.
15. Shrimati Shakuntala Nayar.
16. Shri G. Ranga.
17. Shri R. M. Deshmukh.
18. Shrimati Pushpalata Das.
19. Shri Shyam Dhar Misra.
20. Shri P. T. Leuva.
21. Shri B. C. Ghose.
22. Shri J. V. K. Vallabharao.

SECRETARIAT

Shri S. L. Shakdher—*Joint Secretary.*

Shri V. Subramanian—*Deputy Secretary.*

---

\*Elected on the 5th September, 1956 *vice* Dr. Indubhai B. Amin resigned from the Lok Sabha.

## INTRODUCTORY

I, the Chairman of the Public Accounts Committee having been authorised by the Committee to present the Report on their behalf, present this Twenty-fifth Report on the "Import and Sale of Japanese Cloth".

2. The Public Accounts Committee (1952-53) observed from the Appropriation Accounts (Civil) 1947-48 (post-partition) and 1949-50 that Government had incurred a loss of Rs. 55 lakhs on the import and sale of Japanese cloth. They accordingly appointed a Sub-Committee to investigate into the whole matter.

3. An agreed statement of facts which was concurred in by the Comptroller and Auditor General was placed before the sub-Committee. The Sub-Committee held four sittings and examined the officials of the late Ministry of Commerce and Industry and Ministry of Finance. They came to the conclusion that a Judicial Enquiry should be held to fix the responsibility for entering into this transaction which had resulted in a loss of Rs. 55 lakhs to Government and for the delay in the disposal of the imported Japanese cloth and thereafter action should be taken against the officers who had failed to safeguard the interest of the Public Exchequer. The main Committee also endorsed this recommendation. The facts of the case as well as the recommendation of the Committee are contained in their Fourth Report which was presented to the House on the 20th February, 1953.

4. On the 11th August, 1953, the Minister for Commerce and Industry laid on the Table of the House a statement in connection with this matter. This statement contained the facts in a modified form and concluded that Government had decided "that there was no need for a judicial enquiry into the transaction, as they were fully convinced that such an enquiry was not likely to bring out any fresh facts." (This statement is printed as Appendix XXX of Volume II of the 15th Report). A copy of this statement was forwarded to the Committee of 1954-55 for consideration.

5. The above statement was referred to a sub-Committee ; the findings of the sub-Committee were adopted by the main Committee and are set forth in paras 76—79 of their Fifteenth Report. The Committee could see no convincing reasons in the statement warranting them to take a different view from that in their 4th Report.

6. The Ministry of Commerce and Consumer Industries forwarded to the Committee on the 29th January, 1957, a copy of a statement Appendix I which the Minister for Commerce intended to lay on the Table of the House in connection with the observations made by the Committee in paras 76—79 of their Fifteenth Report referred to in paragraph 6 above.

7. The Committee considered the above statement at their sitting held on the 22nd March, 1957, and examined the representatives of the Ministries of Commerce and Consumer Industries and Finance. The conclusions of the Committee are set forth in the following pages.

CONSIDERATION OF THE STATEMENT INTENDED TO BE LAID BEFORE THE LOK SABHA PURSUANT TO ACTION TAKEN BY GOVT. ON PARAS 76—79 OF THE 15TH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE RELATING TO THE 'IMPORT AND SALE OF JAPANESE CLOTH'.

8. The Committee observe from the statement referred to in para 7 above that,

(i) there was a serious shortage of cloth in the country during that period in 1946-47 with a *per capita* availability of only 11.25 yards; and as the price quoted for the Japanese cloth was reasonable and compared favourably with world prices of textiles and with the actual (black) market rate prevailing for indigenous cloth in India at the time when the transaction was concluded in April, 1947 there was no definite reason to apprehend a loss ; and

(ii) the reasons for the failure to sell the cloth in India arose later and could not have been foreseen at the time the transaction was finalised in April, 1947.

9. The Committee thought that the purchase of the cloth and its subsequent disposal should be considered separately in this case. Taking the purchase aspect first, the Committee desired to know why the Textile Commissioner, (i) did not comment upon the price at which the cloth was to be imported from Japan although Government while apprising him of the deal specifically had asked for his comments, (ii) did not communicate to Govt. the comments of the Chairman of the Textile Control Board discouraging the purchase; and (iii) did not consult his Financial Adviser regarding the price before sending his reply to Govt. ; but instead had asked from Govt. whether the import of the cloth was being arranged through Govt. or private channels. The Secretary, Ministry of Commerce informed the Committee that the Textile Commissioner was under a misapprehension as to the exact nature of the deal and, therefore, wanted to know first whether the purchase was going to be on Govt. account or private account before communicating his comments on the prices. He was expecting to have a further opportunity. The Ministry however, did not send a reply to him, but assumed that he had no comment to offer on the price. In extenuation, the Secretary observed that the officials in the Ministry seemed also to be under a misapprehension. When questioned about the relevancy of the query by the Textile Commissioner, the Secretary of the Ministry added that the only possible explanation was that if the deal were to be on private account, the Textile Commissioner would have left the decision to the party concerned; and if it were on Government account, he would not have recommended the purchase. Replying to a further question, the Secretary observed that normally one should have expected the reply from the Textile Commissioner to be complete and self-explanatory and that the Ministry too should have sent in a reply to the Textile Commissioner and obtained his specific comments on prices before finalising the deal. In his opinion there had been "lack of co-ordination" at the time between the Ministry and the Textile Commissioner which had led to the finalising of the purchase and the consequent loss.

10. As regards the omission on the part of the Textile Commissioner to consult his Financial Adviser about the prices on receipt of the communica-

tion from the Ministry, the Secretary admitted that the Financial Adviser was not consulted by the Textile Commissioner immediately but added that the Ministry did consult the Finance Ministry in Delhi before placing the order. In Reply to a question whether the Finance Ministry made any comments regarding the price, the Committee were informed by the Comptroller and Auditor General that the Finance Ministry had confined themselves to the foreign exchange aspect assuming that the Financial Adviser to the Textile Commissioner might have examined the price aspect. The Secretary of the Ministry however, added that the dealing Ministry as well as the Finance Ministry ought to have had with them information regarding the prices.

11. The Committee are distressed at the manner in which this deal had been entered into by Government. The Ministry not only had knowledge of the prices but were also apprised by the India Supply Mission, Washington that it might not be possible to reduce them. If so, the Committee could not understand the need for consulting the Textile Commissioner on the price aspect. Having made a reference, the Committee find it difficult to understand, why Govt. did not pursue the point with the Textile Commissioner. It is a pity that the Textile Commissioner had not referred at all to the price aspect in his interim reply although he was specifically asked to comment on this ; and it is regrettable that the officials in the Ministry presumed that the Textile Commissioner had no comments thereon and the Finance Ministry had acquiesced in this unwarranted presumption. The Committee are amazed at the manner in which the case has been processed in which proper co-ordination was lacking.

12. In the light of the facts now disclosed, the Committee are led to the impression that there might not have been any *mala fides* in this deal. In their opinion, the loss would not have occurred had there been proper co-ordination between the Textile Commissioner and the Ministry at Delhi. They, therefore, do not wish to press for a judicial enquiry.

The Committee would however, like to see that in order to prevent the recurrence of such cases in future, Government should devise suitable measures whereby close co-ordination is established between the Administrative Ministry and its subordinate offices handling transactions involving lakhs of rupees, on the one hand, and the associated Finance at the various levels, on the other, and no contract should be finalised merely by acting on assumptions and before all possible and foreseeable issues involving financial commitments have been fully considered.

13. As for the disposal of the cloth by re-exporting it, the Committee do not think it worthwhile to comment, as in the circumstances then prevailing, it was the only course to avoid greater losses.

14. The Committee were also informed that the firm to whom sum of this cloth had been sold and from whom a sum of Rs. 15 lakhs had been outstanding have been held liable by the arbitrator, to pay damages for breach of contract and that the amount awarded by the arbitrator (*viz.*, Rs. 5.9 lakhs plus costs and interest) has since been paid to Government.

15. The Committee place on record their appreciation of the assistance rendered to them by the Comptroller and Auditor General in the course of examination of this matter.

NEW DELHI,  
Dated, the 3rd April, 1957.

(V. B. GANDHI),  
Chairman,  
Public Accounts Committee.

## APPENDIX I

### MINISTRY OF COMMERCE AND CONSUMER INDUSTRIES

#### *Statement 'on Import and Sale of Japanese Cloth'.*

A statement was laid before the House of People by the Minister for Commerce and Industry on the 11th August, 1953, in connection with the Fourth Report of the Public Accounts Committee on the import and sale of Japanese Cloth. The Public Accounts Committee in paras 76—79 of their Fifteenth Report (1954-55) have made certain observations on the said statement and reiterated their former conclusion, namely that a judicial enquiry should be held into the transaction.

2. In the first place the Committee have stated that they are not convinced that the shortage of cloth in the country was so serious as to necessitate import irrespective of price considerations.

3. The point was dealt with in some measure in the previous Statement. The production of mill-made cloth had declined from 4826 million yards in 1943 to 4002 million yards in 1946 and to 3836 million yards in 1947 giving a per capita availability of only 11.25 yds. There can be no doubt, therefore, that at this particular period, 1946-47, there was a serious shortage of cloth in the country, and as a result the actual prices of cloth what may be called the black market rates ranged from 55% to 150% over the control prices. In the case of grey sheeting for instance, which was one of the principal varieties imported from Japan the actual market prices were -/12/- to -/14/- per yard as against a control price of 0-6-1 to 0-6-7.

4. The Japanese prices prevailing at that time were reasonable when compared to World prices, and what was more, when compared to the actual market rate prevailing for Indian cloth in India. While the market rate for Indian grey sheeting ranged between -/12/- to -/14/- the landed cost of the Japanese cloth was between -/12/6 and -/13/9. It cannot be stated, therefore, that at the time the transaction was concluded—April, 1947, there was any definite reason to apprehend a loss.

5. Secondly the Committee has commented on the fact that though the cloth was intended to meet the internal requirements of the country, not a single yard was actually sold in India and have stated that this shows the whole deal was arranged in a short sighted manner. The reasons for the failure to sell the cloth in India arose later and could not have been foreseen at the time the transaction was finalised in April, 1947. Owing to shipping difficulties the first consignment reached India only in October, 1947. Meanwhile our dollar exchange position had deteriorated. It may be mentioned that with a view to earning foreign exchange, although the off-take for Defence requirements was high and supplies for Civil consumption correspondingly low, we had continued to export cloth in fairly large quantities right through the War years and later. In 1945, we exported 600 million yards of cloth and in 1946, 400 million yards. For the same reason an export quota of 300 million yards of cloth had been fixed for 1947 and distributed on a destination basis. It was decided that the Japanese cloth could be earmarked

for this export which would result in a corresponding saving of Indian cloth for internal consumption. Our own cloth position had become slightly easier. The Defence off-take fell from 80 million yards in 1946 to 20 million yards in 1947 and 26 million yards in 1948. Cloth production by our mills in 1948 was 4319 million yards as compared to 3836 million yards in 1947. It was evidently not felt necessary, therefore, to reduce the export quota which would bring in much needed Foreign exchange, while the imported Japanese cloth could be earmarked for export, and our supplies for the home market increased correspondingly.

6. In the third place the Committee has referred to the proceedings against the Firm, Messrs Banwari Lal & Co., and urged that the period of Arbitration which has been extended upto January, 1956 should not be extended any further. The Arbitrator gave his decision in this case in November, 1955 awarding to Government a sum of Rs. 5.9 lakhs as damages and also costs of Rs. 10,000/-. The question of further extension does not, therefore, now arise.

7. In the circumstances set out above, Government consider that there is no need to revise their previous decision that no judicial enquiry is necessary in this case.

NEW DELHI,  
*Dated the 24th January, 1957.*

## APPENDIX II

*Summary of the Main Conclusions/Recommendations of the Twenty-fifth Report of the Public Accounts Committee on the Import and Sale of Japanese Cloth.*

Serial No.	Para No.	Ministry concerned	Conclusions/Recommendations
1	2	3	4
1	11	Commerce and Industry . <u>Finance.</u>	The Committee are distressed at the manner in which the deal relating to the purchase of the Japanese cloth had been entered into and processed without proper co-ordination. The Ministry had knowledge of prices and information from the India Supply Mission, Washington that the prices quoted might not be reduced. The Committee therefore, could not understand the need for the Ministry to consult the Textile Commissioner on the price aspect and having consulted, not pursuing it with him when he had not referred to this aspect although he was specifically asked to comment on it. The presumption of officials in the Ministry that he had no comments and the Finance Ministry acquiescing in it is regrettable.
2	12	Commerce and Industry .	In the light of the facts now disclosed the Committee are led to the impression that there might not have been any <i>mala fides</i> in the deal. In their opinion the loss would not have occurred had there been proper co-ordination between the Textile Commissioner and the Ministry. They, therefore, do not wish to press for a judicial enquiry.
		Do.	
		<u>All other Ministries.</u>	The Committee would, however, like that in order to prevent the recurrence of such cases in future, Government devise suitable measures whereby close co-ordination is established between the Administrative Ministry and its subordinate offices handling transactions involving lakhs of rupees, on the one hand, and the associated Finance at the various levels, on the other. No contract should be finalised merely by acting on assumptions and before all possible and foreseeable issues involving financial commitments have been fully considered.

