# COMMITTEE ON PUBLIC UNDERTAKINGS (1974-75)

(FIFTH LOK SABHA)

# SIXTY-EIGHTH REPORT

# COTTON CORPORATION OF INDIA LIMITED

(Ministry of Commerce)



## LOK SABHA SECRETARIAT NEW DELHI

April, 1975/Chaitra 1897 (S)

Price: R. 3.66

# CORRIGENDA

SIRTY EIGHTH REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (FIFTH LOK SABMA) ON COTTON CORPORATION OF INDIA LIMITED

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# COMMITTEE ON PUBLIC UNDERTAKINGS (1974-75)

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- 4. Shri K. Gopal
- 5. Shri Krishna Chandra Halder
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- 7. Shrimati Sheila Kaul
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- 12. Shri C. K. Jaffer Sharief
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1

22. Pandit Bhawani Prasad Tiwary

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- 2. Shri M. A. Soundararajan-Chief Financial Committee Officer
- 3. Shri K. S. Bhalla—Senior Financial Committee Officer

<sup>\*</sup>Blected w. e. f. 28-11-1974 in the vacency caused by appointment of Shri H. M. Trivedi as Minister.

# COMPOSITION OF STUDY GROUP ON COTTON AND TEXTILE OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1974-75)

- 1. Shri S. G. Sardesai-Convener
- 2. Shri C. K. Jaffer Sharief-Alternate Convener
- 3. Shri Vasant Sathe
- 4. Shrimati Roza Vidyadhar Deshpande
- 5. Shri K. Gopal
- 6. Shrimati Sheila Kaul
- 7. Shri Digvijaya Narain Singh
- 8. Shri S. S. Mariswamy
- 9. Dr. Sankta Prasad

#### INTRODUCTION

- I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report, on their behalf, present this Sixty-eighth Report on the Cotton Corporation of India Limited.
- 2. This Report is based on the examination of the working of the Cotton Corporation of India Ltd., upto the year ending 31st August, 1974.
- 3. The Committee took evidence of the representative of the Maharashtra Cotton Growers' Sangh on 17th September, 1974, the representatives of the Cotton Corporation of India Ltd., on 18th and 19th September, 1974, the representatives of the Ministry of Commerce on 13th December, 1974 and along with the representatives of the Ministries of Industry and Civil Supplies, Agriculture on 10th January, 1975.
- 4. The Report was considered and adopted by the Committee on 22nd April, 1975.
- 5. The Committee wish to express their thanks to the Ministries of Commerce, Industry and Civil Supplies, Agriculture/non-official organisations and the Cotton Corporation of India Ltd. for placing before them the material and information they wanted in connection with the examination of Cotton Corporation of India Ltd. They wish to thank in particular the representatives of the Ministries/Undertaking/Non-official organisation who gave evidence and placed their considered views before the Committee.

New Delhi; April 28, 1975 Vaisakha 8, 1897 (S) NAWAL KISHORE SHARMA, Chairman,

Committee on Public Undertakings.

#### INTRODUCTORY

### A. Historical Background

Till the commencement of World War II supply of cotton waslargely left to free market forces, although the then Indian Cotton Committee had taken certain steps towards increasing production and stabilising prices. With the commencement of war there was very great demand for textiles to meet defence requirements. Import of cotton had its own difficulties. Consequently there was scramble for available indigenous cotton and therefore the prices started rising. In order to ensure that the farmer got his fair share of the price and to maintain the prices of cotton at reasonable level, a system of 'floor' and 'ceiling' prices was introduced by Government. This system had imparted the necessary stability and impetus to cotton prices and production. However, when the system outlived its utility there was unanimous demand from the growers, trade and industry to do away with it. From 1-9-1967 the system of 'floor' and' 'ceiling' prices was replaced by one of support prices alone to ensure that the farmer got a minimum return for his in-puts. system also implied that if the cotton prices fell below the support level Government would step in and purchase cotton to prevent distress sales. In order to improve the overall position of corton Government had taken the following measures:

- 1. Regulation of movement of indigenous cotton.
- 2. Regulation of prices of cotton.
- 3. Regulation of stock limits in respect of cotton held by the mills.
- 4. Restrictions on credits and margins for trade and mills in respect of cotton cloth yarn and cotton; and
- 5. Regulation of imports of cotton.

In spite of these measures there used to be volatile fluctuations in prices. Imports had to be arranged to bridge the gap between availability and consumption of cotton.

1.2. The Agricultural Prices Commission, while submitting its reports on cotton psice policy from year-to-year had, inter ulia, recommended the establishment of an agency in the public sector

for the purchase, sales and equitable distribution of cotton and also for such an agency serving as a vehicle for handling cotton imports. The Ministry of Food and Agriculture had also appointed a Committee to go into the question of undertaking buffer stocking in cotton.

Accordingly, the question of taking over import trade as well as domestic cotton trade was considered in all its aspects by an adhoc committee appointed by the Ministry of Foreign Trade in the month of October, 1969. The Committee recommended that the agency for canalising of import of cotton and for purchase and sale of domestic cotton should be a full-fledge independent Corporation in public sector—The Government accepted the recommendations and accordingly the Cotton Corporation of India (entirely owned and Controlled by the Government) was incorporated on 31st July, 1970 under the Indian Companies Act with Headquarters at Bombay.

1.3. The Minister for Foreign Trade in his statement made in Lok Sabha on 31st July, 1970 regarding the establishment of the Corporation stated *inter alia* as follows:—

"In effecting purchases and concluding contracts the Corporation will draw upon the experience of those who have been engaged in this trade in the past. In order to be able to provide such services the Corporation will enrol the private indenting houses as its associates and will work out with them the terms and conditions of which their services will be utilised. The corporation will gradually develop its technical competence so that its independence on associates is reduced over a period of time.....In the field of domestic trade the Corporation will make a begining with undertaking purchases for certain special objectives. The growers of cotton will be assured of an agency which will give them the necessary price support. more enterprising cultivator growing the new variety will have an agency to buy the extra long staple cotton at fair In the process we will also be setting up an agency with the necessary expertise for procuring the cotton for the mills under the purview of the National Textile Corporation. The Corporation would also be prepared to assist private sector mills in their programme of cotton purchases."

### B. Role and Objectives

1.4. The Cotton Corporation of India, Limited started functioning from 1st September, 1970. According to Memorandum and Articles of Association, the following are the main objectives:

- (1) To purchase, sell and otherwise dispose of and deal in raw cotton imported from outside India.
- (2) To purchase cotton grown in India and to sell and otherwise dispose of and deal in such cotton.
- (3) To purchase, sell and otherwise dispose of and, deal in 'Kapas' or unginned cotton as the Central Government may direct from time to time.
- (4) To generally implement such special arrangement for imports or internal trade or distribution of raw cotton as the Central Government may specify from time to time in public interest.
- (5) To organise and undertake purchase, sale and transport of cotton (imported into or grown in India) and/or kapas including such allied duties as may be entrusted to the Company for such purpose by the Central Government from time to time in India or anywhere else in the world.
- (5a) To organise and undertake, purchase, sale and transport of natural and/or man made fibre or fabrics of any kind whatsoever (imported into or produced in India) including such allied duties as may be entrusted to the Company for such purpose by the Central Government from time to time in India or anywhere else in the world.
  - (b) To undertake purchase, sale, transport and distribution of yarn of all counts and description produced out of cotton or other natural and or man-made fibre either on its own or as agents of any State Government(s), Central Government or any other organisation in or outside Inida, including such allied duties as may be entrusted to the Company from time to time.
  - (6) To generally carry on business as exporters and importers of cotton.
- 1.5. The Ministry of Commerce in a written reply stated that the principle objectives of setting up the Cotton Corporation of India were:—
  - (i) to act as a canalising agency for import of cotton;
  - (ii) to act as the agency for price support operations on behalf of Government of India, as and when necessary.
  - (iii) to purchase cotton for supply to mills in the public sector;

- (iv) to provide a ready market to growers of long staple varieties which were being developed as a masure of import substitution:
- (v) to undertake further operations to the extent possible in the domestic cotton market so as to meet the needs of private sector cotton textile mill.
- 1.6. In regard to fulfilment of obectives, the Ministry stated that:—
  - "So far as the first objective is concerned, this has been fully achieved by the Corporation.....Starting with 27 per cent of the imports in its first year of operation the Corporation increased the proportion of the total import directly handled by it to 80 per cent during 1973-74.
  - In the matter of providing cotton for Government—Managed mills, the Corporation has had limited success, principally on account of paucity of funds with the mills as well as the Corporation......
  - In so far as price support operations of the Corporation are concerned, the only occasion when this became necessary was during 1971-72, cotton year in the wake of a bumper cotton crop coupled with depressed market condition following Indo-Pak hostilities. In that year, nearly 5 lakh bales of cotton at an outlay of Rs. 56 crores were purchased, at prices fixed by the Government. As a rule, market prices have ruled well above support prices recommended by the Agricultural Prices Commission and the need for undertaking support price purchases by the Corporation has not arisen. From the Corporation's record of work during 1971-72 season, it can be stated that this object has been duly discharged by the Corporation.
  - The next objective relates to purchases of cotton of long and extra long staples to encourage farmers cultivating these varieties, keeping in view the import substitution angle involved. The cultivation of long staple cottons such as Hybrid 4, MCU5, Shankar-4 etc. has picked up considerably since 1971-72 from about 1.5 lakhs bales to over 8 lakh bales. The purchases made by the Corporation in 1971-72 included a substantial share of available longer staple cotton. During 1972-37, market prices themselves ruled high vis-a-vis those of 1971-72 season and growers of all varieties including those of long staples received remunerative prices...... The high prices, coupled with the higher yields of Cotton per hectare have provided growers

with very good incomes. As such there has not been any special need for Cotton Corporation to mount any special market operations to achieve this purpose.

- \*Finally, so far as making further purchases for meeting cotton requirements of other mills in the private sector is concerned, this has been done to a limited extent, within the constraints of available bank credit accommodation from year to year. Among the functions defined in the Cabinet decision setting up the Corporation, the one relating to market purchases for catering to private sector mills has been given lowest priority."
- 1.7. During evidence, the representative of CCI informed the Committee that according to Articles of Association of the Corporation. CCI was under obligation both to growers and consumers regarding (i) stabilisation of prices and (ii) payment of remunerative prices to growers. The CCI had been able to achieve its objectives only to a very limited extent because of want of finance.
- 1.6. When the Committee pointed out that Articles of Association and Memorandum of the Corporation do not make any reference to the objective of giving the growers a remunerative price or to the stabilisation of prices, the representative of CCI stated that there were administrative decisions. While purchasing cotton, CCI had to ensure the payment of remunerative prices, although no provision had been specifically made in the Articles of Association. He, however, agreed that a specific mention in the Article was necessary.
- 1.9. The Ministry of Commerce further stated that though the Memorandum and Articles of Association of Cotton Corporation of India did not explicitly include the objectives of ensuring remunnerative prices to the farmers and stabilisation of price of cotton for general welfare of consumers, in practice, the need for providing remunerative prices to farmers which would sustain their interest in cotton production as also the need for maintaining stability in cotton prices in the interest of caterng to domestic and export markets effectively had emerged as two of the basic planks of the Governments cotton price policy.
- 1.10. Asked whether the Government had considered enlarging the objectives to meet the administrative decisions regarding (i)

<sup>\*</sup>At the time of fictual verification the Cotton Corporation of India Ltd. informed as follows:—

<sup>&#</sup>x27;It may be mentioned that most of the Cotton purchased by the Corporation during the last four years was sold to private mills."

stabilisation of prices; (ii) payment of remunerative prices to growers, the Ministry of Commerce stated in a written reply that once a view had been taken on Commerce Ministry's proposal to utilise the Cotton Corporation of India as the principal agency to achieve the above policy objectives, there would be no difficulty in amending the Memorandum and Articles of the Corporation to explicitly provide for these aims and objectives. The Ministry's proposals in this behalf had already been submitted to the Committee of Secretaries appointed to examine the integrated policy of the Cotton Textile Industry. A further note was under submission to the Cabinet wherein Cabinet's approval of the Corporation's role would be solicited.

- 1.11. In regard to the enlargement of the Corporation's activities, the representative of the Ministry stated during evidence that—
  - "We have some policy formulations which are still under consideration of the Government. But we have been able to procure somewhere near 5 per cent of the total crop. I think the ideal situation, in our opinion, would have been if the Corporation were able to buy somewhere around 20 per cent of the crop instead of 5 per cent because then we would have fallen short of the objectives only to a very little extent."
- 1.12. Asked about the constraints difficulties faced by the Corporation in achieving their objectives, the Management of CCI stated in a written reply that the only major constraint which the Corporation had been facing was non-availability of adequate financial resources. Apart from the same, the imperfections such as absence of regulated markets, absence of open auction system in the regulated markets in some of the areas had created some difficulties for the Corporation to make purchases. These fell within the jurisdiction of the State Governments who had been requested to take necessary corrective measures so that the role of the Corporation could be more helpful.
- 1.13. The Management added that the above constraints difficulties had been brought to the notice of the Central as well as State Governments. While the Central Government had been able to accept the suggestion to increase the share capital by Rs. 50 lakhs, this was too inadequate to the extent of operations expected of the Corporation. Further, because of the credit policy of the Reserve

Bank of India, the lending commercial banks insisted on the Corporation maintaining a margin of 25 per cent in respect of borrowings of the Corporation. The limited share capital of Rs. 1 crore, or, for that matter even the enhanced share capital, would be too meagre to provide for the margin requirements of commercial banks. In fact the Corporation had requested the Government of India to provide for bank guarantee to the extent of Rs. 75 crores so that the Corporation would be able to borrow from the commercial banks on the basis of such a guarantee. But even this guarantee had not yet been given to the Corporation. The State Governments had assured to take measures to improve the marketing infrastructure in different areas as requested by the Corporation.

- 1.14. When asked about action taken by the Government remove the difficulties faced by the Corporation, the Ministry of Commerce stated in a written reply that the difficulties faced by the Corporation in achieving their objectives as brought to Government's notice so far related to inadequacy of bank credit accommodation with the help of which the Corporation's domestice purchases could be enlarged. During 1973-74 season, the Corporation asked for credit of Rs. 150 crores and though initially the Ministry of Finance appeared to be agreeable to release upto Rs. 100 crores for the Corporation, in actual practice only Rs. 37 crores were provided. Similarly during 1974-75 season, the Corporation estimated its credit requirements at Rs. 200 crores and this was taken up by the Commerce Ministry with the Ministry of Finance. upto the present time, the Reserve Bank of India had only allowed a credit line of Rs. 10 crores to the Corporation, as in the Reserve Bank's view larger purchases by the Corporation were not called for in the present economic situation.
- 1.15. With regard to the CCI's proposals for increasing its share capital to Rs. 11 crores and for a Government guarantee for Rs. 75 crores, the Ministry of Commerce stated that the request of the Cotton Corporation of India was mooted during 1973-74 cotton year in the context of the Corporation's plans to purchase a much larger volume of cotton in the domestic market than hereto-fore. While Commerce Ministry had been of the view that the market operations of the Corporation should be substantially enlarged and further financial resources should be provided to it, this view had not so far been shared by the Ministry of Finance. Authoritative decision was being obtained from the Cabinet on the role of the Cotton Corporation of India. Once that decision was available, the provision of additional funds to the Corporation could be made.

1.16. When asked as to how the Corporation could play an effective role in reaching its objectives without sufficient funds and whether it would be useful to continue the Corporation, the representative of the Ministry stated during evidence that—

"We are seeking a clear direction in this matter, from the highest body viz. the Cabinet.... The direction sought are in terms of the scope and nature of the functions of the CCI which should prevail in future. There are 3 or 4 aspects.... One aspect of our thinking relates to its role in the domestic trade in cotton. We want that the Corporation should achieve what you might call a commanding position in the cotton trade as early as possible.

The Ministry does not propose to wind up the Corporation; that is not going to be pleaded for, in any proposal that we are going to make.... The Corporation has got 3 or 4 activities which, we feel, will be sustained under any circumstances. One is the import activity. Whenever there is an import programme, the Corporation will have that item of work to do; and this, of course, will continue. Whenever we work out some arrangements with the National Textile Corporation, hopefully they will be able to purchase from there. If and when the prices should fall below the levels fixed by the Agricultural Prices Commission—this cannot be ruled out, although it has not happened or may not happen-Government would require an agency to purchase cotton from the growers. The Cotton Corporation would always have to exercise this role. Last comes the open market purchases of the CCI which are in difficulty and which are now taking place only on a limited plane. We will have to take orders on this point from the highest body. On the other points, there is no difficulty; and the position is clear."

1.17. Asked as to the Ministry's thinking about assuring adequate credit facilities to make the Corporation effective in the market, the witness replied that—

"This part of the question does relate, in fact, to the aspect (I had mentioned) viz., the Corporation being effective in playing its role in the domestic market. The other roles are possible of implementation without any great difficulty. For the import programme and purchases on

behalf of the NTC, the Corporation can always buy, if the NTC mill gives money to the Cotton Corporation. Similar is the case in regard to price support when the price falls below the one fixed by the Agricultural Prices Commission."

- 1.18. When the Committee pointed out that in that case, the twin objectives of the Corporation would not be fulfilled completely, the witness stated that—
  - "Yes; it is correct. The effective role in regard to domestic market as a whole and not in terms of the other objectives—cannot be played effectively,—according to us and we maintain it—unless the Corporation is provided with sufficient funds. We have been saying this at every opportunity, to the Ministry of Finance and others concerned; but it has not been found possible, because, perhaps, of financial constraints, to accept this."
- 1.19. During evidence, the Secretary of the Ministry of Commerce informed the Committee that—
  - "As I have already stated, the Commerce Ministry's objective is certainly to see that the Cotton Corporation gets into the market and does buy and with that view we have asked for the credit limit to be extended upto Rs. crores but due to overall considerations, it was not accepted by the Government. But we have not given it up and it is not that we have said that we will wash our hands of this. We are still having another paper on this subject of further redefining the role of the Cotton Corporation in the present context of things where certain new dimensions are going to be added like NTC buying the cotton in the market and this credit squeeze—how long will it continue we do not know. This is a new dimension which is coming into the picture. It was not there earlier. After all with the small Rs. 10 crores credit we cannot do anything. We cannot even dare to enter the market. So we are going to ask the Government to define our role whether we want this body set up by the Government for a specific purpose to remain idle for some time more or to give some additional work to them for the benefit of the Government."

#### He further stated that-

- "We have prepared a paper for an inter-ministerial committee which generally operates on this subject under the Chairmanship of the Cabinet Secretary. We have only thrown up these problems and brought it to their notice whether (1) the role needs to be redefined and if so, the directions in which the redefinition should be considered, There has been some discussion on this and we would like to recast that note in the light of the earlier discussions on the subject which we had. I think the next step will be to put it up before one of the Cabinet committees which we propose to do...."
- 1.20. The Committee note that though CCI was set up with the Principal objectives of (i) acting as the agency for price support operations (ii) purchasing cotton for supply to mills in the public sector and (iii) undertaking purchase of domestic cotton on its own and selling it to mills, according to Corporation and Government, the twin objectives of Corporation were payment of remunerative prices to the farmers and stabilisation of prices of cotton for general welfare of consumers. The Committee were informed that these were based on administrative decisions of Government, who have felt the need for providing remunerative prices to farmers for sustaining interest in cotton production and also the need for maintaining stability in cotton prices in the interest of catering to domestic and export market effectively.
- 1.21. The Committee regret to point out that though the Corporation and Government claim that these are the twin objectives of the Corporation, these do not find a specific place in the Memorandum and Articles of Association of the Corporation. The Committee were informed that the Ministry had already submitted proposals for enlarging the objectives of the Corporation to cover these aspects to the Committee of Secretaries appointed to examine the integrated policy for the cotton textile industry and a further note is under submission to Government wherein approval of the Corporation's role would also be solicited.
- 1.22. The Committee find that inspite of their recommendation in the 40th Report on 'Role and Achievement of Public Undertakings' wherein they recommended that the role and objectives should be clearly defined, Government had not so far taken a decision in this regard. The Committee recommend that the Government should come to an early decision about the role and objectives of the Corporation in specific terms, and include them in the Memorandum and articles of Association without further delay.

- 1.23. The Committee also regret to note that the undertaking had not been able to fulfil effectively its role of purchasing cotton in the domestic market due to non-availability of adequate finances.
- 1.24. The Committee find that as against its credit requirements of Rs. 300 crores in 1973-74, it got only Rs. 30 crores and as against its credit requirements of Rs. 200 crores for the year 1974-75, the Corporation was allowed a credit of only Rs. 10 crores which according to CCI is too inadequate even to enter the market, much less to carry out all its objectives.
- 1.25. In the opinion of the Committee the Corporation cannot achieve the two laudable objectives of ensuring remunerative prices to farmers and stabilising cotton prices for general welfare of the consumers and play a dominent role in cotton trade unless it is assured of adequate resources well in advance of the cotton season.
- 1.26. The Committee recommend that Government should take an early decision about the role of the Corporation, define its aims and objectives in specific terms, provide adequate finances to subserve the needs of the Corporation in discharging the role and objectives. The Committee would like Government to take all necessary measures to ensur that the sudden extension of financial resources on a large scale really subserve the twin objectives of giving a remunerative price to cotton growers and make available cotton to the textile industry (Public Sector) at reasonable prices in the interest of general consumers. There is need for taking every precaution in this behalf as there have been serious allegations in recent months about the working of the Corporation.

#### COTTON SITUATION

# Assessment of cotton production and Market Intelligence

At present the Government of India collect data on cotton production from the State Governments. The State Governments have a machinery in the agency of local revenue officials, such as patwaris, lekhpals, talatis etc. (in some States) of the Revenue Department to collect data on area under different crops through field to field enumeration in all villages in kharif, rabi and summer season. The cotton crop is not important in the States of West Bengal, Kerela and Orissa. The perhectare yield of cotten is obtained on the basis of crop cutting experiments by the random sampling technique in most of the States through the staff of the State Departments of Revenue/Agriculture/Development.

- 2.2. The trade prepares estimates of cotton production from time to time starting from the beginning of the season. These estimates are framed by the trade on the basis of reports from the local staff and agencies in growing areas, arrivals, ginning and pressing returns, etc. In the initial stages, the estimates by the trade which are generally around the previous year's production figure or slightly different from it, are based on enquiries by the local staff from cotton merchants. These estimates are revised as the season advances, on the basis of further reports and limited information on rainfall and its distribution. After the crop is harvested, the trade estimates are influenced by the quantum of arrivals in the market. At the end of the season, the pressing figures are used for framing production estimates. These are also subjective, as they are in terms of running bales which are, in many cases. lower than the standard bale of 180 kgs. Trade considerations also vitiate the reliability of the estimates. Since these estimates are not based on any scientific method and cannot be considered as unbiased, the Ministry of Agriculture and Irrigation do not place much reliance on these estimates.
  - 2.3. In so rar as CCI is concerned the Regional Managers of the Corporation send weekly reports of their activities and also on the

crop position in their region. However no specific estimates of production have been attempted by the Corporation as yet and the data made available by the Directorate of Cotton Development, the Textile Commissioner's office and the East India Cotton Association have been made use of by the Corporation. The management of the Corporation stated in a written note that an independent assessment of the production of cotton would be more desirable and with that end in view, the operations Research Group of Baroda which had been estimating production of oilseeds during the last several years with only 1 per cent. variation from the actual, had been requested to suggest to the Corporation methods for estimating production of cotton in the country.

2.4. The following table gives the estimated final figures and the extent of purchases by the CCI during the last four years:—

Year					Trade esti- mate of cotton prodn. (in lakh bales)	Final esti- mate * (in lakh bales)	Total pur- chases by CCI	Percentage of pur- chases to total
								Prodn.
1970-71				•	56. 50	55.988	8,339	0.12
1971-72					73 · 50	65 · 640	5,17,364	7 · 88
1972-73				•	65 · 70	54 · 886	3,88,433	7.07
1973-74					69.00	60.000	3,24,805	5.41

<sup>2.5.</sup> The Committee desired to know as to why there was difference in the estimates of cotton production made by the Government and the Cotton Trade. The Management of CCI stated in a written reply that—

"Cotton crop estimates are made right from the time of sowing of cotton seed. The same are revised in the light of the weather conditions, rain fall, growth of crop etc. As the estimated production of cotton directly affects the supply position, the estimates of cotton crop acquire considerable importance in determining the price level. On many

<sup>\*</sup>At the time of factual verification the Dte of Economic & Statistics (Department of  $A_n$  rigulture informed as follows:

<sup>&</sup>quot;Figures for 1977-71, 1972-73 and 1973-74 should read as 44.988, 54.168 and 55.192" lakh hales respectively."

occasions, therefore, while the estimates of cotton production made by the cotton trade are likely to be motivated the estimates of cotton production made by the State Government on the basis of data collected from various sources are likely to be impartial, based upon their field information. Besides, the Government is a dis-interested party in so far as trading of cotton is concerned.

This is essentially the main reason why there are wide diffferences in the estimates made by the Government and the cotton trade. Secondly as stated above, the estimates of cotton production are made right from the time of sowing of cottonseed and the cotton production in India essentially being dependent on the vagaries of nature, the estimates are subject to frequent changes depending upon the climatic conditions.

In a country like the United States, arrangements have been made to broadcast correct estimates of cotton crop right from the data of sowing by entrusting the work to a special machinery created for the purpose. It is necessary that a similar machinery should be established in India for arriving at the correct estimate of cotton crop each year."

# 2.6. During evidence the Managing Director of CCI stated that:-

"It is very difficult to implement the American system here. In the States, each farmer has to notify his intentions of plantation in a proforma to the Department of Agriculture. Then he intimates his actual plantation, There are two estimates. First is total intended plantation and after actual cultivation, they issue another estimate. How much of the intentions have been translated into action is indicated in the 2nd estimate. This is a statistical exercise, which the USA, Department of Agriculture, has been doing. They issue the third estimate on 12th August every year. This is based on actual crop reports as received from all the cotton growing units and compiled in the Department of Agriculture. We have studied their system. The point is that our reporting system from the villages is not that active so that we can collect this information and compile this within a period of one month on a national level.

What the Ministry here are doing is, they receive reports from the State Governments indicating their estimates of the likely cotton crop in their respective States. This is not base on the actual cultivators' acreage. There is considerable difference between the views and opinions given by the State Governments, and the final figures that emerges out from the actual crop."

2.7. He added that it was a function\* of the Agriculture Ministry or some other Ministry to take over that work. CCI was a commercial organisation and it could not take up such work.

The Managing Director further stated that-

"On estimates, I shall tell you something more. In all our operations, in all calculations, we are confronted with the difficulty of wrong forecast of crop. So we were considing if we could have a mechanism by which a fairly correct and workable estimate of cotton crop could be obtained. The Hindustan Lever which buys a substantial portion of groundnut crop have established such a system by operations research method, statistical method, under which they survey 6,000 farmers in one month and estimate the groundnut crop every year before the season. Their estimates have been 99 per cent. Correct in the last 15 years. So we contacted these people and have enquired if they could undertake a similar job for cotton crop. The Sarabhai Group of Operations Research at Baroda undertakes a similar survey for Government of India and other States. We are now in touch with them. The only point is that they are asking for very high fees for doing this job."

2.8. In this connection, the Ministry of Commerce in a written reply stated that Government in the Agriculture Ministry made

<sup>&</sup>quot;At the time of factual verification the Dte. of Economics & Statistics (Deptt. of agriculture) informed as follows:—

<sup>&</sup>quot;It is relevant to mention that a wance estimates of production of cotton are already being framed in the Ministry of Agriculture mainly for internal use though the scheme for timely reporting of estimates of area and production of Principal Crops and the scheme for improvement of crop statistics."

periodical assessment of cotton crop on the basis of crop cutting experiments. The first\* estimates regarding the size of the crop were made available in December-January, the next in March-April and finally the last in May-June. The last estimate was supposed to be the most accurate.

- 2.9. The crop estimates prepared by the Ministry of Agriculture had generally been on the lower side compared to the figures reported by giving factories and the cotton trade.
- 2.10. Elaborating the system of gathering market intelligence and making cotton crop assessment, the Ministry of Commerce further stated:
  - "Cotton Corporation of India gathers market intelligence through its regional and sub-regional offices in different parts of the country. The staff of these offices also try to gain an idea about crop prospects by keeping in touch with the State Departments of Agriculture and local tural Marketing Committees C.C.I's Marketing Division is also in close touch with important cotton markets and spot prices are ascertained on a daily basis. While the arrangements for market intelligence can be considered factory, so far as crop forecasts are concerned, the Corporation has to rely on reports of the Agriculture Ministry and the State Departments of Agriculture. In addition, the Corporation also takes into account the assessment regarding the crop by the cotton trade. The Corporation cannot be expected to make an independent assessment of the crop position because of the widely dispersed cotton farming pattern covering I1 cotton growing States."
- 2.11. The Committee regret to note that the Corporation has not so far attempted any specific estimates of cotton production in any particular year, although it realises the need for a mechanism to make a fairly correct and workable estimate of cotton crop. The Corporation has been relying only on the reports of the Ministry of Agriculture and the State Departments of Agriculture and has also been taking into account the assessment by the trade.

<sup>\*</sup> At the time of factual verification the Dte. of Economic and Statistics (Deptt. of Agriculture) informed as follows:—

<sup>&</sup>quot;The Ministry of Agriculture makes periodical assessment of cotton crep on the basis of enumeration of area and crop cutting experiment. The first estimate giving area under the crop is due in August and the fifth and final estimate giving both area and production of the crop in May. Three estimates giving area under the crop are released in between."

- 2.12. The Committee were informed that the Agriculture Ministry made periodical assessment of cotton crop on the basis of reports received from State Gevernments but the estimates prepared by the Ministry had been on the lower side compared to the figures reported by ginning factories and the cotton trade. The crops estimates given out by the trade were also stated to be higher than the actuals and according to the Corporation the higher trade estimates are likely to be motivated.
- 2.13. The Committee were informed that the Hindustan Lever has established a system under which its estimates of groundnut crop have been 99 per cent correct during the last 15 years and that the Operations Research Group of Baroda has been estimating production of oilseeds during the last several years with only 1 per cent variation from the actuals. If these two agencies can evolve on almost perfect system of estimating production of groundnut and oilseeds, the Committee feel that it should not be difficult for the Government having a vast network of agencies to evolve a system of arriving at reasonably accurate estimates of cotton crop from year to year.
- 2.14. The Committee find that at present estimates of cotton production are done by the Agriculture Ministry while the Cotton Corporation is under the Commerce Ministry. The Committee recommend that there should be greater coordination between the Ministries of Agriculture and Commerce so that accurate and objective estimates of cotton are available to CCI in time to enable the Corporation to plan its procurement operations as realistically as possible.

#### PURCHASE OPERATION

#### A. Support Price

The Government of India notify support prices for different varieties of cotton grown in India, based on the prices worked out by the Agriculture Prices Commission. While fixing such prices, the views of the representatives of the cotton growers, Textile Commissioner and of textile industry are teken into account. These prices are reviewed every year with reference to cost of inputs, yield and other factors making an allowance for a reasonable margin of profit to the Cotton growers. The Cotton Corporation purchases kapas in various markets in open auction in competition with private trade and mills at ruling market prices.

- 3.2. The support prices were not notified during the years 1971-72 and 1973-74. The details of support prices for Kapas for the year 1972-73 were however notified by the Government of India in January, 1973.
- 3.3. Asked when the Government generally notify the support prices for the different varieties of cotton and whether the prices for 1974-75 had been notified, the Ministry of Commerce stated in a written reply that it was a part of Government's policy to notify support prices for different varieties of cotton at the commencement of each season. For the 1972-73 season, support prices were announced in January, 1973. In the 1973-74 seasons support prices were not announced at all because of an initial delay in furnishing proposals for approval of the Cabinet and the consideration that it would not be of much practical significance to announce prices which were much lower than ruling market prices during the season. Support prices for 1974-75 had not been notified till 1st January, 1975. The recommendations of the Agricultural Prices Commission had been processed and would be placed before the Cabinet very shortly.
- 3.4. Asked about the fixation of ceiling prices in respect of Kapas, the Management of CCI stated in a written reply that no ceiling prices were fixed either by the State Government or by the Central Govt. in respect of purchases of kapas.

- 3.5. In a note furnished to the Committee, the Management of CCI stated that the Cotton Corporation had no say in the matter of fixation prices of the different varieties of cotton except for the year 1971-72, when the prices of cotton had shown a continuous downward trend causing serious concern amongst the cotton growers. During that year the Government fixed procurement prices at which the Corporation was directed to effect purchases to alleviate the sufferings of the Cotton growers. Generally the Government fixed only the minimum support prices. The actual levels of prices were therefore, determined by the natural market forces of demand and supply. The Corporation had been purchasing at ruling market prices in different centres.
- 3.6. During evidence the Committee enquired whether the Corporation had any occasion in the last two years in any State to operate the floor price, the Managing Director replied:—

"No, Sir; the market prices have been higher."

- 3.7. In regard to the above, the representative of the Ministry of Commerce informed the Committee during evidence that—
  - "The price at which CCI should buy or it should sell are not fixed by the Government. Only in one year the Corporation was asked to go in for export, only in that year prices were fixed, otherwise we are not interfering with the autonomy of the Corporation. We wish that it should be working as a commercial entity. If Government says that you sell or buy at this particular price, it will be difficult for the Corporation to exercise commercial functioning."
- 3.8. In reply to a question as to whether or not the cotton grower was getting remunerative prices, the Managing Director stated that—
  - ".....Ruling market prices, as they are now, are remunerative. It is 1½ times the support price (calculated by A.P.C.)

    Today cotton price is fairly high and quite remunerative to farmer.... We pay market price which is currently remunerative."
- 3.9. Asked about the relationship between floor price fixed by A.P.C. and the cost of production and his comment on the view that the floor prices were always lower than the market price and that the real market prices were generally below the cost of production because the trader was so powerful that the attempted to get Cotton at the lowest possible price at the cost of grower, the representative of the Ministry of Commerce stated during evidence:—

"The APC works out the minimum support price which they calculate on the basis of the cost of production involved."

"Last year, i.e. during 1973-12, the APC had recommended the price of Rs. 170/- per quintal. We took into account the very factors which you have mentioned and had decided that the floor price would not be announced. It was the only thing that we could do at that stage. During 1974-75, the Commission has recommended a floor price for the '320' variety, viz. 195/-, with corresponding adjustments for other varieties. The question whether this price should be announced or not, has not so far been decided. You have raised the point, viz. when the floor price has never been above the market price, why should we lay so much stress on the floor price. I admit that there is no real and proper costing data available to us, from which we could infer whether or not a particular tariff in respect of one crop or area is profitable. We are groping in the dark to some extent. We study the reports of research scholars and research bodies, all of which show different profits and profitability on cotton. As far as I know, all the studies have shown fairly good profitability not only in regard to cotton but in regard to some of the other commercial crops as well, so that the market price mechanism looks apparently adequate to meet the cost of cultivation of some of these crops. The only way in which the Commerce Ministry can put some teeth into this concept, viz. that prices should never have to fall below a particular level, is to arrange for launching operations by the CCI themselves. In other words, we are working through the market mechanism. The CCI is taking noteof the market forces, rather than the APC prices."

3.10. During discussion in Rajya Sabha on 14-3-75 in reply to a Calling Attention Notice the Minister of Commerce said that it was Government's declared policy to ensure, to the best of its ability, a fair and reasonable price to the cotton growers and it was evident from the support price recommended by the Agricultural Prices Commission in 1973-74 and 1974-75. In 1973-74, the support price of MCU 4 and 5 varieties was Rs. 265 per quintal. In 1974-75 it had been raised to Rs. 304. So, it was a statutory obligation of the Government to purchase this variety of cotton if its price touched Rs. 304 figure or fell below. The Government's concern for ensuring better price to the grower was also evident by the fact that the Agriculture Ministry had looked into the matter further and they found that Rs. 351 per quintal might be, perhaps, a remunerative price.

The Minister added that the APC consisted professionally of very competent people. Every year they reviewed the prices and in successive years the price was being raised, taking into account the increased cost of production and other factors. The APC price was not unreasonable, it was a support price. There was a floor level price which the Government was under statutory obligation to operate. But that did not mean that the Cotton Corporation would not purchase it at a higher price.

- 3.11. As regards the data on the basis of which the cost of production of cotton is worked out, the Agricultural Prices Commission observed in its reports on Price Policy for raw cotton submitted to Government for the cotton seasons 1968-69, 1969-70 and 1970-71, as follows:—
  - "It is extremely difficult to pick out one set of cost data from the available series and claim it to be more representative than any of the rest. Apart from the fact that several cotton growing States are not covered, information is also lacking about the respective varieties to which the estimates of cost relate. These difficulties preclude the use of these data for purposes of assessing the current levels of cost for the different varieties."

(P. 5 Report for 1968-69)

Some estimates of the cost of production have been made available to the Commission by the State Governments.

The concepts and methodology underlying these estimates are not uniform.

An efficient and prompt crop intelligence apparatus is a prerequisite for effecting timely adjustments in such policies.

(P. 6-7, Report for 1969-70)

The Commission has examined such data on the cost of production of the commodity as are available. These data suffer from several limitations which have already been referred to in the previous reports of the Commission. Even so, these have been subjected to appropriate adjustments for throwing light on the current levels of cost.

In concluding this Report, the Commission would underscore the need to improvements in respect of quality and timeliness of the statistics which form the basis of policy decisions."

(PP. 3-4 Report for 1970-71).

- 3.12. The Committee note that Government of India notify the support prices for different varieties of cotton based on prices worked out by the Agricultural Prices Commission while fixing such prices the views of the representatives of the cotton growers, Textile Commissioner and of textile industry are taken into account. It has been stated that the prices are reviewed every year with reference to cost of inputs yield and other factors making allowance for a reasonable margin of profit to the cotton growers.
- 3.13. The Committee are informed that the support prices have not been higher than the market prices; in fact the market prices have been 1½ times the support prices. The Ministry of Commerce admitted that there was no real and proper costing data available from which they could infer whether or not a particular tariff was profitable and that they were groping in the dark to some extent in this regard. Reports of Research Scholars and Research bodies show different profits and profitability on cotton though all of them show a fairly good profitability in regard to cotton and market price mechanism is considered to be adequate to meet the cost of cultivation. The Agricultural Prices Commission has also observed in succesive reports that the available data on the cost of production of cotton suffer from several limitations. As the support prices have been much below the market prices, the market prices based on the operation of the normal forces of demand and supply have proved to be more advantageous to the farmers than the support prices. In view of this the Committee feel that the Government should examine whether the support prices which have been quite unrelated to the normal market prices, have served the purpose for which the system of support prices was introduced and whether the parameters within which the Agricultural Prices Commission functions in calculating the support prices should not be made realistic. In the opinion of the Committee the support prices should be as close as possible to the fair and remunerative prices.
  - 3.14. The Committee note that in 1971-72, the cotton prices had fallen very low and the Government had directed the Cotton Corporation of India to purchase cotton at the prices fixed by them to save the growers from heavy losses. In subsequent years, the Corporation has been purchasing cotton at ruling market prices which have been 13 times the support prices calculated by the Agricultural Prices Commission and considered remunerative. The Committee however, find that the support prices as recommended by Agricultural Prices Commission were not, notified during 1971-72 and 1973-74 and have not been notified for the year 1974-75, so far. For the year 1972-73 the prices were notified only in January, 1973.

The Committee recommend that if the declared policy of Government to ensure to the best of their ability a fair and reasonable price to the cotton growers is to be achieved through the mechanism of support prices, Government should ensure that the support prices as calculated by Agricultural Prices Commission are announced from year to year well in advance of the commencement of the cotton sowing season so that not only the Cotton Corporation knows when it should enter the market to protect the interests of cotton growers and discharge its social obligations towards them but also the Cotton growers may know the price level below which they should not sell their crop of cotton to the private traders.

#### B. Methods of Procurement

3.15. During the year 1970-71, the Corporation purchased only 8,339 full-pressed bales on the basis of indents received from the mills. In the subsequent year 1971-72, although when the Pak war broke out, purchases were made in the open markets the border areas of Punjab, Haryana and Rajasthan, but later purchases were made in other parts of the country on the basis of procurement prices fixed by the Government of India. During the aforesaid year full pressed bales were also purchased in Gujarat, prices for which had been arrived at based on the price paid During the year 1972-73 and 1973-74, the purchases of the Corporation were on commercial basis. The Corporation, as matter of policy had been making purchases through the agency of the Co-operative Marketing societies. Wherever the Apex operative Marketing Federations were in sound financial position to undertake massive purchases, the Corporation had been entrusting the work of purchase to such Apex Co-operative Marketing bodies. Whenever, however, the Apex bodies were not financially sound, the purchases were effected through primary Co-operative Marketing Societies. For example in the State of Madhya Pradesh and Rajasthan purchases were made though primary co-operative marketing societies. In all these cases the Corporation had decided to pay purchase commission to the tune of 1 per cent of the value of kapas. Wherever, however, the co-operative structure was well developed the Corporation had to entrust the work purchases to other agencies such as Agro-Industries Corporation and State Trading Corporation as per the request of the State Government. In 1971-72, it had to entrust the work to private parties in North Gujarat, where the co-operative structure was not developed.

- 3.15A. Before the commencement of the season, the Corporation held discussions with each concerned State Co-operative Organisation, so that all the issues were thrashed out before hand and purchases effected according to the decisions arrived at and necessary guidelines and infrastructure created for the purpose. As per aforesaid decision with the co-operative societies, the Corporation was making initial payment of 85 per cent of the value of the kapas to the Co-operative societies working as its purchase agents. This was subsequently raised to 90 per cent, the balance amount of 10 per cent to be paid after the kapas was ginned and pressed and the full-pressed bales delivered in our godowns.
  - 3.16. The Corporation was keen in making purchases as far as possible in the regulated markets where proper facilities for marketing were available. The Corporation preferred purchases kapas in open auction which provided for fair competition resulting in protecting the interests of the cotton growers. Unfortunately in certain areas proper facilities for marketing of cotton were not available although much emphasis was being given on increasing the production of cotton. For example in Guntur area, considerable efforts were being made to increase the production of long staple varieties. However, facilities for marketing of cotton and also processing of the same were extremely unsatisfactory. Corporation had already taken up the matter with the concerned State Government and the Government of Andhra Pradesh agreed to set up regulated markets "in the ensuing cotton season": As soon as the auctions were over, the Cotton Selector who bid at the auction on behalf of the Corporation instructed the Agent Cooperative Society to make payment for the kapas, got it transported to the godown hired by the Corporation and for getting the same ginned and pressed into bales. He simultaneously informed the Regional Office as well as the Headquarters, the type, extent of purchases made and other details.
    - 3.17. In regard to methods of procurement the Management of CCI in a written note informed the Committee that:—
      - "In certain States, the sale of kapas, even in the regulated market is carried out through Adtyasor middlemen who

work as agents of the Cotton growers in disposing of their produce. These adtyas arrange to stock the kapas and display the same in the mandi, take care of the same till the same is disposed of and also supervise weighment on behalf of the cotton growers. These adtyas, however, charge a commission of 1 per cent is recovered from the buyers over and above the price fixed by the buyers. Since the existence of the adtyas is provided for in the Regulated Market Act enacted by the respective State Legislatures, the Corporation is not in a position to do away them and is not in a position to make purchase directly from the cotton growers. This has been increasing the cost price per candy of lint. It is, therefore, possible that if the State Governments amend the respective enactments doing away with the existance of the adtyas it may result in reducing the cost price per candy of lint."

3.18. During evidence the Committee pointed out that there were some complaints of the growers about the purchase operation of CCI, the Managing Director explained that:—

"We cannot buy any cotton when it is not offered for sale in auction, either in a tender system as in the Southern States, or in the open auction.... There cannot be any delay (in purchase). The Market Committee has notify any auction and we can participate only when an auction is notified. It is the statutory regulated Marked Committee of that market, established under the regulated Act of that State. In that auction, along with other traders, the Cotton Corporation selectors are supposed to bid. It is for the Market Committee to decide the frequency of auctions. The Cotton Corporation is only one of the buyers in the market.... Many private traders would not like to buy in open auction. They would violate the market, go to the village and purchase by secret deals. This is one way of exploiting the farmers. The Cotton Corporation does not want to introduce such a practice."

3.19. The following table indicates the quantity of cotton pur-

chased by the Corporation through various methods during the last three years:

, ::	,		-			(In	bales o	f 180 KG)
State			Through Co-Op. socts.	Through private nominees	Through State agency	Through Co-Op socts.	Through Co-Op. sects.	Directly from growers.
			(197	2-73)		(1972-73)	(1 <b>9</b> 73	-74)
Punjab .	•	•	46,877			233909	178362	
Haryana	•	•	21,949			79027	30139	
Rajasthan	•		2,690	• •		67425	40354	• •
Gujarat			2,74,957	32326	30537	• •	36	2,957
Maharashtra			63,984		• •		• •	
M. Pradesh		•	5,197			7123	2797	
A. Pradesh			17,435		• •	• •	12988#	4,421
Karanataka	•		20,028		••	889	52168	••
Tamil Nadu		•	1,383	••		••	320	263
TOTAL	:		454501	32326	3053	7 388433	317164	7641

- 3.20. In the year 1971-72, as already stated the Corporation had to purchase kapas from farmers in Northern Gujarat through nominees appointed by the State Government as cooperative structure in Northern Gujarat was not well developed.
- 3.21. Asked which of the methods is economical and to what extent, the Management of CCI stated in a written reply that the present method of purchasing kapas from farmers through auctions held under the suspices of the Regulated Market Committees was found to be most economical and proper as it ensures payment of a proper price to the growers and also enables the Corporation to verify the correctness of otherwise on the basis of prices paid by other purchasers in the same market.
- 3.22. In this connection, the Ministry of Commerce stated in a written reply that in Government's opinion the agency best suited

<sup>\*</sup>In A. P. 4762 biles have been purchased partly directly and partly through A.P. State Trading Corporation over and above 12,988 hales purchased through cooperative societies.

<sup>†</sup>During 1972-73, purchases were made only through cooperative Societies.

to the aims and objects for which the Cotton Corporation was set up, for making purchases of cotton, is the network of cooperative marketing societies of which cotton growers are members. The Corporation had been operating mainly through State Cooperative Marketing Federations to which the growers societies are affiliated. Over 95 per cent of the Corporation's purchases had been made through Cooperative agencies. It was only in some areas of Gujarat State where cooperative infrastructure was lacking that some purchases were effected during the 1971-72 season through private nominees selected in consultation with the State Government. Direct purchases from growers were not considered feasible as in most cases the growers already committed their produce to cooperative societies from which they had drawn credits in cash and kind for cotton cultivation.

323. Asked whether the Government had issued any directives to CCI in that regard, the Ministry of Commerce replied that while no directive had been issued to the Cotton Corporation to operate through the cooperative agency while making its purchases, in practice the Corporation had fully observed this priority and that would be observed in future as well.

3.24. Asked about the advantages in making purchases of cotton through the State Agencies such as Cooperative Societies or other State Agencies the Management of CCI stated in a written reply that Cotton is a commodity grown in far flung areas and even in small quantities. For a Centralised Public Sector Agency like Cotton Corporation it would not be feasible nor economical to have its own organisational set up in such remote corners of production. Further it had been the avowed policy of the Government to encourage cooperative marketing especially in the rural areas. The Corporation had only tried to provide a further fillip to such a policy by utilising the services of the existing cooperative marketing societies in the different regions. In those areas where the coperatives are not well organised, the Corporation had purchased directly from the farmers or through nominees approved by the State Government.

3.25 Asked about the present position in regard to establishment of regulated markets in the cotton growing States, the Ministry of Commerce stated in a written reply that regulated markets in which the fees for different operations such as cleaning, grading, weighment, bagging, etc., were fixed by law, exist in most cotton growing

States. The States where such regulated markets do not exist are as follows:—

- (i) Andhra Pradesh (Guntur and Prakasm Districts).
- (ii) Gujarat (Saurashtra Districts).
- 3.26. As regards Tamil Nadu, the representative of the Corporation stated during evidence that there was a marketing Committee in Tamil Nadu but there was no auction system. Tamil Nadu Marketing Federation wanted to entrust the purchase to the State Cooperative Marketing Federation and also wanted a higher commission than what the CCI was paying in other States. As regards payments, the Tamil Nadu Marketing Federation, backed by Tamil Nadu Government, insisted that the agreement should provide a clause under which the Cotton Corporation would pay penal interest in case the payments were not made within stipulated time. The representative of the Corporation added that they paid 90 per cent of the value of cotton the same day and the balance after certain procedural formalities. Occasionally there might be delay of one or two days but the CCI would not be able to make exception in the case of Tamil Nadu in respect of the penal interest clause. informed the Committee that according to the authorities of Tamil Nadu Government, it would not be possible for them to modify the market Committee's procedure immediately or to drop their demand for penal interest of delayed payments.
  - 3.27. The Committee note that the Cotton Corporation of India normally makes purchases in regulated markets through the agencies of the Apex Cooperative Marketing federations or, where such bodies are not organised or sound, through the primary cooperative Marketing Societies. Where, the Cooperative structure was not well developed, the Corporation had to entrust the work to other agencies like Agro-Industries Corporation and State Trading Corporation as per the request of the State Government or to the nominees of the State Government. In all these cases, the Corporation pays a purchase commission of 1 per cent of the value of kapas. The Committee are informed that it would not be feasible nor economical to have its organisational set up in remote areas of production and it had been the avowed policy of Government to encourage cooperative marketing especially in rural areas.
    - 3.28. The Committee note that, while regulated markets exist in most of the States, in Guntur and Prakasam Districts of Andhra Pradesh and Saurashtra District of Gujarat, there are no regulated

markets. On the Corporation's taking up the matter with the Government of Andhra Pradesh, they agreed to set up regulated markets in the ensuing cotton season'. The Committee would like the Corporation to pursue the matter not only with the Government of Andhra Pradesh, if the regulated markets have been set in Andhra Pradesh so far, but also with the Government of Gujarat for setting up regulated markets in Saurashtra District of Gujarat so that the Corporation's purchases may be made through regulated markets in these areas also.

3.29. The Committee are informed that there are certain procedural difficulties before the Cotton Corporation because of which it cannot extend its operations fully to the areas of Tamil Nadu where there is no system of open auctions. It has been stated that Tamil Nadu Marketing Federation wanted to entrust the purchases to the State Cooperative Marketing Federation and also a higher commission than what the CCI was paying in other states. In regard to payments, the Tamil Nadu Marketing Federation insisted that agreements should provide a clause under which the Cotton Corporation would pay penal interest in case the payments were not made within the stipulated time. The Committee are informed that the Corporation paid 90 per cent of the value of cotton the same day and the balance after certain procedural formalities and occasionally there might be a delay of one or two days. It has also been stated that according to the authorities in Tamil Nadu Government, it would not be possible for them to modify their Market Committee's procedure immediately or to drop the demand penal interest for delayed payments. The Committee recommend that the Government of India may take up the matter with the Government of Tamil Nadu to find out a workable solution to enable the Corporation to extend its sphere of its purchase activities and operate in all the cotton growing states without any difficulty.

#### C. Cotton Selectors and Purchases

3.30. Asked about the steps taken to keep a watch on the procurement operations in various states, the Managment of C.C.I. in a written reply stated that the following steps had been taken by the Corporation to keep a watch on the procurement operations and to curb mal-practices:—

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1. As a first step, the Corporation appoints 2 type of cotton selectors at each procurement centre i.e. one selector from trade who can judge the quality by visual examination and other qualified selector (i.e. Graduate in

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- Technology). The Trade Selectors have been recruited who have considerable experience in selection and grading of cotton. The qualified Selectors are given training in Textile Technological Institutes for testing of fibres and to determine exact percentage of seeds and lint. The object of keeping 2 selectors in each centre is to ensure that they keep a watch on each other and there is a proper selection of cotton and prices paid. Besides the Corporation has supplied 100 G. P. Balances and 100 laboratory Model Gins to the Regional/Sub-Regional Offices to be used for determining the exact percentage of Seeds and lint. All these factors have been designed to have as far as possible a fool-proof system of selection of quality and to curb chances of any mal-practice.
- 2. The Corporation, as a matter of policy, buys its kapas in regulated markets, where open auction system is prevalent. The selectors of CCI participate in the open auctions whereby only the highest bidder gets the kapas. This system, apart from enabling proper price to be paid to the farmers, acts as a check on likelihood of malpractices. In open auctions and bidding, the transactions are recorded by the Market Committee in their daily auction register, as such open to checking and comparison.
- 3. After purchases of kapas, the Cotton Selectors are required to inform telegraphically sub-regional offices and to headquaters the purchases made by them. These details are scrutinised at the Sub-regional Offices, Regional Offices and at Headquarters.
- 4. The Corporation has appointed Inspectors who frequently visit the procurement centres to watch the performance of the Cotton Selectors and the qualities of kapas selected and prices paid for the same.
- 5. Similarly with regard to disposal of Cotton seeds, there are standing instructions that these should, be sold as far as possible in open auction so that the maximum price could be obtained.
- 6. The prices of cotton seeds are compared in each region and if there are any cases of less realisation, investigations are conducted. The sale of cotton seeds in the open markets are conducted in the presence of Secretary

of the Market Committee and the representative of the Cooperative Marketing society functioning as agent of the Corporation. The Corporation has also stipulated weekly returns requiring the Cotton Selectors to furnish details relating to the sales of cotton seeds, particularly the quantity sold and prices realised. These details are also examined at the headquarters.

- 7. The Corporation has also appointed the Implementation Committees for each States consisting of following:—
  - (a) Secretary to the Government, Agriculture Department, or the Development Commissioner of the State concerned as the case may be.
  - (b) The Director of Agriculture.

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- (c) The Registrar of Co-operative Societies.
- (d) The Chairman of Agriculture Marketing Development Board.
- (e) The Regional/Dy, Regional Manager of CCI to be convenor.
- These Committees are expected to watch the performance of the Corporation and at the same time ensure that the policies of the Corporation are properly implemented.
- 8. The Corporation envisages to set up suitable laboratories in each important State to test the quality of fibres. The object of these laboratories is that in the long run there should be established qualities of cotton with proper specifications and nomenclature."
- 3.31. Asked as to how far the employment of selectors had helped in the purchase of cotton of the requisite quantity at an economic price, the Corporation in a written reply stated that there were no quantitative limits prescribed in respect of purchases by the Selectors. Except during 1971-72, in all other years, the purchases of the Corporation had been on a commercial basis. Therefore, the Cotton Selectors were instructed to operate as one of the bidders in the open auction on behalf of the Corporation. Therefore, the payment of any economic price was not within the competence of the Cotton Selector. He had to be guided by the instructions received from his Regional/Dy. Regional Manager with regard to purchases in his centre.

- 332. Asked about the necessity for having two sets of Selectors when the purchases were made in open auctions held under the auspices of market committees or through co-operative societies or State Agencies, the Management of CCI stated in a written reply that even when the purchases were made in open auction held under the auspices of market committees or through cooperative societies, it was necessary to have two Cotton Selectors for each centre. That would not only serve the purpose of each one having a watch on the activities of the other but also in the communication of purchase details and payment to the Sub-Regional/Regional Offices. In fact, recruitment, training and posting of Graduate Cotton Selectors was part of the programme of the Corporation to build up a cadre of qualified and trained cotton selectors who would ultimately replace the people drawn from the Trade.
  - 3.33. Asked as to whether there were any complaints against Cotton Selectors, the Management of CCI stated in a written reply that:
    - Selectors. 'They related mostly to the delay in some payments, lack of objectivity, rude behaviour etc. These have been dealt with by the Regional Managers themselves. In one instance in Andhra Pradesh, one of the Selectors has been prosecuted by the Anti Corruption Bureau on charges of corruption. In the case of two other Selectors in Andhra Pradesh, the Corporation is taking departmental action for their alleged involvement in payment of prices higher than those approved by the Head Office."
    - 3.34. Asked in how many cases the Cotton purchased through official selectors had been found to be of poor grade, the Management of CCI in a written reply stated that:
      - "There had been no complaint about the poor quality of cotton purchased by the Selectors of the Corporation. In fact, the mills had the option to reject the cotton in the godown itself, since the Corporation sold on the basis of inspection by the mills. Therefore, the question of any financial implication did not arise."

- 3.35. Wherever instances of purchasing immature and poor grade cotton came to the notice of the Headquarters, instructions not to purchase such cotton were issued by the Headquarters to prevent recurrence of such purchases. There had also been cases when disciplinary action had been taken where the Selectors has not used their choice in the best of judgement. As the system of quality control required considerable expertise and the Corporation was not yet fully equipped with Laboratory and besides the trade in the past had been used to visual examination, its reorientation to the modern and scientific methods would take some time.
- 3.36 The Committee note that the Corporation appoints 2 type of cotton selectors at each procurement centre-one selector from the trade who can judge the quality by visual examination and other selector qualified in Textile Technology. The Committee are informed that the object of keeping 2 selectors in each centre is to ensure that one keeps a watch on each other and there is a proper selection of cotton and prices paid. It has also been stated that it is necessary to have two cotton selectors for each centre as that would enable not only to serve the purpose of each one having a watch on the activities of the other but also help in the communication of the purchase details and payment, to the Sub-Regional/Regional Offices. The Committee are not able to appreciate the justification for having the two selectors one of them merely for communication of the purchase details and payment, to the Sub-Regional Regional Offices, when one of the selectors is already meant for making the selection and bidding at the auction under the instructions from the Regional Office.
- 3.37. The Committee suggest that Government should examine the merit of keeping two selectors in each centre as in their opinion, that by itself is no guarantee for the quality and price of cotton nor is it a fool proof method against any of the under-hand dealings. The Committee feel that it is more essential to have strict control and surprise inspection of work of the selectors by the supervisors and the Regional Managers especially during the purchase seasons. The Committee also suggest that Government should examine the feasibility of introducing scientific equipment for testing the quality of cotton at each major centre of purchase.

## D. Purchase programme and purchases

3.38. The following table indicates the purchases of indigenous cotton made by the Corporation during the last four years:—

•		-				, • •		
			<del></del>	***************************************		Quantity in Bales		
State				1970-71	1971-72	1972-73	1973-74	
Punjah					46,877	2,33,904	ř,78,362	
Haryana		•			21,949	79,027	30,139	
Rajasthan				• •	2,690	67,425	40,354	
Gojarat			•	5506	3,37,820		2,993	
Maharashtra	•		•	1392	i 63,984	• •	• •	
Madhya Pradesh	٠. ٠		•		5,197	7,188	2,797	
Andhra Pradesh			÷.		17,436		17,409	
Karnataka	•	•	•	1441	20,028	889	52,168	
Tamil Nadu	•		•	••	1,383	•• ,	583	
TOTAL:	. :	٠,	•	8,339	517,364	3,88,433	3,24,805	

3.39. In the first year 1970-71, the Corporation had to concentrate on setting up an infrastructure for imported cotton. But nonetheless it purchased 8,339 bales of indigenous cotton valued at Rs. 1.32 crores. But during the next year 1971-72, due to Indo-Pak hostilities normal market conditions were upset and the private trade specially in border areas of Punjab, Haryana and Rajasthan showed reticence to purchase cotton. As such the Government of India called upon the Corporation to start purchases of kapas to save cotton growers. During the aforesaid year, due to bumper crop, prices of kapas declined precipitatedly. As such in order to help the farmers, the Government of India fixed prices for purchase and called upon the Corporation to affect purchases. The Corporation purchased 5,17,364 bales valued at Rs. 55 crores during the aforesaid year.

3.40. During the year 1972-73 the Board of Directors of the Corporation decided in its meeting held on the 26th December, 1972 that the Corporation should buy 2 lakh bales only on a revolving basis to be replenished, as and when sales take place. Subsequently, a directive was received from the Ministry to go in for massive purchases, but by that time the season had for advanced and the prices were ruling very high which did not necessitate purchases by the Corporation. But nonetheless the Corporation purchased 3,88,423 bales valued at Rs. 45 crores.

3.41. During the year 1973-74, it was considered before the commencement of the season that if the Corporation has to play a pivotal role and to protect the interests of the growers and to stabilise prices, the Corporation should purchase about 25 to 30 lakh bales throughout the country. Although the Corporation was Originally assured of finances, by the Ministry of Finance for above programme, but later on credit restrictions were imposed equally well upon the Corporation, which completely jolted its programme, as by that time infra-structure had been set up for the purchases throughout the country, as per details given below:—

State		I- , S		Çer		<b>C</b>	Quantity in bales	· .
)						L	akh hales	
Punjab	•	•	•			•	4.0	
Haryana		•	•	•		•	2.0	
Rajasthan .	•	•	•	•		•	2.0	
Madhya Pradesh				•	•		2.5	
Gujarat .		•					12.0	
Mysore	•	•		•	•	•	4.0	
Tamil Nadu .		•		•		•	2.0	
Andhara Pradesh						•	2.0	
TOTAL:							30.5	

3.42. The management of CCI stated in a written reply that as the season started first in North of India, the purchases were started there with the full expectation that the finances for the entire purchase programme of 25 to 30 lakh bales would be forthcoming. However, the position changed considerably as the season advanced as later on, the Reserve Bank of India's restrictions came in its way, which became a stumbling block as by that time the Corporation had taken advances of Rs. 37 crores, but the RBI put the limit of Rs. 30 crores. Therefore, the entire programme in the country was upset, as not to speak of further advances from the banks, the RBI called upon the Corporation to return immediately a sum of Rs. 7 crores which was in excess of the limit of Rs. 30 crores permitted for the aforesaid Corporation. Therefore the Corporation was not in a position to effect purchases in the other States as per programme drawn.

- 3.43. Explaining the reason for the heavy purchases in Punjab the CCI in another note stated that the Corporation did not make any purchases in the State of Punjab during the first year of its operation in 1970-71, whereas during 1971-72, the purchases made in Punjab were limited to 8.65 per cent. There was no doubt that during 1972-73 and 1973-74 the purchases made in Punjab were 60.2 per cent and 55 per cent respectively. That was due to the fact that the cotton season started in Punjab, Haryana and Rajasthan for 320F in October and advanced i.e. L-147 in Maharashtra, M.P. and A.P. in December, V-797 (Waged, Kalyan) in Gujarat in January, I SC-67 in Gujarat in February, H-4 in Gujarat, Maharashtra, M.P., Mysore and AP in February, Digvijay in Gujarat in February, 1007 Vidarbha. Maharashtra and Madyha Pradesh in February, Suyodhar in Mysore in March. That the season started first in Punjab as well as in Haryana and Rajasthan, as such Corporation started its operations in those states at the start of the season. It so happened that during the year 1972-73, the Board in the first instance did not fix any schedule of purchases Statewise. It was only on 20-12-1972 when the Board decided that the Corporation should buy 2 lakh bales in the country and as sales were effected, further purchases be made to make it upto 2 lakh bales. Uptil 30-12-1972, the Corporation had already purchased 1,06,373 bales in Punjab. Therefore, the purchases of the Corporation had to become restrictive as the balance quantity left over was very nominal.
  - 3.44. In this connection the Ministry of Commerce in a written reply stated that it was correct that during 1972-73 and 1973-74, the bulk of purchases made by the Cotton Corporation of India were concentrated in the states of Punjab, Haryana and Rajasthan. main reason for this situation had been the fact that the cotton crop started moving into the market first of all in these States. crop matured later in the Southern and Western states and was marketed mainly in the January-May period. The Corporation had been anticipating a much larger volume of credit accommodation than was actually made available by the Reserve Bank of India. During 1973-74 it was expected that at least Rs. 150 crores worth of credit would be made available and hopes were kept alive in this behalf till as late as March, 1974, by the Finance Ministry. It was at that stage that the Corporation was told by R.B.I. that no credit could be given beyond Rs. 37 crores. The Corporation then decided to stop its purchases in Punjab, Haryana and Rajasthan and took up limited purchases in Karnataka, Tamil Nadu and Madhya Pradesh. The Board of Directors of the Corporation had taken the view that

cotton purchases should be carried out equitably in all cotton growing states but credit difficulties thwarted the Corporation plans in this respect.

- 3.45. Asked whether any directive had been issued to CCI by the Government in this regard and whether any policies had been laid down in the matter of procurement of cotton by CCI, the Ministry of Commerce in a written reply stated that no directives had been issued to the cotton Corporation by Government in regard to spreading its purchases equitably in all cotton growing States. However, as Government were well represented on the Board of Directors, this intention of Government had been reflected in the Board's decisions.
- 3.46. Explaining the eratic jump of purchases from one state to another, the Management stated that it was true that the Corporation bought substantial quantity in Gujarat State during 1971-72 as a measure to give support to the falling prices. However, from October, 1972, the Corporation started its purchases in the States of Punjab, Haryana and Rajasthan and covered substantial quantities. But the Corporation could not simultaneously enter the cotton markets in Gujarat as the season in Gujarat started sometimes in January/February every year. The Board of Directors in their meeting held on 26th December, 1972 had taken a review of the purchase position and had resolved that the Corporation should arrange its purchases in such a way that the stocks with the Corporation did not exceed two lakh bales. As the Corporation had reached that level, it could not consider making purchases in Gujarat and other States during the months of January/February 1973. Subsequently the Corporation had received instructions in February, 1973 from the then Foreign Trade Minister to go in for massive purchases. But at that time the season had already sufficiently advanced and the ruling market prices of most of the kapas in Southern India were extremely remunerative to the farmers. As such the same did not need any support by purchases by the CCI. Moreover, during the year 1972-73 the Government of Maharashtra introduced a scheme for monopoly procurement of cotton in that State. The Corporation, therefore could not operate in Maharashtra during the year 1972-73 and also during 1973-74 as the scheme was continued till middle of January 1974. Similarly during 1973-74 the Corporation could not commence its purchases in the State of Gujarat in view of disturbed local conditions prevailing in Gujarat during the months of January, February and March 1974.

- 3.47. However, in view of limited resources the Corporation could not make bulk purchases in Gujarat. When there were reports about accumulation of stocks and the CCI got a special credit of Rs. 3 crores sanctioned by the Reserve Bank, the Cooperatives were not prepared to sell the stocks at ruling market price. The above position accounted for the variations in the State-wise purchases made by the Corporation since its inception.
- 3.48. Asked as to why no purchases were made from Karnataka and Maharashtra, the Managing Director of CCI stated during evidence:—
  - "In 1973-74, however, we have tried to improve the imbalance..... within the limits and constraints which we are facing; and I would submit that the Board of Directors have now taken a decision that whatever we buy this year, i.e. 1974-75, will be fixed in proportion to the crop of each cotton growing States."
- 3.49. In reply to a question as to why there was sharp fluctuation in the quantity of cotton purchased from different States year after year, the representative of the Ministry of Commerce stated during evidence:—
  - "One of the things that was probably not done rightly last time was in respect of the pattern of purchase. Perhaps, there was heavy concentration of purchases in some States and not enough purchases in others. Although Corporation as a whole did want to launch on a more or less equitable purchase programme in all the States. By the time the initial purchase was made in the markets, where the cotton first comes, they found that they had no funds to carry on purchase in the other States. I am not trying to defend or trying to accentuate what might have happened as a result of that. In the current year the Corporation's Board has taken a decision to the effect that when funds are available, it will follow a policy of equitable purchase, pro-rata to the extent in each State and no decimal prorate but more or less in equal proportion or equal percentage in each of the States. These are the main decisions or directions in which we want to see that the Corporation improves its purchase operation."

- 3.50. Asked whether the purchase question was ever discussed in the Board and whether any guidelines had been laid down for the purchase of cotton, the Managing Director replied as under—
- "Every month we have a meeting of the board and progress in the purchase and sale of domestic cotton forms a permanent subject of the agenda of the board meeting. The entire issue regarding the movement of prices, domestically and in the international market, all these are described in a comprehensive note which is submitted to the Board every month and so the board is fully aware of all the purchases of the Corporation..... At the commencement of every season we submit to the Board the cotton situation, and the Board itself issues guide-lines."
- 3.51. Asked whether the Corporation had followed a national policy in making purchases, the representative of the Ministry stated:—
  - "In the early part of the season Corporation was in possession of the funds. When the first two or three months were over, we found ourselves short of funds. If national view had been taken from the very beginning, one would have withdrawn from the market even though one had money and that money would have been kept for other States. It is in that sense that national policy has not been followed."
- 3.52. The Committee note that the Cotton Corporation of India purchased 5,17,364 bales of cotton in 1971-72, 3,86,037 bales in 1972-73 and 3,24,677 bales in 1973-74. During 1972-73 and 1973-74, the bulk of the purchases made by the Corporation was from the States of Punjab, Haryana and Rajasthan, the purchases in Punjab alone being 60.2 per cent and 55 per cent respectively. The Committee are informed that no directives had then been issued by the Government to the Corporation in regard to spreading its purchases equitably in all cotton growing states. The Board of Directors had ilso not fixed any schedule of purchases statewise. December, 1972, the Board decided to buy 2 lakhs bales on a revolving basis. Since by 30th December, the Corporation had already purchased 1,06,737 bales in Punjab, where the season started earlier, the purchases of the Corporation had to become restrictive as the balance quantity left was very nominal. Besides, the season had advenced by that time and the prices were ruling very high and the situation did not necessitate purchases by the Corporation. Moreover during 1972-73 the Maharashtra Government introduced

a scheme for monopoly procurement of cotton in that State. Even then the total number of bales purchased in Punjab during the year 1972-73 rose to 2,33,837 (60 per cent of the total purchases). During 1973-74, the Corporation is reported to have drawn up a massive programme for the purchase of 25 to 30 lakh bales throughout the country on the basis of finances assured by the Ministry of Finance and at least Rs. 150 crores worth of credit was expected. The purchases were started first in North India, where started first, with the expectation that the finances for the entire purchase programme of 25 to 30 lakhs bales would be forthcoming. But in March 1974 the Corporation was informed that no credit would be given beyond Rs. 37 crores. The Corporation therefore, decided to stop its purchases in Punjab, Haryana and Rajasthan (purchases in these States being 2,48,855 bales out of total purchases of 3,24,677 bales in 1973-74) and took up limited purchases in Karnataka, Tamil Nadu and Madhya Pradesh. However, even out of the Rs. 37 crores the Corporation was asked to return a sum of Rs. 7 crores immediately. The Corporation was therefore stated to be not in a position to effect purchases equitably in the other states as per programme drawn up earlier. The Committee regret to note that the Board of Directors which discussed the purchase policy almost every month failed to take notice of the Corporation's purchase operations being heavily weighted in favour of certain States and neither the Government nor the Board of the Corporation did anything to correct the lop-sided approach of the Corporation in this regard. The Committee are informed that, in the current year, the Board has taken a decision to the effect that when funds were available the Corporation would follow a policy of equitable purchases on pro-rata basis in all the cotton growing states. The Committee are not convinced by the arguments advanced by the Corporation in justification of its inability to spread its purchases equitably in all the cotton growing States. The Committee are surprised that during the period 1971-72 to 1973-74 the Corporation followed a policy of making overwhelming part its purchases mainly from the regions of Punjab, Haryana and Rajasthan. They are not satisfied with the reason advanced by the Corporation that it could not due to certain circumstances follow the policy of equitable spreading of its resources to purchase cotton frem various other cotton growing regions in the country. It looks as if this imbalance in purchase was deliberate. The Committee recommend that a thorough study in depth of the purchase policy followed by the Corporation and a thorough investigation of the purchases made by the Corporation in the past should be conducted, responsibility fixed and lessons drawn.

3.53. The Committee feel that the Ministry should have issued suitable guidelines to the Corporation, in regard to purchase of cotton within the available resources so that purchases were equitably spread over the cotton growing States.

They note that at present a High Powered Committee consisting of representatives of Ministries of Agriculture. Planning, Commerce and Finance determine the price differential for different qualities of cotton after Government have fixed the price of standard quality of cotton on the recommendations of the Agriculture Prices Commission. They would like Government to consider whether this High Powered Committee could also be entrusted with the task of laying down broadly the targets for purchase of different varieties of cotton from the cotton growing States having regard to anticipated production, requirements particularly of Mills under N.T.C. need for sustaining production of desirable varieties of cotton in the interest of attaining self-sufficiency, price situation, availability of funds, etc. The Committee would like to be informed within three months of the precise action taken by Government to ensure that the purchases of the Corporation are so regulated as to subserve equitably the interests of major cotton growing States and it acts in time to make such purchases.

3.54. In regard to purchases in Andhra Pradesh, the Managing Director stated during evidence that:

"In Andhra Pradesh we have purchased MCU-5 cotton during the current year and the total purchase of the Corporation was 80,300 from various centres. Besides the difficulties of credit we are facing, the major difficulty we were facing was that in the MCU-5 area we did not have regulated markets. And all sales of kapas are being effected at the houses of farmers by secret negotions. This hampered our purchase operations because I could not delegate the power to a manager or a selector or a buyer to purchase kapas secretly. There is no established and regulated market in kapas. In MCU-5 area of Andhra Pradesh, though Guntur is the area which grows the best cotton in the country, in other places, there is no regulated market. In the absence of a regulated market, this will be the difficulty. I have brought this to the notice of the State Government many times in all my meetings with them."

3.55. The Committee note that the Corporation was hampered in its operations to purchase MCU-5 cotton in Andhra Pradesh as the State did not have regulated markets. They were informed that the Corporation had brought this fact to the notice of Andhra Pradesh Government. The Committee has already observed in para 3.28 the need for setting up regulated markets in all cotton growing States to enable the Corporation to oparate in all the States without difficulty.

3.56. The following table shows the estimated figures and the extent of purchases by CCI during the last four years:—

	Year				Trade estimate of cotton production (in lakh bales)	Final estimate	Total purchase by CCI	Percentage of purchase total production	
						2	3	4	5
1970-71					•	56.40	55.988	8,262	0.18
1971-72	•	•		•		73 · 50	65.640	5,17,364	7. 88
972-73		•	•		. •	65.70	65 · 886	3,88,433	7.07
<b>9</b> 73-74			•			69.00	60.000	3,24,805	5.43

3.57. Asked whether in the opinion of Government purchases: made by CCI during the past four years were adequate to ensure a study supply of cotton to the textile industry or to maintain stability in prices, the Ministry of Commerce stated in a written reply that as submitted earlier, the extent of purchases made by the Cotton Corporation of India in the domestic cotton market in the past four years of its existence had been completely inadequate to enable the Corporation to play an effective role in stabilising cotton prices and ensuring a steady supply of cotton to the textile industry. According to the Commerce Ministry the Corporation should buy and hold for sales during the lean part of the season not less than 12 lakh bales of cotton, which might go up to 16-17 lakh bales by the end of the Fifth Plan. Sales could be effected by the Corporation from June-November at regulated prices which would enable the Corporation to cover their expenses and make a small margin of profit. At the same time the Maharashtra Federation would have to coordinate its pricing and selling policies with those of the Cotton Corporation at a pre-condition to its being allowed any bank credit accommodation. Such coordinated action could help to exercise the right influence in the cotton market.

- 3.58. The Corporation drew the attention of the Ministry of Commerce to its note in which the Ministry had stated:—
  - ".....for controlling the rising trend in cotton prices and to protect the interest both of growers and consumers of cotton, Cotton Corporation of India should enter the market on a substantially larger scale during the ensuing cotton season i.e. 1974-75. While it is premature to think in terms of complete State Trading in cotton on account of organisational limitations and wider socioeconomic implications, a conscious policy might be adopted whereby about 50 per cent of domestic cotton arrivals in the cotton growing States are purchased by the Cotton Corporation of India and State monopoly procurement agencies such as the Maharashtra Cooperative Marketing Federation."
- 3.59. Asked whether the Government had issued any directive to CCI about the magnitude of its purchase operation, the Ministry of Committee stated in a written reply that the Government had not issued any directive to the Cotton Corporation about magnitude of its purchase operations during the current season. Proposals had been placed before the Cabinet-by the Ministry of Commerce suggesting that the market purchases of the Corporation should be considerably increased and necessary financial accommodation provided by Government. It was indicated that about 12 lakh bales of cotton should be purchased by the Corporation involving a credit requirement of Rs. 200 crores. No decision had, however, yet taken on the Commerce Ministry's proposal. Reserve Bank of India had been of the view that the Corporation's market purchase operations should be limited to price support purchases. As ruling prices are well above support levels, the Reserve Bank of India had felt that there was no economic justification for the Cotton Corporation of India entering the market in a big way.
- 3.60. About the purchases during 1974-75, the Management of CCI stated that the Corporation had not made any purchase during the cotton season 1974-75 in any of the States and the question of purchase programme for that season was under consideration of Government. The Corporation did not have any long-term arrangement with the cooperatives for purchase of cotton. During every cotton season, the Corporation entered into an agreement with the respective State Cooperative Marketing Federations to act as agents of the Corporation for the purchase of indigenous cotton. Since

the programme for 1974-75 had not  $s_0$  far been cleared by the Government,  $n_0$  agreement had so far been entered into for the current season with any of the State Cooperative Marketing Federations.

- 3.61. During discussion in Rajya Sabha on 14th March, 1975, in reply to a Calling Attention Notice, the Minister of Commerce stated that during 1974-75 cotton season, the Cotton Corporation of India was sanctioned a credit limit of Rs. 10 crores by the Reserve Bank of India. As it was not possible to purchase substantial quantities of cotton with that amount, the Cotton Corporation did not enter the market for some time.
- 3.62. With a view to enabling a large volume of purchases to be effected with our limited resources, a scheme to purchase cotton by the Cotton Corporation on deferred payment basis had also been drawn up recently. The scheme envisaged the purchase of cotton by immediate payment in cash of 50 per cent of the price and the remaining 50 per cent at the end of six months with interest at 6 per cent per annum. So far a small quantity of cotton had been purchased and the programme of purchasing more cotton was in progress in different States. The Ministry of Commerce had also approached the Ministry of Finance for increasing the credit limit and it was hoped that the Ministry would be able to meet the situation and avoid any precipitious fall in the cotton prices. The Government's objective to contain pressure of influation in terms of a restricted credit policy had also to be borne in mind in this connection.

but even within that restricted scope Government had made available Rs. 10 crores in the first instance and the Cotton Corporation had started operations. The Finance Ministry had considered the new deferred payment basis scheme and had approved it in principle and some more funds were going to be made available. The Minister had been assured by the Finance Ministry that they would consider the possibility of making available further more funds if and when necessary. In view of this, there had been a qualitative change in the situation and the Cotton Corporation would be able to purchase more. However, in the restrictive credit policy, the Government could not enter into the market in a big way as they had done one or two years before.

3.63. No doubt, the objective of the Cotton Corporation were to benealt the growers, to benefit the consumers and to stabilise the prices, and that was what, with its limited resources and infrastructure, the Cotton Corporation was trying to do. However, these

objectives would have to be combined in a balanced way. It was true that the cotton market had not been regulated, and stabilisation and regulation were necessary.....

- 3.64. The market forces were still dominent. And every year for the purchasing operations, the whole economy required nearly Rs. 300 crores, and the Government, despite all its hard efforts, could not mobilise more than Rs. 20.or 30 crores for this purpose. To what extent possibly the Government could control the market forces and regulate and stailise the prices, one could easily imagine. Therefore, the Government was trying to see that this money that had been made available was especially utilised for purchasing those varieties of cotton, long staple cotton and extra long-staple cotton, where the price line was sluggish. The price of medium staple cotton even now was ruling higher than the A.P.C. price.
  - 3.65. The Committee note that the Corporation's purchases of cotton have been 7.8 per cent, 7.07 per cent and 5.41 per cent of the total production in the country during 1971-72, 1972-73 and 1973-74 respectively. The Ministry of Commerce has admitted extent of purchases made by the Corporation in the domestic cotton market in the past four years of its existence have been completely inadequate to enable the Corporation to play an effective role in stabilising cotton prices and ensuring a steady supply of cotton to textile industry. The Committee are given to understand that the proposals regarding increase in the market purchases of the Corporation and provision of financial accommodation are already under consideration of Government and decision is yet to be taken in this regard. It was indicated that about 12 lakh bales of cotton should be purchased by the Corporation involving a credit recruitment of Rs. 200 crores. The Commercial banks are of the view that the Corporation's market purchase operations should be limited to price support purchases and as ruling prices are above the supply levels, there is no economic justification for the Corporation entering the market in a big way.
    - 3.66. The Committee feel that if the twin objectives of the Corporation viz. ensuring remunerative price to growers and at the same time stabilising prices of cotton for the general welfare of the consumers are to be achieved, it is essential that Government should come to an early decision regarding the prices role of the Corporation and the magnitude of the operations to be performed by it and also take steps to provide the Corporation with adequate funds to achieve the objectives.

3.67. The Committee also note that the Corporation has been sanctioned a credit limit of Rs. 10 crores for its market operations during 1974-75 but the Corporation did not enter the market for some time as it was not possible to purchase substantial quantities of cotton with this amount. A scheme has, however now been prepared to purchase cotton on a deferred payment basis. The Scheme envisages the purchase of cotton by immediate payment in cash of 50 per cent of the price and the remaining 50 per cent of the price is payable at the end of six months with interest at 6 per cent per annum. The Committee are of the opinion that this scheme would force the producers to sell their cotton to the private trade at lower through cash-down prices. This in the opinion of the Committee would defeat the very objective of the Corporation, namely of ensuring remunerative price to the producers, encouraging cotton production and stabilising prices. The Committee would therefore like the Government to take necessary and urgent measures to ensure that the Cotton Corporation is able to achieve its objective.

### E. Monopoly Purchases

3.68. The management of the Corporation stated in a note that the Corporation had so far not made a proposal for monopoly purchases throughout the country. The Corporation had been following the directives issued to it by the Government from time to time. The Corporation had drawn its own programme of purchases on commercial basis during 1973-74, to extent of 25 to 30 lakh bales, where although it was agreed by the Reserve Bank of India to provide finances at the initial stages to the extent of Rs. 150 crores, but later on due to credit curbs same was reduced to Rs. 30 crores. Therefore, unless the Government of India decided as a policy for monopoly purchases throughout the country which would require fixation of prices of all the major varieties, the Corporation was unable to undertake such a task. The Corporation had no doubt by now acquired considerable expertise and set up an infra-structure throughout the country to be able to purchase at least 25 per cent of the crop and to get it converted into FP bales. The above purchases could be effected if sufficient finances were made available. The infra-structure could be enhanced and programme intensified every year by the Corporation provided sufficient finances were made available.

3.69. The Management added that there was no doubt that in the long run monopoly procurement would be beneficial to the farmers

and eventually to the consumers, if the farmer was paid remunerative prices and there was efficient conversion of kapas into full pressed Bales and direct sales to the mills from a Government agency. The chances of over-invoicing by Mills would be to a considerable extent reduced.

- 3.70. The cost of conversion from full pressed Bales to yarn and cloth would be more realistic and also the payment of income-tax etc. The prices of the finished product could be regulated which would eventually be beneficial to the consumers as well as to the export markets. To achieve the above objective, there should be realistic prices paid to the farmers so that they should not change over to other cash crops where there was better price realisation. As such, it was necessary that the realistic prices were fixed for all the varieties by the Agricultural Prices Commission and there was a periodic review of the same. The procurement would however require stupendous infra-structure and investment to the tune of Rs. 500 to 600 crores, as also large number of trained Selectors and organisation where proper training was extremely vital. Therefore, for the monopoly procurement to be successful, it had to be at phased stages, so that there was regulated procurement, conversion to full pressed bales, efficient set up for disposal of seeds, fixation of catalogue prices for cotton. If this could be achieved, it would create not only stability in one of the important agriculture products, but in cottonseed for the production of edible oils and other by-products and for stable prices of cloth for internal markets and for boosting exports.
- 3.71 Asked whether the implementation of the Monopoly purchase scheme in Maharashtra State adversly affected the purchase operations of CCI, the Management of CCI stated in a written reply that the implementation of the scheme had not affected the purchase operations of the CCI.
- 3.72. In this connection the Ministry of Commerce in a written reply stated that the purchase operations of the Cotton Corporation had not been adversely affected by the Monopoly Procurement Scheme of the Maharashtra, the need had been felt for a closer coordination between the Cotton Corporation and the Maharashtra State Cooperative Marketing Federation, both in regard to pricing and selling policies so that the joint effort of both these agencies could lead to a more effective disciplining of the cotton market.

- 3.73. The Ministry further stated that Government did not favour the multiplication of such Monopoly Procurement Agencies as this would make coordination of pricing and selling policies of Cotton, which had an important impact on prices of yarn and cloth throughout the country, more difficult.
- 3.74. Asked if, extension of the Maharashtra Monopoly Purchase Scheme to other States with the CCI acting as an apex body would not tackle the problem of finances faced by CCI, the representative of the Corporation stated during evidence that:—
  - "I do not think this objective can be achieved by the State Monopoly alone for the very simple reason that each State monopoly wants to maximise its return in the interest of its cotton growers. And every State monopoly will try to dispose of its cotton to the industry or to the trade at the highest possible price, unless there is a national enactment (towork) under the aegies of the Cotton Corporation where the selling and purchasing policy is coordinated and where the prices are regulated by intervarietal differences. The State Monopolies are not going achieve the national objectives. By themselves they will only escalate the prices of their own varieties of cotton."
  - 3.75. When asked about the views of the CCI on introduction of the monopoly purchase of cotton throughout the country, the Management in a written reply stated that the Corporation was of the view that introduction of monopoly purchase of cotton throughout the country was not feasible immediately, but the aim should be to cover all the cotton production in the country over a period of say, five years. But, here again; the organisational factors would have to be taken into account apart from the financial requirements. The Ginning and Pressing facilities had to be brought under some centralised control, as the some were entirely controlled by private trade which held the Corporation to ransom.
  - 3.76. In this connection the Ministry of Commerce stated in a written reply that it was not considered necessary feasible to undertake monopoly procurement of cotton on a countrywide basis. While Government would like to see public procurement agencies such as Cotton Corporation of India and the Maharashtra Federation acquire a dominent position in the domestic cotton market so as to discipline both kapas and lint prices in the larger interests of the economy, not much advantage would accrue from completely exclud-

ing private trade from the market, in view of the technical and Commercial experties built up by the trade and the sizeable volume of funds involved. It may also be difficult for any single monopoly procurement agency to duplicate all the technical and administrative services rendered by the private cotton trade. As the same time, the importance of keeping kapas and lint prices at reasonable levels had been keenly recognised by the Government and an agency like the Cotton Corporation of India would be the best instrument for securing a commanding position in the cotton market.

- 3.77. The Committee note that according to the Corporation monopoly procurement would in the long run be beneficial to farmer and eventually to consumer, if the farmers are paid remunerative prices and there was efficient conversion of Kapas into full pressed bales and direct sales to the mills from a Government agency. It has been stated that chances of over-invoicing by mills would be considerably reduced and the cost of conversion from full pressed bales to yarn and cloth would be more realistic and also the payment of income-tax, etc. The prices of the finished cloth could be regulated which would eventually benefit the consumers as well as export market.
- 3.78. The Committee however note that according to the Ministry it will be difficult for a single monopoly agency to duplicate all the technical administrative services rendered by the cotton trade and at the same time it has been stated that Government have recognised the importance of the keeping kapas and lint prices at reasonable level and an agency like the CCI would be the best instrument for securing commanding position in the market.
- 3.79. The Committee feel that to achieve this objective, Government should ensure payment of remunerative price to the farmers so that the latter do not change over to other cash crops where there is better price realisation thus creating the necessity for the country to take to imports of this much needed commodity. The Committee also recommend that since the Corporation has by now considerable expertise and has the necessary infrastruture developed, the Government should provide the Corporation with the necessary wherewithal in order that CCI may attain the commanding position in the cotton market.

#### IV

### GINNING AND PRESSING

### A. Ginning Loss

The Corporation enters into agreement with the Ginning and pressing Factories before the start of the season, as far as possible for exclusive processing. The regional Managers are also advised to engage some seasonal staff in the respective centres to ensure that no adulteration or mixing takes place in processing and there is control on wastage and ginning loss. The charges for ginning and pressing are fixed by each State Government under the Marketing of Agricultural Produce Act.

- 4.2. The Management of CCI stated that there had been no complaint about adulteration, mixing, etc.
- 4.3. It has been brought to the notice of the Committee that the percentage of loss of ginning of Kapas in the northern region was much higher side ranging from 3 per cent to 5 per cent as against the ginning loss of & per cent given in the guidelines for purchase of cotton. The Committee enquired about the reasons for high percentage of ginning loss, and the efforts made to bring down the percentage to the prescribed limit. The Management of CCI, in a written reply, stated that the Corporation had recently noticed the very high percentages of ginning loss particularly in the Northern Region. All the Regional Managers had been directed to analyse the reasons for such high percentages and fix the responsibilities as to the persons involved in such instances. That was being done by the Regional Managers and as soon as their reports were received, the Corporation would take further action in the matter. future purchases, however, the Corporation had issued directives to the field officers that any ginning loss above a specific percentage would be the personal responsibility of the officer in charge of purchases in that area and would be recoverable from him.
  - 4.4. Since in the past the percentage of loss had not been abnormal, the Corporation had not assessed the quantum of loss suffered on that account. In the year 1973-74, however, a quantification was possible only after the reports from all the regions had been received.

- 4.5. When asked about the percentage of loss normally allowed in ginning of kapas, the representative of CCI stated during evidence, "It should not exceed I per cent or 1.5 per cent." He, however, admitted that in some cases it ranged from 3 to 5 per cent.
- 4.6. When asked as to how the ginning losses were accounted, the Managing Director stated that—
  - "The position is that ginning and processing work has been completed by the end of August and it is only after the entire ginning is complete that you know the percentage of shortage. So these things have now come to our notice and we are currently investigating into this and an enquiry has been directed.

There are standing instructions issued every year for which a proforma was prescribed 1½ years back. According to those instructions, every centre is supposed to give full details and we call them a processing chart. We are insisting on the proforma chart; we were receiving it from the isolated centres, but we wanted a whole chart. It is the duty of the Centre concerned to submit its report on each operation."

- 4.7. When the Committee pointed out that according to the guidelines for the purchase of cotton, CCI put the ginning loss not at 1 per cent but at 1 per cent, the Managing Director stated that—
  - "I would say that this is only a threat to our people to keep it as low as possible. From our trade experience, we know that this is not possible to restrict it to that."
- 4.8. In a subsequent note received from the CCI, the Management stated that—
  - "The normal percentage of loss in ginning and processing varies from 1 per cent to 3 per cent. According to the Cotton Technological Research Laboratory the loss can be upto 3 per cent. This issue is being thoroughly investigated as to how higher losses in certain centres have happened reasons for the same, fixation of responsibility and preventive measures to be adopted in future."
- 4.9. In this connection the Ministry of Commerce stated in a written reply that Government had not specifically investigated the reasons for the reported higher than average percentage of ginning

loss in the northern region. The main reason would appear to be the relatively old and inefficient machinery employed in the ginning factories.

- 4.10. The Committee note that the percentage of loss in ginning of kapas prescribed in the guidelines issued by the Corporation is 1/4 per cent while according to the management and the reported expert opinion it should not exceed 1 per cent to 1.5 per cent (though it has in fact range from 3 per cent to 5 per cent in certain cases). The Committee are informed by the Management that the 1/4 per cent of ginning loss laid down in guidelines "is only a threat to our people to keep it as low as possible" though the Corporation has also admitted that "this is not possible to restrict it to that." The Committee do not appreciate the advantage of laying down unrealistically low norms in such matters which are not possible of achievement. They are of the opinion that norms prescribed in such cases should be realistic and practical and once prescribed, these should be enforced strictly.
- 4.11. The Committee note that as against the reportedly realistic norm of 1 per cent to 1.5 per cent of ginning loss, the actual loss in certain cases has been much higher ranging between 3 per cent and 5 per cent. The Committee are informed that standing instructions were issued 1½ years ago to all the centres to submit full details, among other things, of ginning loss in a prescribed form but such information has been received only from isolated centres. From this, the Committee cannot but infer with regret that the instructions issued by the Corporation in this regard have been ignored by some of its purchase centres and the Corporation does not appear to have taken any tangible action.
- 4.12. The Committee note that the Corporation had not been assessed the quantum of ginning loss for the period prior to 1973-74 as the percentage of loss had not been "abnormal". The Committee are surprised as to how in the absence of regular and timely information from the Regional Offices the Corporation was able to come to such a conclusion.
- 4.13. The Committee recommend that the Corporation should at least now view this matter seriously and tighten its control on the various purchase centres and ensure regular compliance of the instructions issued by the Corporation in this regard and feed back the information in time so that the Corporation may be in a position to investigate abnormal losses and take timely action to keep the ginning losses within the prescribed norms.

4.14. The Committee are also informed that the Corporation had directed the Regional Managers to analyse the reasons for higher percentage of ginning losses recently noticed particularly in the Northern region and fix resposibility and on receipt of their reports, the Corporation was to take further action in the matter. The Committee would like to informed of the outcome of the enquiries conducted by the Regional Managers and the precise action taken by the Corporation to fix responsibility and recover the loss suffered in this regard for each of the last three years.

# B. Ginning and Pressing Factories

- 4.15. In a written note, the Management of the Corporation stated that the Corporation had decided to set up Model Ginning and Pressing Factories to serve as a model to the private sector. Though there has been considerable rehabilitation and modernisation in the Spinning and Weaving Sector of the Cotton Textile Industry, similar developments had been conspicuous by their absence in the Ginning and Pressing Factories with the latest techniques which would preserve the intrinsic properties and staple length of the fibre, with less wastage and higher productivity with advanced techniques.
- 4.16. The Management added that a survey of cotton carried out by the International Bank for Reconstruction and Development, Washington, had indicated the need for setting up of modern ginning and pressing factories as the existing machinery had been considerably out-dated and not technically efficient. Moreover, it also led to an avoidable loss of three per cent shortage in cotton which could be saved if modern ginning and pressing factories with a number of technical improvements were set up in the country. The feasibility of setting up of modern ginning and pressing factories was being considered by CCI. The matter had been taken up with the leading machinery manufacturers in the world and as soon as the quotations had been received, the matter would be further pursued.
- 4.17. During evidence the Managing Director of the Corporation stated—
  - "We have already prepared a plan and decided to start a factory for this purpose. We have not decided where to set up this factory, because the World Bank team which went into the cotton problem of India came to the conclusion that India's impact on pressing arrangements are outdated as a result of which considerable link is loss in the process of ginning and pressing. As a part of their require-

ment, they have proposed that a new ginning model should be set up. When they met us, we told them that 'as part of your recommendation, you were proposing to set up a new ginning factory to serve as a model for India! We also told them that Indian Cotton Corporation be entrusted with this work as a part of the Wold Bank Cotton Expansion Programme. That must be under the consideration of the World Bank team".

The Managing Director subsequently added that on receipt of clearance from the World Bank, necessary permission would be sought from the Government and further formalities completed for setting up of the same.

- 4.18. Asked about the reaction of the Government to the above proposal, the Ministry of Commerce stated in a written reply that Government had not yet received any feasibility reports from the Corporation for setting up modern ginning and pressing factories. The Board of Directors of Corporation had apprved in principle the setting up of four such factories by the Corporation during 1973-74. While Government were inclined to view the proposal favourably, no firm decision had been taken in the absence of the feasibility reports.
- 4.19. The Committee note that according to a survey carried out by the International Bank for Reconstruction and Development, the existing machinery of ginning and processing factories has been considerably outdated and not technically efficient leading to avoidable losses of upto 3 per cent shortage in cotton. The IBRD team had also suggested that a few modern ginning and pressing factories be set up in the country. The Committee would like the Government to take a decision about the setting up of the plants after a critical examination of the feasibility reports in this connection.

#### IMPORT

### Import of Cotton

The Corporation started functioning from 1st September, 1970 as the agency for canalisation of cotton imports. The main imports have been through U.S.A. under PL-480 and from Egypt and Sudan. There have been limited imports from East Africa, Moracco and Peru under free foreign exchange by Global tenders. The following table shows the details of import of cotton during the last three years:—

Year		Count	ry ·			Quantity released (Bales)	CCI'S share (Bales)	% of total	
1970-71	SUDAN	•	•	•	•	•	2,55,000	52,000	
	U.A.R.						2,07,500	••	
	U.S.A.				•		2,48,750	1,48,750	
	GLOBAL		,•	.•			3,60,000	77,350	
							10,71,250	2,78,100	26%
1971-72	SUDAN						2,65,000	1,45,000	
	U.A.R.		•	,•		•	1,75,000	1,08,000	
	GLOBAL	•		•	•		2,00,000	1,10,000	
							6,40,000	3,63,000	57%
1972-73	SUDAN	•		36 ₹ 3•	٠,	•	4,95,000	4,36,000	
*	A. E. R.	•,		4	•"		1,04,000	54,000	
							5,99,000	4,90,000	82%
1973-74	SUDAN			•			3,20,000	18,684	
	Egypt			•			43,000	36,462	
							34,3000	55,146	16%

<sup>5.2.</sup> It will be observed from the above that the share of the Corporation has been steeply rising from 1970-71 to 1972-73 and it has come from in 1973-74.

- 5.3. During the first two years of its working, the Corporation had to import cotton against free foreign exchange also. Since last two years, however, imports have been allowed only under the bilateral agreements with Sudan and Egypt. The Cotton trade in both these countries is nationalised and therefore there is no system of tender. The Government organisations in those countries announced their export policies from year to year and the Corporation purchased the required cotton from the Governmental agencies in these two countries.
  - 5.4. From May 1973, the Sudanese Authorities changed their policy and for the first time started inviting bids on a competitive basis all over the world. They also announced the minimum reserve price for the sales made by them in May 1973. From April, 1974 they again changed their policy and invited bids from all over the world abandoning the system of giving fixed prices and reserve prices. The cotton is purchased both from Egypt and Sudan on F.O.B. terms which necessitates arrangement of steamers on the part of the Corporation. The Corporation arranges the Indian flag vessel through the Shipping Corporation of India and in this way national shipping lines are helped in earning freight and thereby the Corporation saves considerable foreign exchange. Further, insurance is also covered with the Indian Insurance Companies and thereby they are help in earning premium and the country is saved from payment of foreign exchange for this purpose. Besides, when the import is in bulk, there is considerable saving both in freight and some reduction in insurance premium. The other speculative tendencies as well as undesirable trade practices such as under and over invoicing are also elimited.
    - 5.5. Referring to the canalisation of imports of cotton through CCI, the Committee asked whether it had any latitude for bargaining on the price of imported cotton, the Managing Director stated that:
      - "There are instances when we have purchased cotton in free foreign exchange. There we had succeeded in bringing down the prices to a substantial percentage of the total purchase. For example, in 1970-71, there was a cotton famine when the total production in the country was hardly fifty lakhs bales, Government had to import ten lakh bales in that year. That was the first year when the Corporation was asked to purchase foreign cotton. We found that our purchasing capacity with the limited foreign exchange was such that we had to reject the tenders unless the tenderers brought down the prices to our level.

So much so, there were instances when we save more than Rs. 10 lakhs worth of foreign exchange to our country and incidentally this made us bring down the price of foreign cotton. The sellers abroad knew that the Cotton Corporation was a bulk buyer. But this type of purchases had never been done since 1972. At present what is going on is that the purchase is made against a bilateral agreement."

- 5.6. Asked what was the experience of Government in having appointed CCI as the canalising agency for imports of cotton and how much saving in foreign exchange could be effected by that process. the Ministry of commerce in a written reply stated that Government were satisfied with the results achieved by appointing the Cotton Corporation of India as the Canalising agency for imports of cotton. Since the Corporation's inception, Rs. 300 crores worth of cotton had been imported. The cotton had been purchased on f.o.b. basis with the result that the foreign exchange cost of freight and insurance had been conserved. Shipments had been arranged on Indian Shipping Lines, most of the business having gone to Shipping Corporation of India. On an average the freight and insurance cost accounts for 15 per cent of the f.o.b. price. As such on a broad assessment, the foreign exchange saving resulting from the canalisation from imports amounted to Rs. 45 crores. The Corporation had also been quite successful in safeguarding the interests of cotton mills by ensuring good quality of cotton, proper weighment and packing, etc., and settlement of claims without recourse to international arbitration.
  - 5.7. Asked about the policy of the Government in regard to import of cotton, the Managing Director informed the Committee during evidence:
    - "The policy regarding import is decided by the Government of India every year. Though there have been demands for larger quantities of imports, the quantities imported have gone down every year. Last year, in fact, they were the least and there is a very precipitate fall from 10 lakhs bales to 40,000 bales. This year's policy has not yet been announced. We are only agents of the mills in importing cotton, once the quotas are given by the Government."
  - 5.8. In this connection, the Ministry of Commerce in a written reply stated that:—
  - "Government's policy is to restrict imports to quantities and varieties required for export production. As an exception 513 LS—5.

to this policy, some exports of extra long staple varieties have been allowed from Egypt and Sudan as the means of enabling these countries to pay for their imports from India of various traditional and non-traditional items. These imports have come down sharply in the last two years. With the development of indigenous substitutes of extra long staple varieties, the imports are expected to come down still further. Therefore, future imports of cotton should be almost entirely restricted to some varieties required for export production, which may be in short supply indigenously.'

5.9. When the Committee pointed out that according to a Reserve Bank enquiry, the cloth which was manufactured out of imported cotton was only for local use, the representative of the Ministry replied:—

"The observation made by you is correct. Now we are changing it; in fact, we have already changed it."

#### He added:

"When the cloth is woven and the yarn is spun sometimes there has to be mixing of some of the foreign yarn with certain Indian yarn for producing certain varieties of cloth for sale in the export market. Therefore, there would be some occasions when such mixing has to take place. I had earlier pointed out that we are going into the necessity of the "value added concept", ... every rupee of imported cotton goes to fetch Rs. 1.50 by the sale of the exported product."

5.10. In a written note furnished after the evidence the Ministry of Commerce stated that:—

"It is a fact that only about 10 per cent of yarn and cloth manufactured from imported extra long staple cotton has figured in our textile exports. About 70 per cent of the yarn spun from imported cotton is supplied to the decentralised sector consisting of handlooms and power-looms and is used for manufacture of sarees, dhoties, etc. As already stated earlier, the import of these varieties form Arab Republic of Egypt, and Sudan has enabled those countries to import various commodities and manufactured products from India. The imports have been

coming down for several reasons including the high import duty of 40 per cent ad valorem imposed with effect from 1-3-1973, and the gradual evolution of substitute varieties within the country. Separately, a policy decision has been taken by Government to restrict future imports to varieties required for export production. Some transitional imports of extra long staples from Egypt and Sudan may, however, have to be continued till the mode of financing of trade between these countries and India can revert to one involving payments in free foreign exchange.

- 5.11. The Committee pointed out that in the Corporation's Annual Report for the year 1970-71, it had been stated that the Government of India reserved a certain quantity of cotton to be imported only by the Cotton Corporation to cater to specific needs of export criented mills or mills supplying yarn to the de-centralised sector.
- 5.12. The Committee asked whether the needs of exports-oriented mills had been assessed and if so, what their requirements were: the CCI stated in a written note that the Corporation had not made any assessment of the requirements of the cotton for the export-oriented mills. The mill-sector exported over 17 per cent of its cloth production valued at about Rs. 200 crores during 1973. Handloom-sector exported about Rs. 30 crores worth of fabrics and ready-made garments during 1973.
- 5.13. During the Fifth plan, considerable expansion of the textile industry is envisaged and a corresponding increase in the demand for raw material would have to be met. To the extent, the indigenous production would be able to cope up with such increase in the demand, imports could be reduced.
- 5.14. In this connection, the Ministry of Commerce stated in a written reply that the cotton requirements of export-oriented mills had not been separately assessed by Government. Hitherto, no separate imports had been arranged by the Cotton Corporation of India to meet the specific needs of export-oriented mills and mills supplying yarn to the decentralised sector. During 1973 the cotton equivalent of cotton textiles exported was of the order of five lakh bales, in short and medium staple varieties. The value of exports of mill-made cotton textiles, during 1973 amounted to Rs. 288 crores. During that year the actual cotton import was only 0.59 lakh bales with an approximate value of Rs. 43 crores. During 1974, one lakh bales of

medium staples of cotton had been cleared for import and would be supplied to priority exporting mills to enable them to maintain a more competitive pricing of their textiles in overseas market.

- 5.15. During the tour of the Committee they were informed that the import of cotton had been brought down from 8 lakh bales in 1970-71 to 63,000 bales in the current year (1973-74). Asked whether the imports could be completely eliminated, the Management of CCI in a written reply stated that:
  - "It was true that with the sharp increase in the prices of imported varieties of cotton in the International during the year 1973 and with the imposition of 40 per cent protected import duty on foreign cotton (against the original import duty of 2½ per cent), the textile mills in India had diverted their attention to the long staple varieties grown in India, such as Sujata, Varalaxmi, MCU-5 and Shanker-4. However, the indigenous production of these varieties was extremely limited, besides these varieties could spin only upto 60s counts and were, therefore, useful for fine cloth only. Since, however, the indigenous production of extra long staple cotton stapling 14" and above is negligible, the country-had still to depend upon import of such cotton from Egypt and Sudan. As long as the production of extra long staple cotton varieties was not adequately increased it would not be desirable to totally ban the imports. The increase in the import duty had greatly helped the cotton growers in India for realising better prices and served as sufficient incentive to provide impetus for production of long staple cotton.
    - The Corporation now devised Varalaxmi which was a perfect substitute for imported extra-long staple cottons and with its multiplication, imports could be totally done away with over a phased period."
  - 5.16. In reply to a question about the magnitude of imports necessary to meet the requirements of exporting mills, the Ministry of Commerce stated in a note that the quantum of Cotton required to be imported would vary from year to year depending on the gap between domestic availability and overall mill and ex-mill consump-

tion. For the 1974-75 cotton year, the Textile Commissioner's initial assessment was about 8 to 10 lakh bales of cotton might have to be imported. There had since been some improvement in the domestic crop prespects and the import requirement might come down by about two lakh bales.

- 5.17. The import requirements in subsequent years would also depend on the actual rise in domestic production, which had been projected to increase by about 33 per cent over the Fifth Plan period i.e. at an annual rate of 6.5 per cent.
- 5.18. The Committee pointed out that the imports of cotton were mainly of long staple varieties and the export of Indian cloth was mainly of the coarse and medium varieties. Asked whether in view of this, the Corporation considered import of cotton necessary, the Management of CCI stated in a written reply that even though the imported cotton might not be directly used for the production of textiles meant for export, it might not be possible to completely eliminate imports because of other considerations of international trade.
- 5.19. The Committee enquired about the justification for imports in view of increase in indigenous production the Managing Director of CCI stated during evidence that:—
  - "The basic point is that the spindle capacity of the mills is also going up. For example, consumption of cotton during the current year has gone up to about 68 lakh bales. current consumption is 5.65 lakhs bales per menth. increasing spindleage capacity, the increased demand for controlled cloth and with an export target of Rs. 299 crores, the production of cloth in the country has got to go up. As it is, the average per capita consumption of cloth is 12 metres. We have a target of 18 metres in the Fifth Plan. So, it is envisaged that the requirements of the raw materials would also be nearabout 80 lakh bales. So, from a figure of 62.5 lakhs to 80 lakh bales we have to do a very big job which the agricultural plan has to take care of. I would say one thing that though I do agree that with the increase in production, we need not import cotton, I would not say that we must stop imports altogether and close the mills. In case we do not have cotton to run the mills, we

have no alternative—which is a very unfortunate situation—that we have got to tide over a crisis. So, tiding over a crisis cannot be ruled out. So, I do agree that imports should go down. They have gone down. But in the event of a very bad crop being affected by pests, it is not ruled out. Even in advanced cotton-growing countries like Egypt, production fluctuates. So, when this fluctuation in production effects employment, exports, availability of cloth, then I think there would be as an unfortunate event that we may be forced to import smaller quantities....."

- 5.20. The Committee note that ever since the appointment of Cotton Corporation of India as a canalising agency for cotton imports the percentage of cotton imported through the Corporation has risen from 26 per cent of the total imports in 1970-71 to 82 per cent in 1972-c3. The percentage of imports through the Corporation has come down to 16 per cent in 1973-74.
- 5.21. The Committee are informed that Government are satisfied with the results achieved by appointing the Cotton Corporation as the canalising agency for import of cotton, since the cotton purchased by the Corporation from Egypt and Sudan was on f.o.b. basis with the result that the foreign exchange cost of freight and insurance had been conserved. On a broad assessment the foreign exchange saving resulting on account of freight and insurance has amounted to Rs. 45 crores since the Corporation started functioning as the canalising agency.
- 5.22. The Committee note that the imports of cotton had fallen from 10 lakh bales in 1970-71 to 3.43 lakhs in 1973-74. But in 1974-75, 6 to 8 lakh bales of cotton were expected to be imported. The Corporation feels that with the increasing spindlage capacity and demand for controlled cloth and with an export target of Rs. 299 crores, the production of cloth in the country has got to go up. Besides, the per capita consumption of cloth is planned to increase from 12 metres to 18 metres in the Fifth Plan period. In view of these facts, the requirement of cotton will also go up from 62.5 lakh bales to 80 lakh bales. Even though indigenous production of cotton has increased, unless the production catches up with the requirement, import of some quantities of cotton is stated to be unavoidable.
- 5.23. The Committee also note that the general policy in the matter of import of cotton is to restrict imports of quantities and varieties required for export production. As an exception to this policy,

some imports of extra long staple varieties have been allowed from Egypt and Sudan under bilateral trade agreements. It has been stated that the Government of India reserve certain quantity of cotton to be imported only by the Cotton Corporation to cater to specific needs of export oriented mills or mills supplying yarn to the decentralised sector. The Committee are surprised that neither the Government nor the Corporation has made any assessment of the requirements of cotton for the export oriented mills. They are, therefore, not able to appreciate the rationale behind the statement that imports are restricted to quantities and varieties required for export.

5.24. The Committee however, note that according to RBI Inquiry, the cloth manufacture out of imported cotton was only for domestic use. This has also been admitted by the Ministry which is now going into the question. The Ministry has also admitted that only 10 per cent of yarn and cloth manufactured out of imported cotton has figured in textile export and 70 per cent of yarn spun from imported cotton is supplied to the decentralised sector, consisting of handloom and powerloom and has been used for manufacture of sarees, dhotis, etc. The imports have, however, come down for several reasons including the high import duty and the gradual evolution of substitute long staple varieties within the country. Committee have not been able to see the justification behind importing cotton and spending precious and scarce foreign exchange merely to satisfy needs of the affluent sections of society. Though a policy decision has been taken by Government to restrict future imports of varieties required for export production, the Committee fail to understand why this could not have been done earlier. They would like the Government to examine the circumstances in which cotton was allowed to be imported in the past mostly for use of affluent people. The Committee recommend that imports of cotton for meeting domestic consumers' requirements should be minimised if not altogether eliminated and imports should be compulsorily related to export obligation. The Committee also suggest that there should be deterrent penalties for misuse of imported varieties of cotton. It may not be out of place to mention that our country has the potentiality of producing cotton of requisite qualities and quantities to meet the entire requirements and what is needed is a proper detailed assessment in advance and gearing of inputs to achieve the the target.

<sup>5.25.</sup> The production of extra long staple cotton (1-1|16" and above) within the country, import of cotton and its value for the

last four years furnished by the Ministry of Commerce has been as under:—

								Figures in cales of 180		
Cotton y	eay So	ptA	ug.				Production of extra- long cotton (1-1/16" and ahove.)	Percentage of produ- ction	Imports	Value in Rs. cro- res
I .							*2	3	4	5
1979-71	•	•		•	•	•	1 · 47	3·3%	8 51	109 · 85
1971-72		•		•	•		2.41	3.7%	7.44	101.73
1972-73		•	•	•		•	11.73	19.6%	4.42	64 · 90
1973-74	•	•				•	Not available		0.49	23 · 53
							TAOL NAT	Habic		300.01

5.26. When pointed out by the Committee that at present the growers in the country are growing long-staple cotton on the advice of the Government of India, the representative of the Ministry of Commerce stated:—

"There was a programme of encouraging its production. This programms had yielded good results till now, both from the point of view of the country and from that of the cultivator. I am not referring to this year. Hitherto, the cultivation of long-staple cotton was attended with good yields."

5.27. In this connection, the Ministry of Commerce stated in a written reply that the Indian Council for Agricultural Research (ICAR) had achieved considerable success in developing successful strains of long and extra long staple cotton suitable under Indian conditions such as Sea Island Andreus, Sujata, Varalakshmi, etc. which could spin upto 90s counts. The substitution of Egyptian cotton which could spin upto 120s counts appears to be somewhat more difficult but research efforts were being made in that direction.

The comparable official figures of production of extra long cotton (27 m. m. ard above) or the year 1970-71 to 1972-73 are as follows:

					(lakhs bales)
1970-71	•		•		6.9
1971-72	,	•	•	•	11.5
1972-73					

<sup>\*</sup>At the time of factual verification the Dt. of Economic & Statistics (Department of Agriculture) informed as follows:—

- 5.28. Asked whether there was any scheme to stop import of long staple cotton and give support to farmers growing long staple cotton, the witness added:—
  - "As the Committee are aware the import of long staple cotton has been progressively brought down. There used to be a time when we were importing 7 lakh bales, but that was very long ago. Even recently we were importing 3 lakh bales from Sudan and Egypt.
  - The import during 1971-72 was 7.4 lakhs bales, 1972-73 4.42 lakhbales and 1973-74 0.49 lakh bales (i.e. less than half a lakh of bales.). This was due to certain bilateral trade agreement with Sudan which had to be honoured in order that our money should not be blocked up with them. The goods had to be exported and imported. So, we have some interest in maintaining a balance. But even with that consideration in a view we have brought down the import of long staple cotton very considerably. This year, as far as I know and as far as I can see, we may not have to import any long staple cotton from Egypt and in respect of Sudan we are still on the pursuit of that point to reduce the import subject to some of the problems in the bilateral trade agreement.
    - We do want to give maximum concouragement to long staple within the country.
    - I will certainly bring to the notice of the Government and to the extent and the power that we have got we will see what can be done. But you will kindly agree that it is a matter of placing funds at the disposal of the Cotton Corporation of India, otherwise we cannot move.
    - Cotton balance sheet is being drawn from year to year and that shows that in our requirements for domestic consumption as well as for export, there is a short fall. There was short fall in 1973-74 and that is likely to be there also in 1974-75. We have assumed 5.6 lakhh bales as non-mill consumption. So, there will be a definite gap between supply and demand. The proposal is now to import cotton of staple length of 31/32" i.e. not above 1" but below 1" staple which is really medium staple cotton for the purpose of export production."

"the price situation is such that there is a heavy demand for the cotton which spins the medium and coarse cloth. In fact, their prices have been going up. One of the reasons is-this is not the only reason-that there is substantial increase in the quota of standard cloth to be produced by the mills which has been introduced from this year. The prices for the medium and coarse varieties have been on the high side. I admit that that was the basis of our import proposal for the current year that what we need is certainly not long staple cotton, but we need medium staple." The only circumstance under which we would import medium staple cotton would be when there is a price advantage.

Pakistan cotton is much suited to our mills and if we are in a position to get it at lower price, we should make a try for it."

5.29. In reply to Unstarred Question No. 2647 as to whether any agreements have been signed with other countries recently for import of cotton, the Deputy Minister of Commerce stated in Lok Sabha on 7th March, 1975 that a contract had been signed between the Cotton Corporation of India and Cotton Export Corporation of Pakistan for Import into India of two lakh bales of cotton from Pakistan. Since the import will be of medium staple cotton in respect of which there is a shortage in the country as compared to the demand, no adverse effect on the cotton growers of the country is anticipated.

5.30. The Committee note that indigenous production of long staple cotton has risen from 3.3 per cent in 1970-71 to 19.6 per cent of total cotton production in 1972-73 and the import of such cotton has been progressively brought down from 7.4 lakh bales in 1970-71 to 49000 bales in 1973-74. They are informed that Government want to give maximum encouragement to production of long staple cotton within the country and unlike the past, medium staple cotton is proposed to be imported in the current year for expert production. The Committee are also informed that the programme of encouraging production of long staple cotton has yielded good results till now both from the point of view of the country and the cultivators. The Committee recommend that Government should give encouragement to the production of long staple cotton in the country and ensure that the growers get a remunerative prices so that such growers do not switch to other cash crops and Government are not forced to import long staple cotton.

5.31. The Committee also note that ICAR had achieved considerable success in developing successful strains of long and extra long staple cotton suitable to Indian conditions, and research efforts are being made to develop substitutes for Egyption cotton which could spin upto 120 counts. The Committee hope that with the development of such substitutes, imports of Egyptian Cotton would also be reduced.

## **STORAGE**

### Warehouses

The Corporation makes its arrangements for storage of cotton purchased by it in the godwons of Central and State Warehousing Corporation and the Bombay Port Trust. Wherever such storage facilities are not available from these sources, they have to be hired from private sources.

- 6.2. The Central Warehousing Corporation and the State Warehousing Corporations have agreed to provide the following storage facilities to the Corporation as far as possible near the point of procurement.
  - (1) facilities for weighment of cotton bales;
  - (2) fire fighting arrangements;
  - (3) keep their downs open from 9.00 a.m. to 7.00 p.m. to facilitate receipts and delivery of cotton bales.
- 6.3. The position regarding the storage of cotton in the godowns hired by CCI is as under:—

Goo	iown h	ired fi	rom B	PT	•	Storage capacity	Actua storage	Godown hired from private parties	B/S stored
						(2800 B/S	S per godowi	1)	
August 1971	7					20,000	16,035**	17	13,411@@
August 1972	7					,,	11,723	17	17,178@@
August 1973	7					33	5,040+	nil	
May 1974	7					**	10.471***		

<sup>\*\*</sup>Out of 7 godowns only 6 godowns bales were stored and one godown was kept for keeping samples and loose Cotton collected from other godowns.

<sup>@@</sup>The godowns were taken on muccadumi basis and the muccadums used to store their bales also in the remaining space.

<sup>†</sup>The CCI revised is policey of storage of cotten on behalf of various mills, Fruker three godowns were reserved exclusively for the purpose of Indian Cotten samples and imported cotton samples and yarn consignments and for bended warehouse.

<sup>#</sup>**\*** 

<sup>\*\*\*</sup>Purther the credit squeeze also influenced the policy of CCI in regard to storage of cotton on behalf of the mills.

- 6.4. Asked whether the existing arrangements for the storage of cotton were adequate, the Management of CCI stated in a written reply that the Corporation had taken on lease 7 godowns from the Bombay Port Trust in Bombay. Each of these had a capacity of 2800 bales. In other areas the Corporation was utilising the facilities provided by the Central Warehousing Corporations and the State Warehousing Corporations on mutually agreed terms. These arrangements had been found to be satisfactory. Although some of the godowns in Bombay had not been fully utilised, in order to meet with any emergency, the Corporation had not surrendered of any of the godowns taken on lease. The Central Warehousing Corporation had no godowns in Bombay. Therefore, it would not be possible to get godown facilities, if required at short notice.
- 6.5. In regard to creation of new storage capacity, it was stated that the Corporation had so far not undertaken construction of godowns on its own account for storing cotton bales. The Corporation, however, intimated the CWC & SWCs its approximate storage requirements for each year based on its purchase programme, on the basis of which the CWC and SWC make arrangements to store cotton bales as and when deposited by the Corporation. If the cotton has to be preserved for a long time, where its intrinsic properties are to be well preserved it is necessary that special storage facilities be created. This would become of significant importance if the Corporation has to create Buffer Stocks.
- 6.6. Asked whether it would be economical for the Corporation to have its own storage godowns, the Management of CCI stated in a written reply, that the Corporation did not consider it advisable to enter the field of creating warehousing capacity of its own. The approach of the Corporation had been that such work should be entrusted to the specialised agencies like Wareousing Corporation, rather than building up its own storage godowns.
- 6.7. In this connection during evidence the representative of the CCI informed the Committee that—
  - "....if we go on doing it ourselves, it may be slightly cheaper but would raise a host of other problems.....of having godowns, employing the proper staff and giving them training etc. Instead of this, we are using the Central Government's machinery, viz. the Warehousing Corporation. We have entrusted all our storage to the Warehousing Corporation. They are doing a good job of it and we are having all satisfaction."

- 6.8. About the arrangement made by CCI for storage of cotton, the Ministry of Commerce stated in a written reply that Government were generally satisfied about the adequate of storage arrangement in the warehouses as no major incidence of pilferage or deterioration etc. had come to Government's notice.
- 6.9. From a national cost benefit angle it would not be justifiable for the Corporation to establish its own storage godown so long as there was space available in godowns owned by the Central and State Warehousing Corporations where cotton could be adequately stored. To Government's knowledge, the Corporation had not carried out an internal cost-benefit analysis with regard to the relative advantages of having its own storage facilities vis-a-vis renting out facilities of the Warehousing Corporation.
- 6.10. Asked whether there had been any cases of losses to the CCI in storage of cotton in the warehouses, the Management of CCI stated in a written reply that it was part of the terms of agreement with the Warehousing Corporation/Bombay Port Trust that they would safeguard the stocks of the Corporation against pilferage etc. As regards loss due to fire, the stocks were covered by insurance. There had been no cases of loss to the Cotton Corporation in the storage of cotton in the warehouses except due to the fire incidents.
- 6.11. There were 158 cases of fire at different purchases centres. Statewise details of which are given below:—

		197	1971-72	197	1972-73	197	1973-74			
Ž	No. Name of State	No. of	Total loss	No. of	Total loss	No. of Cases	Total loss	Total col. 3, 5,	Total Col. 4,6,8	
	<b>(2)</b>	(3)	(4)	છ	9)	3	8		(ro)	
Σ	I. Madhya Pradesh	6	38,220.00	7	22,035 · 71	7	8,000 00	13	68,255.71	
4	2. Punjab ·	15	5,04,763.98	78	2,48,760.00	61	3,01,231 .60	7	10,54,755.58	
2	Rajasthan ·	H	1,399.00	23	22,97,068 · 78	01	7,53,555 03	34	30,52,022.81	
Ï	4. Haryana · ·	8	3,41,998·45	•	5,52,305.40	7	5,20,511.03	21	14,14,814.88	
2	5. Karnataka ·	7	24,200 · 00	<b>H</b>	:	8	1,08,000.00	٧٠	1,32,200.00	
6. Ai	Andhra Pradesh	H	18,400.00	7	11.152.6	N	7,100.00	v	35,251 - 11	71
Ğ	7. Gujarat · ·	17	18,12,389.84	:	:	<b>H</b>	92 - 16	18	18,13,083.60	
		80	27,41,371 - 27	65	31,29,921	43	16,99,091 - 42	158	75,70,383.69	

- 6.12. As against the total loss of Rs. 75.70 lakhs the Corporation has so far received through insurance and other claims a sum of Rs. 50.83 lakhs. Further details regarding cause of fire enquiry reports, amounts yet to be received etc. are being called for from the Regional Offices.
- 6.13. Asked whether the causes of fire had been investigated and responsibility therefor fixed by the Corporation, the Management of CCI stated in a written reply that the details of fire incidents in various States were being gone into thoroughly by a Senior Officer of the Corporation, when full report would be submitted.
- 6.14. In this connection, the Ministry of Commerce stated that Government had not investigated the causes of fire accidents, and the consequential losses.

The Corporation had been advised to ensure the availability of fire fighting equipment in the storage godowns rented by it and to take stringent administrative action in cases where it was established that the fire incident could have been averted through greater alertness of the personnel involved.

6.15. The Committee note that the Corporation has been storing cotton in the godowns of the Bombay Port Trust and the Central and State Warehousing Corporations and the Government. Corporation is generally satisfied about the adequacy of storage arrangements in these warehouses and it does not think it is advisable for the Corporation to enter the field of creating warehousing capacity of its own. The Committee however, find that the storage space in the seven godowns hired from Bombay Port Trust has never been fully utilised. Against the space area of 20,000 sq. ft. the Corporation has utilised a little over 50 per cent of space in 1972 and 1974 and slightly above 75 per cent in 1971. The utilisation of space in August, 1973 was as low as 25 per cent. Corporation does not consider it advisable to surrender any of the godowns as it would not be able to get it again if required at short notice. While the Committee appreciate the difficulty that may arise if any of the godowns in Bombay is surrendered, the Committee would like the Corporation to keep this matter under constant review and retain only such godown space as may be necessary for storage consistent with its plan of operations.

- 6.17. The Committee regret to note that there were as many as 158 cases of fire (Madhya Pradesh—30, Punjab—62, Rajasthan—34, Haryana—21, Karnataka—5, Andhra Pradesh—5, Gujarat—18) in the warehouses where cotton was stored involving loss of stocks worth Rs. 75.70 lakhs out of which a sum of Rs. 50.83 lakhs has been received by the Corporation through insurance and other claims. The Committee are surprised to note—the highest number of fire incidents (62) occured in Punjab that in spite of the huge loss Government have not investigated the causes though they had issued some administrative instructions to the Corporation to make available fire fighting equipment in the storage godowns. The Committee understand that the details of fire incidents are being gone into by a senior officer of the Corporation whose report is awaited.
- 6.18. In the opinion of the Committee, as the fire incidents relate to the period as far back as 1971-72 and 1972-73, Government/Corporation should have instituted enquiries into the causes of fire incidents much earlier. Obviously the Corporation has not viewed these incidents with the seriousness which they deserved. In view of the large number of incidents and heavy losses caused as a result thereof, the Committee recommend that Government should take steps to conduct a thorough investigation into the causes of the incidents by an officer independent of the Corporation with a view to fixing responsibility thereof. The Committee would like to informed of the findings of the Enquiry and the action taken Government/Corporation thereon within six months. mittee would also like that Government should concerted take measures for tightening the safety arrangements for storage cotton to prevent accidents due to fire etc. and arrange for surprise inspection of the godowns to ensure that arrangements are sound.

#### VII

## PRICING POLICY AND SALES

## A. Pricing and Sale Policy

The Corporation had been following a policy of selling cotton at the purchase price adding thereto the expenses of the Corporation and a service charge of 1 per cent. That policy was uniform both for sale to the mills as well as sale to the others. Since May, 1974, the Corporation had been selling its stocks only to the mills and not to any trader or intermediary.

- 7.2. This decision to sell the cotton to the mills only at the cost price plus one per cent commission was taken by the Board at its meeting held on 30-4-1974 with a view to stabilise the prices, which had been showing bullish tendency. The main objective of the Corporation had been to give remunerative prices to the farmers and to stabilise the prices for ensuring spindle activity, exports and supply of cloth to the consumer at reasonable prices. It is thus in keeping with the objectives of the Corporation that the Corporation started selling the cotton on above basis. Although it was decided that sales would be on catalogue price covering only a service charges of 1 per cent, later on, the policy was charged when it was realised that there are likely to be substantial losses in the purchase operations in Southern Region.
- 7.3. Thus the policy had not been that the sale should be on catalogue prices covering only 1 per cent service charges, because wherever the qualities could bear further increase, endeavour had been made.
- 7.4. About the fixation of sale prices the Management of CCI stated in a written reply that the prices were fixed by the Sales Committee at Headquarters for all the major varieties after the basic data such as the prices of kapas or cost of conversion, sale realisation from seeds, etc., were received from Regional Offices adding 1 per cent service charge, which make into catalogue price of the Corporation. The sales were being made by the Corporation throughout the country uptil recently at the catalogue price. As no variation in prices were permitted except by the Sales Committee at Headquarters, the question of mal-practices under the same was also ruled out. The Sales Committee at Headquarters

approved prices of all the varieties and if due to certain circumstances, some full pressed bales were not of the standard quality or deteriorated, certain off allowances are permitted. But generally the catalogue price was kept.

- 7.5. In the past the Corporation had been selling Full Pressed bales every day to anybody and mostly at market prices, which should in any case be higher than catalogue prices plus one per cent service charge. But this policy had been changed with effect from 30-4-1974. The Corporation is now inviting quotations for 20,000 to 25,000 bales at its own catalogue prices plus one per cent service charge, which are, in case of Northern cotton, substantially less than the prevalent market prices. This had to a considerable extent resulted in curbing the cotton prices in market, which otherwise would have risen to abnormally higher level.
- 7.6. It was added that prior to April, 1974, sale operations of the Corporation were not consciously designed to bring down market prices. Sales were made at the best prices which could be fetched. However, from April, 1974, onwards, sales were made at regulated prices. The main variety involved in the regulated sales was Punjab American 320-F of which the Corporation held sufficient stocks. The impact of regulated sales can be gauged from the fact that between June and August 1974, spot prices of other cottons rose by Rs. 400-500 per candy whereas that of 320-F variety rose by only about Rs. 200 per candy.
- 7.7. In the year 1970-71, the sales were made from the Head Office at Bombay as there were no Regional Offices. The cotton was sold by contacting parties and mills.
- 7.8. Subsequently, Regional Offices were established at Delhi, Ahmedabad, Coimbatore, Indore, Hyderabad, Adoni, Bangalore and offers were received by the Head Office either directly or from Regional Offices and Sub-Regional Offices and were placed before the Sales Committee for approval. Cotton was sold to mills as also to merchants. Regional Offices and Sub-Regional Offices were receiving offers based on catalogue price given by the Accounts Department at the end of every month for general guidance. However the offers were approved in the Sales Committee after verification of prices by the Divisional Manager (Accounts).
- 7.9. Generally, all sales were effected on spot terms. All expenses after weighment of cotton had to be borne by the buyers. The buyers were allowed to inspect one pucca sample per lot of 100 bales or less. All sales were subject to selection otherwise

cancellation at par. By and large a period of 11 days was allowed as grace period for completing selection and delivery of cotton sold. If delivery was not taken within the period of 11 days, the Corporation was charging @ 2 per cent per month as carrying charge and this was increased to  $2\frac{1}{2}$  per cent from early this year in view of the increase in Bank rate and other expenses such as insurance, godown rent, etc.

- 7.10. At the beginning though the Corporation was mentioning in the Contract that buyers will have to take delivery of the cotton contracted immediately, no specific period for the time for which the Corporation would carry cotton was specified. However, subsequently, it was decided to carry cotton for not more than two menths against 15 per cent deposit after the expiry of grace period of 11 days. Now, in view of the Reserve Bank's Credit restrictions the Corporation had decided not to carry cotton on behalf of any party and was insisting that party should take delivery of cotton within 11 days grace period, otherwise contract was treated as cancelled.
- 7.11. Since as per the present policy the CCI is required to sell its kapas to the Mills at cost price plus 1 per cent commission, if Market price is higher by Rs. 200/- to Rs. 300/- over the cost price. Similarly if the cost price is higher than the market price the Corporation is required to sell cotton to the Mills at Market prices. The Committee enquired whether CCI would not be losing both ways while the Textile Industry will be getting cotton at cheaper rates, without giving any guarantee regarding sale price of the cloth to the Consumers. The Corporation stated in a written reply that in adopting the policy of sales at fixed prices, care had been taken to ensure that the purchase price, the expenses incurred by the Corporation and the service charges were included. Therefore, there was no question of the Corporation suffering any loss on account of its sales at fixed prices so long as the market prices were higher than the prices fixed by the Corporation in this It would not be possible for the Corporation to get any guarantee from the textile industry regarding the sole price of cloth to the sellers. However, the prices of controlled cloth mass consumption was fixed by Government.
  - 7.12. It was also stated that the Board of Directors of the Corporation constantly reviewed the policies in each and every meeting.
  - 7.13. In this connection the Ministry stated that the sale pricing policy adopted by the Corporation from June 1974 onwards was meant to exercise a moderating influence on the cotton price

situation in the open market. Stability in prices of yarn and cloth both for the demostic consumer and for the export markets cannot be achieved unless cotton prices were kept within reasonable limits. At present one quarter of the mill sector's production was being delivered as controlled cloth at prices substantially below the costs of production. Another 10 per cent to 15 per cent production was being exported. International cotton prices which determine export unit realisation for our cotton textiles had been much lower than domestic cotton prices. Therefore, it had been felt that efforts should be made by Government to provide cotton for export production at prices close to international parity so that the competitive position of the exporters could be maintained. It is true that Government had not prescribed any ceilings on prices of non-controlled varieties of cloth but the intention was that once cotton prices were stabilised ,the mill-sector would be required either through self-discipline or through statutory regulations to restrain prices of yarn and cloth to reasonable levels. Commerce Ministry feel that for the Corporation to make a real impact on market prices of cotton through its sales at regulated prices, the Corporation should, together with the Maharashtra Cooperative Federation hold about half of the cotton stocks in the market during the lean part of the season. proposals for enlarging the Corporation's role in these lines had already been made to the Committee of Secretaries.

#### B. Releases of Cotton

- 7.14. In regard to release of cotton bales in stock with the Corporation, the Management of CCI stated in a note that the sales of cotton bales were not necessarily effected immediately after purchase of kapas. Those being commercial operations, the Corporation had to watch the prevailing situation and had to take a decision in regard to sales of cotton bales in stock with the Corporation. The selling prices would, therefore, vary with the addition of monthly carrying charges. Moreover, in respect of purchase of kapas the Corporation had to arrive at purchase price per candy of lint after adding expenditure on processing the same and other incidental expenses involved, and after taking into account the value realised by sale of cotton seeds. These expenses vary from State to State and in few cases from mandi to mandi with variation, in ginning and pressing charges, Market rates etc.
- 7.15. According to the present policy, the CCI was releasing cotton held in its stock in various States periodically by circulating details of the cotton to the mills in India at fixed prices given by the CCI an dasking the mills to submit their indent for the varieties of the cotton given in the Circular. On receipt of the indent from the

mills by a specified date, the cotton is allocated to the mills on the basis of their installed spindle capacity.

7.16. In this regard, the Managing Director of CCI stated during evidence that:—

"We would like to see that our releases are equally spread over a period of six to eight months; instead of buying today and selling tomorrow, we would like to keep it for a period of six months, and every month we should go on releasing one lakh bales, so that the consumption of the industry is 5,55,000 per month and if you release about 20 to 25 per cent of the cotton of a month's consumption, you are releasing a fairly good quantity which will hold the cotton prices under check and the mills also cannot their obligation in respect of controlled cloth or other obligations like the export and so on, on the plea that cotton prices prevented them from doing so. So when cotton prices were higher last year, we have been pleading that it is wrong to say that the CCI must not buy because the prices were higher. Even if cotton prices are higher, the case for purcase by the CCI is greater and more in force, because it is a situation like this that the Government agency must have more stock and it must be able to unload the stock to prevent escalations of prices. This, we have demonstrated by the sale of three lakh bales this year. This consisted mainly of northern cottons plus Karnataka. We have released this three lakh bales from May onwards at a definite price every fortnight. The result is, while the prices of cotton in the country have gone up by 55 to 60 per cent., the prices of cotton released by the Cotton Corporation have gone up only by 25 per cent. This is what we showed to the Cotton Advisory Board which met in Bombay only last week. It is the Board that takes a decision on cotton Policy. We have proved to them that it is because of the purchases and the releases of the Corporation steady prices that the northern cottons were steady, and which actually would have risen in price but for our purchase and release. The pressure on northern cottons is greater as the mills in the north, right from Calcutta to Punjab, rely mainly on the northern cottons for their short staple supplies, and purchasing of cotton from other States involves inter-State sales-tax, transport charges and other

incidentals. The pressure actually is on the Kalyan—the Gujarat variety—which is the short staple equivalent cotton. It has shot up from 2,600 to 4,200. The Maharashtra short staples have gone up from 2,800 to 4,300. The Punjab equivalent of it has gone up from 2,800 to 3,500. In May, we announced the policy and we informed all the industries that we shall be releasing a certain quantity every month for being made available to the mills at a certain price."

7.17. Explaining the difficulties underlying the sale of cotton to the mills direct the Managing Director Cotton Corporation of India stated that:—

"While I do agree that we should reduce the intermediaries, and the objectives do demand it and that is correct—the basic question is, are the mills in a position to pay for the That is the first question. The Cotton Corporation borrows funds from lending institutions. We are not in a position to give further credit to the consumer mills. We insist on cash payment before we part with cotton. The basic point relates not to the functioning of the Cotton Corporation but to the economy of the textile industry as it is today. The structure of the textile industry is that many mills are financed by merchants. This is a given fact, and as a result of that if you want to sell to mills, you must sell to the merchant who buys for that mill. There is some financial arrangement between them. cotton Corporation wants to dispose of the cotton and make a profit, because, as a public sector again, we shall be criticised if we lose even one paise. We are keen on selling cotton when the prices are favourable. The mills would pay only if you give them six month's credit.

Instead of borrowing from banks and extending the credit facilities to the mills which are not in a happy position to pay their dues regularly we have preferred to get rid of that cotton without improving the economics and the structure of the textile industry which currently is not our subject...... If you want to sell cotton you cannot put in a condition that you will sell it only to a mill, because a mill may have no funds. Its cloth stocks might have accumulated, and it may have to pay bonus and wages to its workers. Its own operations may be stultified due to credit

curbs and so many other things. So, currently, my operation is to see that I sell cotton at a fair price and to get rid of the cotton. Though it is a very laudable objective, namely, to sell only to the cotton industry and not to sell it to the trade at all, I submit from my experience that I doubt if any cotton trading organisation can do this. I must say that the sales of the Maharashtra State Government in the last two years of their operation—this is their monopoly because they are more wedded to socialisation than us—only prove that you cannot improve the financial structure and organisation of the textile industry. Unless that is done, for a cotton selling organisation, which has to wait for the approval of samples, which has to be at the mercy of the consuming industry, to lay down a condition is impossible."

7.18. Asked whether the Government keep a watch on the priceat which yarn and cloth are sold by the mills to ensure that the cotton grower gets a fair share of the price fetched by yarn and: cloth, the Ministry of Commerce in a written reply stated:—

"The prices of yarn and cloth are being monitored by Government. As prices of yarn and non-controlled varieties of cloth are not presently regulated, no fixed relationship exists between prices received by the cotton growers and the prices fetched by non-controlled yarn and cloth. Government, however, recognise the logic and justification of the proposition that the margins of the trade and the mill sector should be suitably pruned to ensure that yarn and cloth prices bear a reasonable relationship to prices of cotton fetched by the growers."

7.19. The Committee pointed out that the textile Industry was finding it difficult to implement the controlled cloth scheme due to fluctuations in the cotton prices and asked whether any study had been made by Government about the relationship between the price of controlled cloth and the price of cotton. Ministry of Commerce in a written reply stated that the Bureau of Industrial Costs and Prices in its report on cotton textiles submitted in May, 1973 had made certain recommendations regarding pricing of controlled cloth. One of the factors in the price formula was the price of cotton, which accounts for about 50 per cent of the cost of production. The Bureau had recommended that a six monthly revision of the controll-

ed price to take into account the changes in cotton price levels, would be appropriate.

7.20. In reply to a question as to whether the Government had been able to maintain/establish an inter-varietal parity of cotton prices and how it would ensure supply of finished textiles to the consumers at a uniform price, the Ministry of Commerce in a note stated that an Official Working Group consisting of representatives of Ministry of Agriculture, Commerce, Planning Commission, Textile Commissioner and Cotton Corporation of India determines the inter-varietal relationship between prices for different varieties of cotton. That was done while working out support prices based on the support price for the basic varieties recommended by the Agricultural Prices Commission. Each of the thirty principal varieties, of cotton was priced according to its spinnability, fibre characteristics, staple, length, etc. The pricing of controlled cloth was based on the construction particulars (counts of yarn in warp and weft and number of reds and picks per inch) and the degree of processing. The Bureau of Industrial Costs and Prices had assumed certain optimum cotton mixing schedules and had taken a weighed average of cotton prices to arrive at the cotton cost for various types of controlled cloth. As such no difficulties were encountered in pricing of different varieties of controlled cloth.

2.21. The Committee note that the Corporation had been following a policy of selling cotton at the purchase prices adding thereto expenses of the Corporation and a service charge of one per cent and this policy was uniform both for sale to mills and to others. The fixation of catalogue price was done by the Sales Committee at headquarters for all major varieties on the basis of the data received from the Regional Offices regarding the price of Kapas, cost of conversion, sale realisation from seeds, etc., and adding one per cent service charges. No variation from the catalogue price was permitted except by the Sales Committee at headquarters. It was also stated that the sales were effected on spot-terms. The Corporaion had been selling a market prices higher than the catalogue price up to 30th of April, 1974. Since May, 1974, the Corporation had been selling the stocks only to the mills and not to any trader or intermediary after invitation of quotations for 20,000 to 25,000 bales at its own catalogue prices plus one per cent service charge. It was stated that this decision was taken keeping in view the objective of the Corporation to stabilise the prices which had been showing bullish tendency. The Committee are informed that this policy had the desired effect as in the case of North Indian cotton the price remained within reasonable limits. The policy was changed later as it was realised that there were likey to be substantial losses in the purchase operations in Southern Regions. With the Corporation's purchases ranging from 5 per cent to 7 per cent production in the country the Committee are not sure whether the pricing policy has actually enabled the Corporation to achieve the objective of stabilisation of prices.

The Committee therefore feel that the policy of selling the cotton at a fixed price to private sector mills is not in the best interest of the Corporation especially when it has not been possible to get a guarantee regarding the sale price of cloth to consumer.

- 7.22. In the opinion of the Committee the possibility of the private sector earning profit at the expense of the CCI with no relative benefit to consumers is not ruled out. The Committee, therefore, recommend that sale of cotton to the mills other than NTC mills should only be at the prevailing market rate.
- 7.23. The Committee regret to note that there is no fixed relationship between the prices received by the cotton growers and the prices fetched by non-controlled yarn and cloth. It has been stated that 'Government, however, recognise the logic and justification of the proposition that the margins of the trade and the mill sector should be suitably pruned to ensure that the yarn and cloth prices bear a reasonable relationship to prices of cotton fetched by the growers.'
- 7.24. The Committee would like that Government should take concrete measures to evolve a policy by which cotton growers get a share of price realised for the end product.
- 7.25. In regard to controlled cloth, it has been stated that the Bureau of Industrial Costs and Prices had in their Report of May, 1973 made certain recommendations in regard to the price and 6 monthly revision thereof to take into account the changes in cotton price levels. The Committee recommend that the Government should take into account the recommendations of the Bureau of Industrial Costs and Prices and consider the question of fixation of prices of different varieties of controlled cloth.
- 7.26. The Committee are informed that in the context of stabilisation of prices, the Corporation purchases cotton and holds its stock for a period of six months and releases about 20 to 25 per cent of a

month's consumption of cotton to the trade. This, according to the Corporation will enable prices being held under check and the mills not escaping their obligation in respect of controlled cloth and exports. It has, however, been stated that there are difficulties in the Corporation in releasing the cotton directly to the mills because of the financial constraints of the mills in making payments to the Corporation. The Committee are, therefore, of the opinion that unless the Corporation is provided with adequate finances to enable purchases being made at the appropriate time and at economic prices, it will be difficult for the Corporation to fulfil its role.

# C. Sale of Cotton to M/s. Dhanrajmal Gobindram

7.27. It came to the notice of the Committee that a contract was entered into by the Regional Manager, Cotton Corporation of India Ltd. Delhi in February, 1974 for the sale of 25,000 bales of 320 J.34 quality of Cotton to M/s. Dhanrajmal Gobindram even before the Sales Committee actually approved the sales. When enquired about the details of the case the Corporation stated in a note as under:—

7.28. On 19th February, 1974 the Regional Manager, Delhi intimated the Head of the Corporation at Bombay in a Telex Message that 25,000 bales had been sold to M/s. Dhanrajmal Gobindram. The details of the sale were communicated by him to Divisional Manager (Accounts) over the telephone asking the latter for confirmation of the sale of 25,000 bales of 320F/J34 qualities at various prices (intimated over the phone) to the party.

7.29. The aforesaid information was placed before the Sales Committee of CCI held on 20th February, 1974 in which the Managing Director was not present. The Committee however, examined the matter and recorded in their minutes (Item V) as under:—

"The Committee examined the terms and conditions in detail and discussed them threadbare. The Secretary-cum-General Manager has sought some more data from the Regional Manager, New Delhi and on receipt of the same it will be further considered."

7.30. The matter was further discussed in the meeting of the Sales Committee held on the 21st February, 1974 in which the Managing Director was also present. The extract from the Minutes of the meeting is reproduced below:—

"It was stated by the Managing Director that the matter was discussed with Chairman regarding new sales terms

approved by Sales Committee on 17th January, 1974 and it was felt that the experience has shown that the new sales terms are difficult to implement. As the Corporation now has to have quick turnover in view of the Reserve Bank of India refusing to give any further credit facility, the new sales terms about time limit prescribed for parakh and payment of deposit be revised as under:—

No. of Bal	es ———	********			 	 	Days allowed for Para'th		
For 10,000 hales		•	•	•	•		10 days		
For 15,000 bales					•		15 days		
For 25,000 bales				•			25 days		

If a buyer does not complete the parakh and lift the bales within the period specified above, it shall have to pay a deposit of 15 per cent otherwise the contract shall be treated as cancelled at par.

With reference to Item V of the Minutes of the Sales Committee meeting on 20th February 1974, the Secretary -cum-General Manager explained that he had sought clarification on various points from the Regional Manager, New Delhi and in response he had received the following Telex Ref: 198 dated 21st February, 1974.

- "REFERENCE TELEPHONIC QUERY REGARDING SALE OF 25,000 BALES IT IS CONFIRMED THAT THE PRICES AT WHICH THE BARGAIN HAS BEEN CLOS-ED TAKE DUE COGNISANCE OF THE PAST AND PRESENT PURCHASES OF KAPAS STOP
- 2. IN VIEW OF THE BULK SAUDA IT IS RECOMMEND-ED THAT FURTHER GRACE PERIOD OF 37 DAYS IS ALLOWED TO THE PARTY BECAUSE FOR PARAKH WEIGHMENT AND DELIVERY THE PERIOD OF GRACE WILL PRACTICALLY NOT SUFFICE AND AS SUCH MAY KINDLY BE AGREED TO STOP
- 3. SIMILARLY ADDITIONAL CHARGES SHOULD ONLY BE LEVIED AT 2 PER CENT AS HAS BEEN DONE IN SIMILAR CASES OF BULK SAUDA STOP
- 4. NO PURCHASING PARTY IS PREPARED TO DEPOSIT 15 PER CENT ALLOWANCE AS ALREADY APPRIS-ED TO THE HEAD OFFICE STOP."

The Secretary-cum-General Manager further explained that reply on following points is awaited from the R.M. New Delhi.

- 1. Station-wise prices per candy
- 2. Quantities offered for sale are actually available and ready for delivery.
- 3. Performance of the previous contracts.
- 4. Quantities sold are out of kapas purchased on 23rd January, 1974.

Re: The Committee decided that as in the past, we have reduced the additional charges from 2 per cent to 1½ per cent as such, in this case also the additional charges can be reduced from 2½ per cent to 2 per cent in view of the large quantity.

- Re: 2. The Committee also agreed that as the quantity involved is large it would take a considerable time for selection and delivery, the free delivery period upto 7th April, 1974, can be agreed to.
- Re: 3 D.M. (Accts) presented station-wise prices offered in the aforesaid contract for 25,000 bales, which were communicated by R.M. New Delhi to him. It was explained that although the Sauda has been made on 16th February, 1974, in Punjab, the prices offered are more than February-end listed prices issued on 8th February, 1974, by Rs. 6 to Rs. 243 per candy from station to station. In Haryana and Rajasthan the prices offered are based on listed prices of February-end price list as stated above.
- Re: 4. \* It was, therefore, decided that the above contract be approved after confirmation by Telex on station-wise prices per candy and that the quantities offered are actually available and would be available for delivery, and that the sale is from Kapas up to 23rd January, 1974.
- Re: 5. The position about Parakh and lifting of cotton of the previous sale should also be obtained.

M/s.Dhanrajmal Gobindram & Co. Pvt. Ltd., Bombay. had also sent a letter addressed to the Industrial Re-construction Corporation of India, Calcutta, in which it is confirmed by IfR.C.I. that M/s. Dhanrajmal Gobindram & Co. Pvt. Ltd. have been authorised

to make purchases of domestic cotton on their behalf, is reproduced below:—

"Dear Sir,

We hereby undertake to purchase cotton from the Cotton Corporation of India Ltd. for your Associated Textile Cotton Mills. Quality, Quantity, Rates and delivery period shall be confirmed after your written approval for the same.

Thanking you,

Yours faithfully,

For: Dhanrajmal Gobindram & Co. Pvt. Ltd.

Sd/- Director Confirmed

Sd/(B. M. Saxena)
Manager (Finance)
IRCI. Calcutta."

- 7.31. On 22nd February, 1974, the Regional Manager while forwarding a copy of sale Contract entered into with M/s. Dhanrajmal Gobindram on 16th February, 1974 for the sale of 25,000 bales of cotton, to the Managing Director, CCI at Bombay for approval, stated that this sauda was contracted when Secretary-cum-General Manager was also present.
- 7.32. During evidence of the representatives of the Ministry of Commerce, the Committee asked whether the Secretary-cum-General Manager was present at Delhi when the deal for sale of 25,000 bales of 320J-34 quality of Cotton with M/s. Dhanrajmal Gobindram was finalised by the Regional Manager. The witness replied in the affirmative and stated that:—
  - "It was a fact that the contract was finalised and signed in Delhi on 16th February, 1974 in a advance of referring it to the Sales Committee which is at the Head Office at Bombay. It was referred to the Sales Committee on 19th February, 1974. Immediately, on knowing this, the Mg. Director at the head office called for details and explanation as to how this was done. The matter has been referred to Vigilance also for an investigation. I understood that the report had come."

- 7.33. As regards powers of the Regional Manager for approving the contract the representative of the Ministry stated:—
  - "....The Regional Manager has got no powers so far as the sales are concerned, they had got some power for purchase."
- 7.34. The Committee pointed out that according the policy laid down on 17-1-1974, the maximum period of 'Parakh' was 24 hours from the time of signing of contract and in the case of sale cotton at out station it was 72 hours. Secondly every buyer was required to pay a deposit of 15 per cent of the value of the cotton contracted for immediately after approval and latest within 24 hours of his approving the cotton and asked whether these instructions were followed in the case of this deal with Messrs. Dhanrajmal Gobindram by the Regional Manager Delhi, the witness stated:—
  - "In regard to the payment, I understand from the Managing Director of the Corporation that time is given in respect of such large purchases which involve huge outlay of money and, therefore, he feels that grace period that was given considering the amount and the quantity involved was not unreasonable. The period given was 37 days."
- 7.35. Asked as to whether the Regional Manager in Delhi was authorised to commit the Corporation to the deviations from the approved policy, the representative of the Ministry replied in the negative. Explaining the circumstances which warranted the deviation within a month of the introduction of the new sales policy, the witness stated:—
  - "This would have been ascertained from the Enquiry Committee report..... In fact, the very purpose of the enquiry was to go into the circumstances in which the Regional Manager took that action..... to determine whether there was in fact any monetary loss and also on various other aspects."

## He further added:-

- "I have mentioned that the way in which the power was exercised certainly seems to us to be incorrect. I had said, also that the Manager appears to have exceeded his powers. But every person has the right to be heard or listened to and that is why an inquiry is being made."
- 7.36. Asked whether the similar concessions were given to any other party about that period or after that, the witness replied that

there were two concessions. One was the time of 37 days given and the other was reduction of additional charges from 2½ per cent to 2 per cent. These two concessions were usually given as far as could be seen from the records of the Corporation—because these were an essential part of commercial transactions. The rules of the game of commercial transactions were largely adopted by the Corporation provided they were reasonable and, naturally, these two types of bulk concessions had to be given. Because of the quantity involved; the charges were reduced from 2½ per cent to 2 per cent. This was normal commercial practice which, had to be followed in some cases.

- 7.37. When asked about the standing of M/s. Dhanrajmal Gobindram, in the cotton market the witness stated:—
  - "Dhanrajmal Gobindram and some other persons also are well known in the cotton trade. They buy on behalf of mills. They buy and sell; they are cotton traders. The Cotton Corporation of India has been selling to trade and this is one of the traders to whom sales were made. On that point alone I would not say that there is anything unusual, because Dhanrajmal Gobindram is only one of the several persons listed."
- 7.38. The Committee pointed out that the prices were very high at the time of the transaction and as a matter of fact, there were a number of buyers in the market and, therefore, CCI could have sold the cotton directly to the mills or any buyer in the market. The representative of the Ministry explained that at that stage, there was no clearly defined policy of selling only to the mills. The CCI being a commercial organisation also to some extent (let us admit it), it is guided by commercial considerations of showing a clean balance-sheet where it would have a profitable record of working at the end of the year. Therefore, the Cotton Corporation of India in the course of its business, had been selling to private trade....
  - 7.39. The Committee enquired about the circumstances in which Corporation waived the recovery of 15 per cent deposit and in addition granted 1/4 per cent commission to the party. The witness estated—
    - "Sir, the waiver of the 15 per cent deposit in the opinion of the Government was not a correct decision. But I will add here one point because some of these matters are also legal matters. Now, what happened—I understand

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here and I have to say this—is like this that because the actual transaction is the Corporation's transaction, even though we looked into it later in point of time, the legal opinion was sought by the Manager of Cotton Corporation from the Corporation's own solicitors and that was to the effect that the 15 per cent deposit should be collected. But I understand that a legal opinion was taken from the Government advocate in Delhi—I think in Delhi itself—and this was to the effect that the 15 per cent deposit need not be recovered from the party. Now, there is obviously some legal point involved in this and it is a fact that 15 per cent deposit was not recovered. Here I would add for the information of the Committee that the amount in full has of course been recovered. The value of the cotton itself has been recovered.

- 7.40. In their note furnished after the evidence, the Ministry stated that in regard to the extension in the grace period from the usual eleven days to 37 days in the case of the cotton sold to M/s. Dhanrajmal Gobindram, the Corporation had explained that on account of the time taken in physical inspection, verification of quality, etc., of the cotton stored in different godowns of the Corporation, it has been customary for the Corporation to allow longer grace period, during which no carrying charges were realised, in case of large volume sales. Between January 1973—March 1974, sixteen cases had been intimated by the Corporation including NTC and Maharashtra State Textile Corporation where grace periods exceeding eleven days and going upto 36 days had been permitted. According to the information given by the corporation, in several cases, the carrying charges levied were only 1½ per cent.
- 7.41. When the Head Office of the Corporation came to know that 15 per cent deposit had not been recovered in the case of the sales contracted with Messrs. Dhanrajmal Gobindram, they advised the Regional Manager to get the necessary amount deposited. When the proposal was put to Messrs. Dhanrajmal Gobindram, they furnished documentary evidence that they had made financial arrangements, for lifting the entire 25,000 bales of cotton. On receipt of this letter, the Regional Manager consulted Government Advocate attached to Tis Hazari Court who acted as the local solicitor of the Corporation. The Government advocate gave an opinion on 14th March, 1974 that the letters produced by Messrs. Dhanrajmal Gobindram from Industrial Reconstruction Corporation of India, Bank of Baroda and Messrs. Elgin Mills showed that financial arrangement had in fact been made for lifting the entire

cotton contracted by them. As such he felt that no useful purpose would be served by insisting on the 15 per cent deposit which had, in any case, not been provided for in the sale contracts.

`7.42. It was also stated that cotton was actually delivered to the buyer only after receiving full payments in each case.

7.43. The Committee regret to note that the contract for sale of 25.000 bales of 320-J34 cotton was entered into with one M/s. Dhanrajmal Gobindram by the Regional Manager, Delhi on the 16th of February, 1974 even before it was approved by the Sales Committee of the Corporation at Bombay and even though the Regional Manager had no powers for sales. The intimation about the deal was sent to the Headquarters of the Corporation on the 19th of February, 1974 and details of sale were communicated over the phone to Divisional Manager (Accounts) of the Corporation. The Committee find that this matter was considered by the Sales Committee of the Corporation on the 20th of February, 1974 when the Managing Director of the Corporation who was the Chairman of the Sales Committee was not present. Some more data pertaining to the deal was, however sought from the Regional Manager, Delhi by the Secretary-cum-General Manager. The matter again considered by the Sales Committee on the 21st February, 1974 who were informed about the receipt of the telex message indicating that the grace period of 37 days was allowed to the party because of bulk sauda, the additional charges had been reduced from 2½ to 2 per cent and the deposit of 15 per cent of the value of cotton had been waived. The Sales Committee agreed to the extension of the grace period to 37 days and also reduction of additional charges from 2½ to 2 per cent, as such concessions had been given in some earlier cases also. It was also explained to the Sales Committee that the price offered was Rs. 6 per candy more than the listed price of 6th February, 1974. The Sales Committee agreed to the contract subject to quantities being actually available and the sale was from kapas purchased upto 23rd January, 1974. Again on the 22nd February, 1974 the Regional Manager, Delhi, while forwarding the contract to the Head Office stated that the contract was concluded when the Secretary-cum-General Manager was also present. During the evidence, it has been admitted by the representative of the Ministry that the contract was finalised and signed in Delhi on 16th February, 1974 in advance of referring to the Sales Committee at the Head Office, Bombay. It was also stated that the Head Office, Bombay had referred the case to vigilance whose report has just been received and is under examination. The representatives of the Ministry also admitted that the Regional Manager has no powers for sale and the way in which the power has been exercised by the Regional Manager was incorrect. The Committee are surprised that the contract was finalised when the Secretary-cum-General Manager was also present and he allowed this to happen. The Sales Committee had agreed to waive the deposit of 15 per cent in violation of the Sales Policy approved only a few weeks before this deal. The Committee note that while according to the opinion of the Legal Adviser of the Corporation, such a condition should not have been waived, according to the Government advocate at Delhi, this deposit need not be recovered. The Committee are informed that deposit has now been recovered and full cost of the cotton realised.

7.44. The Committee are distressed at the undue which the entire deal had been concluded in uttar violation of the powers vested in the Regional Manager and allowing relaxations about extention of grace period, reduction in additional charges and waiving of the deposit, which could have and would have meant huge loss to the Corporation. The Committee fail to understand the urgency with which the matter was taken up by the Sales Committee on the day following the day on which intimation was received about the deal in the Head Office even when the Chairman of the Sales Committee was not present. The Committee do not also see the necessity for obtaining the legal opinion from Government advocate at Delhi when the Corporation's headquarters office at Bombay had taken the advice of its legal advisor on the same matter. It is also significant that while forwarding the copy of the contract to head office it was stated that the contract was concluded when the Secretary-cum-General Manager was also present. The Committee also note that during discussion on a Calling Attention Notice in Rajya Sabha on the 14th of March, 1975, a Member quoted the instance of this contract with Dhanrajmal Gobindram and stated "The Corporation has so far lost a sum of Rs. 1661887/-.... It is rather intriguing to note that M/s. Dhanrajmal Gobindram was previously a black-listed firm The files in the Office of the Cotton Corporation of India will bring out the truth...." The Minister in the course of the reply assured that he would certainly look into the allegation. Committee are not sure whether due care was exercised by Chairman of CCI, Government nominees on the Board of Directors and other officials of the Corporation in this deal. The Committee therefore recommend that the entire deal should be investigated, through CBI if necessary, with a view to pinpoint the responsibility for the lapses at the several stages. mittee should be informed of the action taken at an earliest.

## D. Sale of Cotton to Mills under N.T.C.

- 7.45. In a statement made on 31st July 1970 in Parliament, the Minister of Foreign Trade stated that with the setting up of the Corporation, the growers of cotton will be assured of an agency which would give them the necessary price support and that the mare enterprising cultivator growing the new varieties would have an Agency to buy the extra long staple cotton at fair price. The role of the Corporation in internal trade would, therefore, have to be considered from 3 aspects, namely—
  - (a) As an agent of mills in the public sector for supplying all the requirements of cotton throughout the year.
  - (b) As an agency for purchasing extra long staple cotton in order to encourage its production; and
  - (c) As an agency to purchase cotton on its own and sell it to mills on commercial lines.
- 7.46. Asked how far the Corporation has been able to fulfil its role as an agent of mills in public sector for supplying all the requirements of cotton, the management of CCI stated in a written reply that—there are about 103 mills in Public Sector, as such CCI had throughout been keen to develop Trade relation with NTC and bold several discussions with them, where it was decided that NTC would place indent with Corporation or alternatively act as an Agent to buy the same varieties as required by NTC and get the same ginned pressed. The matter has been continuously pursued with and although it has been assured that at least 25-30 per cent of the requirement would be met through CCI, no official confirmation had been received. The Corporation had made the following relaxations in its terms of sales to NTC.—
  - (1) In case of mills run in public sector the stipulation to finish selection, weighment and payment was relaxed and time was extended for selection, delivery and payment to enable mills to select cotton or to make payment even after stipulated period as and when demanded.
  - (2) Mills run in public sector were extended facility to make payment against R.R. or M.T.R. while other mills were required to make full payment before weighment and delivery of cotton as per CCl's terms of contract.
  - (3) Mills in public sector were also extended facilities regarding storage and lifting of cotton as per mills requirements. As per

mills request, Corporation would bring the bales selected by mills from spot to our godowns at Headquarters and Regional Offices and would deliver to mills against payment number of bales required by mills. This facility enabled mills in public sector to operate within limited finance and to make purchases of cotton at appropriate time to require maximum benefit and take delivery as and when required by incurring only overhead expenses.

The Cotton Corporation had always been following a policy of not selling even a bale on credit.

- 7.47. With regard to the sale of cotton to the mills under NTC, the Managing Director of CCI stated during evidence that—
  - "Last year, a policy level meeting was held with the NTC to thrash out issues regarding the purchase of cotton by the NTC mills from the Cotton Corporation and, as a result of this meeting, a Committee was set up consisting of representatives of the CCI and the NTC to arrangements for the sale of cotton. In this Committee. a number of problems were considered. The Cotton Corporation wanted the NTC to pay cash against deliveries whereas the NTC had their own problems regarding payment. So, all these were sorted out and a system was evolved under which the Cotton Corporation would work as agents of the NTC while purchasing cotton. this system, the entire purchase of the NTC should be entrusted to the Cotton Corporation and the NTC should give advance indents centre-wise and variety-wise to their mills. Once these were indicated variety-wise, the Corporation would commence purchasing at these centres. If necessary, the NTC could post their Selector along with the Selector of the Corporation so that the problem of rejection would not arise afterwards.
  - So, that was our main point. We wanted to associate the NTC during the process of purchasing itself. Otherwise, they should leave the purchasing to us in case they don't have Selectors and should not reject cotton once it is purchased by the Corporation on their account. That was our main point and it has been accepted by them now.
  - Then, there were other points in regard to terms of payment etc. Within 21 days they should take delivery of the cotton sent by us. This was agreed to, but last year they did not entrust this work of purchasing to us probably

because the prices flared up and it would not be possible even for the Corporation to meet their requirements by buying from the market. So this year again we requested them to give us their indents because they are consumers of about 14 lakh bales and out of these 14 lakh bales, we were of the opinion that initially 50 per cent of their requirements should be entrusted to the CCI and 50 per cent should be purchased by them from the open market. As it is even the NTC was not buying cotton for the State Corporation Mills and the cotton was purchased by the State Textile Corporation for their units. For example. in Maharashtra they have 22 mills under the Maharashtra State Corporation. So, the NTC had little to do except to leave the State Textile Corporation to buy cotton from the Cotton Corporation. Now, with the takeover, the position should considerably change and it would be a centralised purchasing scheme for all the mills in India. What we wanted is a scheme under which we would deal with one agency.

It will place orders and it will arrange for payment and we are answerable only to one agency. That type of system is possible, I am told, this year and they are going to indicate to us only four days back they have informed us that they are giving us stationwise and the partywise requirements of NTC within about 15 days.

Here, the basic point is that till such time such an arrangement is arrived at, on our own we have been giving the NTC Mills certain preferential treatment. The preferential treatment is that whereas in the case of private mills we insist on payment of the full value of cotton before they are allowed to lift the cotton from the godown, in the case of NTC mills, we despatch the cotton without insisting on payment and receive payment on cotton reaching the mill compound.

The second facility is that whereas we give others 11 days' credit to NTC we give 21 days' credit and besides in the process of recovery also we try to accommodate them whenever they have problems of funds. What we want is not an ad hoc arrangement but a comprehensive arrangement under which the entire purchases of the NTC are channelised through the Cotton Corporation. It appears

that such a system would be operative from this year from what the NTC has told me now."

- 7.48. Asked whether the CCI is in a position to supply all the requirements of NTC with the enlarged activity and scope of the NTC now, the Managing Director replied—
  - "Firstly, we have calculated this and the problem is in case we are to meet their requirements we have to carry a large portion of the cotton for a period of twelve months. So, this means, we must have at our disposal a minimum amount of Rs. 200 crores which will be realised only when NTC mills take delivery and until their own finances permit them to take delivery..... The basic point is, if we are given such finance only for covering the NTC mills and if the NTC accepts the bales and agrees to pay the price of these bales and the carrying charges, without rejection, even if the market prices are cheaper at the time of delivery, we are prepared to undertake the supply of the entire quantity."
- 7.49. In this connection, the Ministry of Commerce stated in a written reply—
  - "In the matter of providing cotton for Government-managed mills, the Corporation has had limited success, principally on account of paucity of funds with the mills as well as with the Corporation. While the Corporation has been aske ing for spot payment for the cotton sold by it, in view of its limited working capital resources, the private trade has offered upto thirty days credit to N.T.C. mills and has also been able to provide other services including the supply of cotton at mill premises. The problems faced by N.T.C. mills vis-a-vis cotton purchases through C.C.I. have been gone into by an Inter-Ministerial Committee which include representatives of Ministries of Commerce and Industrial Development, the National Textile Corporation and the Cotton Corporation of India. Cotton Corporation's terms of sale have now been made somewhat more favourable, but the basic difficulty continues to be lack of sufficient funds with the NTC mills and the inability of the Corporation to extend trading credits comparable to those offered by private trade."
  - 7.50. The Committee enquired if it would be desirable for the Corporation to meet completely the requirements of the NTC and

not enter the private trade to see. The Managing Director stated that—

- "The purchases of the CCI only for the NTC would not serve the whole purpose of the establishment of the CCI. So, I would urge that a portion of the funds of the CCI should be earmarked for NTC's work."
- 7.51. In this connection the Ministry stated in a written reply that the annual cotton consumption by textile mills under NTC was estimated mated at 11 lakh bales. If CCI's cotton stocks of about 12 lakh bales were primarily committed to meeting the requirement of NTC mills. the Corporation would be unable to exercise an effective influence on the open market prices. At the same time, it should be CCI's endeayour to see that on the basis of better technical and commercial services vis-a-vis those offered by private trade, NTC mills are encouraged to place more business with the Corporation. The principal difficulty has been the lack of adequate working capital with the NTC mills to make forward commitments in respect of their cotton requirements and the inability of Cotton Corporation to extend better credit terms to the N.T.C. mills. Cotton Corporation was of the view that if adequate additional funds were provided to it to make purchases for the N.T.C. mills and an undertaking was given by the mills for lifting the cotton purchased for them, it would be able to procure the additional volume of cotton and supply it to these mills on a cost plus pricing formula. As the working capital position of the NTC mills continues to be very strained and credit accommodation to Cotton Corporation had been severely restricted, the implementation of that proposal had not been possible.
  - 7.52. The Committee drew the attention of the representative of the Ministry of Commerce to the statement that the Reserve Bank of India had been of the view that the Corporation's market purchase operations should be limited to price support purchases. As ruling prices are well above support levels, the Reserve Bank of India had felt that there was no economic justification for the Cotton Corporation of India entering the market in a big-way. The Committee desired to know as to how it would be possible for CCI to fulfil the requirements of NTC, in this context the representative of the Ministry of Commerce stated during evidence—
    - "What we are now proposing in the case of NTC is that we buy cotton and sell it quickly, it is not as if we are holding on to that cotton for a long time. That is one distinct difference. It is like recycling it with the same funds as many

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as we can ..... What we intend doing is we will buy at the market price, add our carrying charges and give it to NTC. We will be like an agent to NTC, with no profit making. Our funds are limited. By recycling, we will be able to operate quickly. It is true we require more than 10 crores. It will have to be enhanced. If NTC were buy 2 lakh bales from us, some money will get locked up for some period; we will have to work it out. Probably what the RBI will do is-it is only a guess, that they did earlier—that may like to withdraw a part of the credit they have extended to the open market and divert it for buying operations in cotton may not substantially buying cotton to the CCI. Thus the volume of credit for market increase just because of the CCI coming into the market on behalf of NTC. That may possibly be the objection from RBI. think the Depot. of Banking would have to be brought into this and some arrangement worked. RBI would probably withdraw at least that much amount from the private trade for cotton buying.

- 7.53. The representative of the Ministry informed during evidence that the RBI made available Rs. 70 crores to the trade and only 10 crores to CCI. Probably Rs. 25 crores may be diverted.
- 7.54. Asked whether with this amount it should be possible for the Corporation to go in for these 2 lakh bales straightway for NTC, the witness replied:—

"Not straight-way, but spread over a period of time."

7.55. The Committee note that one of the roles assigned to the Corporation is that of an Agent for the Mills in the Public Sector for supplying the requirements of cotton throughout the year. It has been made in Corporation's terms of sales to NTC and payment tions with NTC and with that view has been having correspondence with NTC who were also assured that 25 per cent to 30 per cent of their requirements would be made through CCI. No official confirmation is however, stated to have been received from the NTC. The Committee are informed that a number of relaxations has been made in Corporation's terms of sales to NTC and payment therefor. It has also been stated that in policy level meeting held with NTC in 1973-74 a system was evolved by which the CCI would work as an agent of the NTC while purchasing cotton. The NTC would give advance indents centre-wise and variety-wise to CCI. It was also agreed that once the cotton is purchased by NTC from CCI the problem of rejection should not arise. Even in regard

to payment certain facilities have been extended to NTC. The Committee regret to note that it has taken more than four years to finalise the working arrangements with the NTC in spite of the fact that both the organisations are in the public sector. The Committee were informed that even now the basic difficulty continues to be lack of sufficient funds with the NTC mills and the inability of the Corporation to extend trading credits comparable to those of private trade. The Committee have already given their recommendations in the report of National Textile Corporation about the provisions of funds to the NTC.

- 7.56. It has been stated that annual consumption of cotton in the mills of NTC is of the order of 11 lakhs. The Corporation is of the view that if adequate funds are provided to it to make the purchases for NTC and an undertaking is given by the mills for lifting the cotton purchased for them, it would be able to procure the additional volume of cotton and supply it to the mills.
- 7.57. As the N.T.C. will be having a central purchase organisation for purchasing its requirement of cotton, the CCI should establish linkage with NTC and work out the requirements of cotton variety-wise
- 7.58. The Committee also recommend that Government should consider providing the Cotton Corporation with adequate funds to enable it to make purchases and supply cotton (with constitutes 50 per cent of the cost of manufacture of cloth) at competitive prices and on assured basis to the NTC.

#### VШ

#### NEW SCHEMES/PLANS

## A. Setting up of Cotton Seed Extraction Plant

- 8.1. The Corporation has decided to set up four integrated cotton seed crushing plants in various cotton growing States with a view to utilise cotton seeds to produce edible oil, oilcakes and other by products. This, apart from creating self-sufficiency for edible oil, may kead to reduction in the prices of cotton considerably and thus increase the competitive position of the country for export of cotton yarn and textiles.
- 8.2. Necessary feasibility reports for the schemes were being prepared. During a period of five years, it should be possible for the Corporation to put up plants which would absorb all the cotton seeds that would accrue from the Corporation's purchases of Kapas.
- 8.3. Asked whether setting up of Cotton Seed crushing plants was within the objectives of the Company, the Management stated in a written reply that it was within the objectives of the Corporation.
- 8.4. With regard to financial implications and location of these plants, the Management added that the Corporation had prepared a project report for setting up at least one Seed Extraction Plant which would involve a capital outlay of over Rs. one crore and a recurring expenditure of about Rs. 47 lakhs per year and yield a profit of Rs. 68,457/- per day. No plant had yet been set up. The question of location of the plants was under consideration with the State Government.
- 8.5. During evidence the representative of CCI informed the Committee that the entire programme of setting up of Cotton Seed Extraction Plants was only on the file and awaiting sanction for purchase of Kapas. It had not gone ahead.
- 8.6. In this connection the Ministry of Commerce stated in a written reply that—
  - "it may be better for the Corporation to sell the delinted cotton seed to some public sector vegetable oil factories

- at the best available price rather than set up such facilities itself.
- Project reports covering these schemes had yet to be prepared by the Corporation. As such the financial implications and economics had not been examined."
- 8.7. The Committee note that the Cotton Corporation of India has decided to set up four integrated cotton seed crushing plants in various States with a view to utilise cotton seeds to produce edible oil, oil cakes and other by-products. Though according to the Corporation the project which would cost over Rs. 1 crores is yield a profit of Rs. 68457 per day the Committee regret to observe that neither the prior approval of Government for the project has been obtained nor the financial implications and economics of the scheme have been examined by the Government. In a written reply the Ministry has admitted that may be better for the Corporation to sell the delinted some public sector vegetable oil factories cotton seed to at the best available price rather than set up such facilities itself." The Committee feel that the Corporation should with its limited finances concentrate on fulfilling its main objectives of buying cotton by payment of remunerative prices to farmers and stabilising the prices of cotton for the general welfare of consumers rather than embark upon any new schemes of ancillary nature at this juncture. The Committee agree with the view of the Ministry that it may be desirable for the Corporation to sell the cotton seeds to some public sector vegetable oil factories at the best available price.

# B. Scheme for import of Ancilliary Fibres and Wool

- 8.8. During the tour, the Committee were informed that the Corporation has amended its Articles of Association suitably and is now in a position to import all the ancilliary fibres, required by the textile industry like staple fibre, rayon and nylon which are at present imported by different organisations on the basis of import programmes approved by the Ministry. Similarly a suggestion was made that if the Corporation could be entrusted with the task of importing wool required by the woolen textile industry, it will provide a sound base for the working of the Corporation and enable the textile industry to purchase all its requirements of raw material from a single national agency.
  - 8.9. When asked about the progress made in this regard and whether the CCI regard this extension of sphere of their activities

as a step in the right direction, the Management of CCI stated in a written reply that the proposal for entrusting the work of import of Ancilliary Fibres and wool was under the examination of the Government.

- 8.10. The Corporation considered that this extension of the sphere of its activities was a step in the right direction as it would augment its revenue, particularly in the context of reduced credit limits and restricted purchase operations.
- 8.11. In this connection the Ministry of Commerce stated that the Corporation proposed that, on account of the decline in cotton imports from \*ARE and Sudan following the sharp hike in import duty in March 1973, the organisational infra-structure which had been built up to handle cotton imports could be usefully occupied in handling imports of man-made fibres and wool. At present the import of man-made fibres and wool is canalised through the State Trading Corporation.
- 8.12. While Government had not taken a final view on the Corporation's request, it was felt that as the fibre utilisation pattern in the textile industry was tending to become more and more composite, covering cotton, man-made as well as woolen fibres within the same unit, there might be some merit in entrusting a single public sector agency to handle imports of various textile—fibres including cotton. The Memorandum and Articles of Association of the Corporation could be suitably amended to provide for the enlarged functions of the Corporation, once a decision has been taken on the subject.
- 8.13. The Committee note that at present the import of manmade fibres and wool is canalised through the State Trading Corporation and the Cotton Corporation has approached Government for entrusting it with the import of all ancillary fibres and wool as it would enable the Textile Industry to purchase all the requirements of raw materials from a single national agency and the Corporation to gainfully utilise the organisational infra-structure which has already been built up to handle cotton imports in view of the progressive decrease in imports of cotton. The Committee are informed that in the opinion of the Government, there may be some merit in entrusting a single public sector with the task of handling imports of various textile fibres including cotton, as the fibre utilisation pattern in the textile industry is tending to become more and more composite covering cotton, man-made as well as woolen fibres within the same unit. The Committee suggest that before taking

a decision in regard to the transfer of the tasks connected with the import of ancillary fibres and wool from the STC to CCI, Government may consider the merits of such a transfer from one public sector undertaking to another and how far such a transfer will be in the interests of consumer industries. The Committee hope that an early decision will be taken in the matter by Government, keeping in view the experience of canalisation of imports of cotton by C.C.I. and the limited foreign exchange available for import of raw materials for Textile Industry.

#### IX

## FINANCIAL MATTERS

## A. Working Results

The working results of the Corporation for the last three years are tabulated below—

				(Rupees in lakhs)				
				1970-71	1971-72	1972-73		
(i) Profit before tax	•			10.38	32· 10	504.81		
(ii) Tax provision	•	•	•	7.00	20.75	396.00		
(iii) Profit after tax		•	•	3 · 38	11.35	108-91		
Percentage of profit refore tax	:							
(a) To sales (inclusive of of service charges)	comm	ission •	and	1.3	0.4	4.3		
(b) To capital employed.				1.8	0.8	23 · 8		
Percentage of profit after tax	:							
(a) To net worth				4.9	10.5	53.0		
(b) To equity capital .	•		•	5.0	11.4	108.8		
(c) To capital employed				0.6	0.3	5.1		

The dividends declared by the Corporation since its inception are given below:

Y		<del></del>					Turn over Rs	Net profit i. in lakhs	Dividend declared		
											per cent
1970-71			•				•	•	876.17	10.38	3
1971-72	•		•,	•	•				8195-40	32 · 10	5
1972-73	•		•			•	•	•	11,659.69	504.81	12

<sup>9.3.</sup> The Corporation started with a paid up capital of Rs. 50 lakhs, which was augmented to Rs. 1 crore in 1971. Since then, the Corporation has been borrowing funds from the nationalised Banks

on normal banking terms, to finance its operations. The Corporation was sanctioned by the Commercial banks a limit of Rs. 15 crores during 1970-71, Rs. 40 crores during 1971-72 and Rs. 125 crores during 1972-73. The Corporation, however felt that the role and functions of the Corporation could be made more effective and tangible if the paid up share capital was increased to at least Rs. 5 crores.

9.4. The table below summarises the financial position of the Company under the broad headings for the last three years:—

						(Rupee	s in lakhs)	1
LIABILITIES	S :					1970-71	1971-72	1972-73
(a) Paid-up Capital		•	•	•		67.00	100.00	100.00
(b) Reserves and Surplu	18		•	•		1 · 37	8.55	105-36
(c) Borrowings.								
(i) From Bank						494 · 80	3362.01	1918-46
(ii) From others		•					450.00	
(d) Trade dues and (including provision		er c	ırrent •	liabil •	ities •	173 · 49	975 · 50	1150-88
TOTAL:	•	•		•	•	736 · 66	4896-06	3274 · 70
ASSETS:								
(e) Gross block			•	•		3.91	13.07	19.35
(f) Less Depreciation		•				0.46	0. 24	1 · 29
(g) Net fixed assets		•		•		3 · 45	12.53	18.06
(h) Current assets, loan	s & 1	a-ivan	ces.		•	733 · 21	4883 · 53	3256-64
TOTAL: .		•			•	736 · 66	4896·06	3274 · 70
Capital employed		•		•		563 · 17	39 <b>2</b> 0· <b>5</b> 6	2124 · 88
Net worth						68 · 37	108 · 55	205 · 36
Note:								

- (1) Capital employed represents net fixed assets plus working capital.
- (2) Net worth represents paid up capital plus reserves and surplus.
- 9.5. About the profits of Rs. 5 crores during 1972-73 vis-a-vis the profits of Rs. 10 lakhs in 1970-71 and Rs. 32 lakhs in 1971-72 the Managng Director of CCI stated during evidence that—

"Large quantities of cotton that were brought in 1971-72 were sold in 1972-73. As a result of that we got this profit. In the year 1971-72, we did not have any carry-over of cotton

- for sale. This is the first time, the Corporation has entered the domestic trade in a big way by selling 5 lakh bales of cotton in the market. Due to favourable prices, we had realised a very good profit."
- 9.6. When the Committee pointed out that Corporation should have had a bigger profit in 1973-74, the witness stated that—
  - "Not necessarily, now we have been following a policy of selling with a definite margin of one per cent, whereas in 1972-73 we were selling at the ruling market price."
- 9.7. The Committee drew attention of the Ministry of Commerce to the following remarks of the Statutory Auditors of the Corporation:—
  - "A reference to the Profit & Loss Account shown that the Corporation had incurred a total loss of Rs. 12,60,878 on account of interest. Recoveries of interest of are limited to Rs. 66,085. It is explained to us that a portion of interest which is borne by the Corporation is recovered in the form of carrying charges where purchasing mills have not taken delivery of the cotton expeditiously. Note (11). On the Accounts indicates the extent of cotton held on 31st August, 1971 on the buyers' accounts. We are informed that such delays on the part of the buyers entails carrying charges which are recovered by the Corporation separately.
  - At the same time it may be noted that owing to the inadequacies of the accounting system, the management was unable to draw a proper view of the financial position of the company from time to time. We have observed cases where large balances were carried out by the Corporation on its current account whilst at the same time there were large borrowings on the cash credit accounts. The Balance Sheet itself discloses that as at 31st August, 1971 the Bank balances in non-interest-earning current accounts exceeded Rs. 1 crore, while borrowed the funds lying in the current account could not earn interest."
- 9.8. The Ministry stated in a written reply that the only instance pointed out by the statutory auditors of the Corporation in which it was noticed that the Corporation was carrying a substantial bai-513 L.S.—8.

ance in its current account while concurrently working with borrowed funds on cash credit accounts, arose during the year 1970-71. The Board of Directors appointed a sub-committee of two Directors to examine the reason why the avoidable interest charges had been incurred. The sub-committee reported to the Board that there was a prima facie case of negligence on the part of the then Financial Adviser and Chief Accounts Officer. The Officer who was on deputation with the Corporation, was reverted to his parent department and the report of the Sub-Committee was transmitted to the Central Board of Direct Taxes for necessary departmental action against the concerned official. It was understood that the Officer was superceded on grounds of inefficiency which, inter-alia, included the financial imprudence shown in managing the financial affairs of the Cotton Corporation during 1970-71.

- 9.9. The Committee are glad to note that the profit of the Corporation has increased from Rs. 10.38 lakh in 1970-71 to Rs. 504 lakhs in 1972-73 and the dividend declared has also risen from 3 per cent in 1970-71 to 12 per cent in 1972-73.
- 9.10. The Committee however, find that Statutory Auditors have observed in their report for 1970-71 that large balances were carried by the Corporation on its current account while at the same time there were large borrowings on cash credit accounts. The Balance sheet as on 31st August, 1971 disclosed bank balance in non-interest balancing earning current accounts exceeded Rs. one crore, while borrowed funds lying in current account could not earn interest.
- 9.11. The Committee are informed that the matter was considered by the Board of Directors who appointed a Sub-Committee of two Directors to go into the question. The Sub-Committee reported to the Board that there was a prima facie case of negligence on the part of FA&CAO. The Corporation had already taken action to revert the officer to his parent Department and the officer was superceded for promotion in his parent department on grounds of inefficiency which included the financial imprudence shown by him in CCI. The Committee hope that Corporation would guard against recurrence of such financial lapses.

# B. Delay in finalisation of accounts

9.12. In regard to the finalisation of the annual accounts for 1972-73, the Ministry of Commerce stated in May, 1974 that though the Corporation had compiled its accounts and they were ready for audit. The Statutory Auditors were yet to be appointed by the

Company Law Board and as soon as the Statutory Auditors were appointed by the Company Law Board and the accounts audited, the Corporation would hold its general meeting to adopt the accounts for the year 1972-73.

- 9.13. Asked about the reasons for the delay in finalisation of accounts, the Managing Director of CCI stated during evidence (19th September, 1974) that—
  - "The auditing of 1972-73 accounts is currently going on; and the report will be available in a month. The accounts for 1971-72 and the General Meeting were themselves delayed. During 1973-74, we thought that we would be able to bring it on proper lines.....The accounts (for 1970-71) were finalised but the appointment of auditors took some time. Once one meeting is delayed, the next two meetings also get delayed. But in 1973-74, we propose to make things uptodate. The Department of Company Law also took some time."
- 9.14. In regard to the accounts for 1973-74, the Management of CCI stated that although the accounts for 1973-74 were completed much earlier the Company Law Board which was the appointing authority for Statutory Auditors, appointed statutory auditors in the month of June, 1974 and statutory audit of the accounts of the Corporation were in progress. The statutory auditors for a year could not be appointed unless the accounts of the previous year were adopted at the annual general meeting. The Accounts for the year 1971-72 were adopted at the second annual general meeting for the year 1972-73 was held on 30th October, 1974. At the same time efforts were being made to hold the 4th Annual General Meeting in another 6 months period after the third meeting.
- 9.15. In this connection the Ministry of Commerce stated during evidence:—
  - "In the year 1970-71, there was a delay in the appointment of Statutory Auditors in consultation with the Department of Company Affairs.....There was a delay in our being intimated the name of the Auditors who could be appointed for this purpose. There was certainly a delay on the part of Cotton Corporation also."
- 9.16. With regard to the delay in closing of accounts for the year 1972-73, the representative of the Ministry of Commerce stated during evidence:—

- "In the case of 1972-73, it was a fact that there was delay in calling the Annual General Meeting. Otherwise, audit was completed and it was possible to hold the Annual General Meeting. There was some outstanding points of course, but if it had been done more speedily these outstanding points could have been resolved and the meeting called in time."
- 9.17. The Committee enquired about the circumstances under which the Ministry had to issue a directive to the undertaking for holding the 2nd Annual General Meeting. The Ministry of Commerce in a written reply stated:
  - "A directive was issued by the Ministry under the relevant Article of the Articles of Association, requiring the Corporation to hold its Annual General Meeting to consider the Accounts for 1971-72 not later than the end of March, 1974, as it was felt that the Annual General Meeting should not have been delayed once the auditor's had finalised the Corporation's accounts for the relevant period. According to the Managing Director of the Corporation, the accounts had been finalised and audited by October, 1973, and the Annual General Meeting could have been held in November-December that year."
- 9.18. When asked who was responsible for the delay, the witness stated:—
  - ".....it is our feeling that the then part-time Chairman could have called a meeting earlier than when it was called."
- 9.19. When asked whether such delays could not be avoided and responsibility fixed for the delay which occurred, the Ministry of Commerce in a written reply stated—
  - "Normally the Chairman of the Corporation calls the Annual General Meeting as soon as the accounts have been approved by the Board of Directors. While the responsibility for the delay of about three months in the holding of the Annual General Meeting to adopt the accounts for the year 1972-73 has not been specifically fixed, it is felt that the then part-time Chairman could have called the meeting earlier than it was actually called on 25th March, 1974."

- 9.20. About the holding of the Annual General Meeting in subsequent years in time, the Ministry of Commerce in a note stated—
  - "The Ministry have advised the Managing Director of the Corporation to ensure that the Corporation's accounts are finalised and submitted for statutory audit as early as possible after the close of the financial year so that the Annual General Meeting can be held within the permissible period of six months from the close of the relevant financial year."
- 9.21. Though according to the Companies Act, the annual accounts for a financial year (September-August) are required to be adopted by the general body meeting of the Corporation within a period of six months from the date of the expiry of the financial year, i.e. before 28th February of the following year, the Committee regret to note that there were delays in finalising and closing the accounts for the financial years 1970-71, 1971-72 and 1972-73. The Ministry has admitted that though in the year 1970-71, there was delay in the appointment of statutory auditor, there was certainly delay on the part of Cotton Corporation of India also. The accounts were adopted at the general body meeting which was held on 27th December, 1972 whereas it should have been held before 28th February, 1972.
- 9.22. As regards accounts for 1971-72 it is regrettable that the Ministry had to issue a directive on 12th March, 1974 requiring the Corporation to hold its Annual General Meeting to consider the accounts not later than the 25th March, 1974 (on which date the meeting was then held and the accounts approved) as there had been delay for a period of more than one year in adopting the account.

What is shocking is that the accounts had been finalised and audited by October, 1973 and the Annal General Meeting could have been held in November-December that year.

- 9.23. The representative of the Ministry had stated during evidence that "it is our feeling that the then part-time Chairman could have called a meeting earlier than when it was called."
- 9.24. The Committee find that even in regard to the accounts for 1972-73, there had been a delay a calling the Annual General Meeting. Though the audit was completed and it was possible to hold the meeting earlier. These accounts for this year were approved at the Annual General Meeting held on 30th October, 1974.

9.25. The Committee cannot too strongly deprecate the recurring malady of delay in finalising and closing the accounts of the Corporation right from the inception and would like that the matter is examined thoroughly by the Government and responsibility fixed. As delay in closing the accounts for a year is likely to create problems with income tax authorities and embarassment for the Government, they would like the Government to impress upon all the public undertakings that the audit and finalisation of the accounts holding of the Annual General Meetings should not in any circumstances be delayed as such delays entail corresponding delays in the presentation of annual reports to the Parliament.

## C. CCI's dues to Cooperative Societies

- 9.26. The Committee were informed that the CCI's relations with the Cooperative Societies were also not very happy. At least one society-The Gujarat State Cooperative Marketing Society was known to have resorted to legal remedies to recover its commission dues of nearly Rs. 2 lakhs for the year 1972. The same society had also filed another suit for the recovery of about Rs. 40 lakhs which the Corporation had withheld from the total payment of over Rs. 2 crores the society had to make to the farmers on behalf of the CCI for its raw cotton purchases.
- 9.27. Asked what were the reasons for the CCI not paying the dues to cooperative society, the Management of CCI stated in a written reply that the sub standard quality of cotton supplied by the cooperative societies and the high rates of ginning and pressing charges were the two main reasons for withholding some payment to the cooperative society.
- 9.28. Subsequently during evidence, the Managing Director CCI stated:
  - "There are two reasons. The Society purchased a very large quantity for us. The whole thing went on smoothly; but at one particular centre, the society was to purchase kapas and on the bales being ready, samples were to be sent to the Eastern India Cotton Association to verify whether the cotton was of the correct standard. The Society had to pay Rs. 46 per maund to the farmer. On the basis of this, the Eastern India Cotton Association made the survey. The regional manager felt that the payment of Rs. 46 was more; and that it should not be

- more than Rs. 40. Secondly, there is a difference of about Rs. 5 lakhs on this account. We agreed to a payment of Rs. 30 lakhs. They wanted Rs. 39 lakhs.
- We agreed to pay to societies ginning and pressing charges as fixed by Gujarat State Government. In sime instances society paid these charges in excess of charges notified the State Government of Gujarat. We said, difference cannot be reimbursed. The dispute is about 9 lakhs and not forty lakhs. The society has gone to the court."
- 9.29. When the Committee pointed out that the Society was financially held up when it did not get the money from the CCI, the Managing Director stated during evidence that—
  - "For a Corporation which pays in crores of rupees to societies of Gujarat, this payment of Rs. 9 lakhs is not a big job. The problem was whether we accept payment of Rs. 30 lakhs against 40 lakhs or not. The society was not willing to accept Rs. 30 lakhs. We called them for compromise at Bombay. At that compromise they agreed to 30 lakhs. After half an hour or so, they came back and said, no, we were wrong, this compromise is not acceptable to them."
- 9.30. The Committee note that the Corporation has disputed certain payments to the extent of Rs. 9 lakhs claimed by Gujarat State Cooperative Marketing Society for the Cotton purchased and got ginned and pressed by the Society for and on behalf of the Corporation and the Society has taken the matter to the Court. They would like to be informed of the results. The Committee, however, recommend that the Corporation should review in the light of its past experience, the procedures it has been following for making purchases through the Cooperative Societies or Marketing Committee and see how it can be streamlined to avoid such disputes in the future and safeguard its own interests without causing any inconvenience to the societies/committees.

#### D. Overheads

- 9.31. It was stated the Corporation had laid down strict financial discipline for its purchase operations in order to ensure that the overheads are kept to the minimum.
- 9.32. The Committee drew the attention of the Corporation to the report that in Maharashtra the overheads were Rs. 300 per candy

under Monopoly purchases and in private sector these were stated to be Rs. 150/- per candy and asked about the extent of overhead expenses in CCI and the steps taken to keep the same to the minimum. The Management of CCI stated in a written reply:—

"The details of overhead expenses per candy for the year 1973-74 in respect of some representative varieties are given below:—

Variet	у	-	_ 1 === 4 === -	1		4	Cost price per candy	Overhead expenses per candy	Percentage of over head expenses to ulti- mate cost
320F Sirsa					•		2740	373.09	13.62%
A. 51/9 Burhanpur		•					3244	272 · 54	8·40%
AK. Adilabad .						•	2570	298.06	11.60%
MCU-5 Guntur (A	P)						5460	446.00	8.17%

The Corporation has not worked out overhead expenses varietywise in respect of each year. It may however be stated that as the purchases are going down from year to year, the overhead cost have been high with an infrastructure suitable for purchase of about 30,00,000 bales. With a clear picture now emerging that the Corporation could not be given credit facilities for more than Rs. 10 crores, suitable measures are being taken to cut the infrastructure to size and bring down the overhead expenses considerably. The Sub-regional offices would also be closed and corresponding reduction effected in overhead and other expenditure."

9.33. Explaining further, the Management added that the organisational set up was built up to cope up with the purchase programme of 30 lakh basles during 1973-74 presuming that enough credit facilities would be made available to the Corporation for purchasing a substantial quantity of crop. Since the credit limits were restricted only to Rs. 30 crores the purchase programme could not be fully carried through. According to the Management, it was also not possible to dismantle the organisational structure all of a sudden. If the Corporation, for some reason or other, was again directed to effect large scale purchases, it would not be possible to build up the necessary organisational structure overnight.

In this connection, the Ministry stated in a written reply that Government were aware that the Cotton Corporation could not be expected to function efficiently on a stop-go basis and retain administrative and financial viabilities. The organisational infra-structure which had been built up had commensurated with the size and scope of the Corporation's market operations. In the absence of market operations by the Corporation in the current season, a considerable portion of the staff in the regional and sub-regional offices was under-utilised. While the Corporation had attempted marginal staff reductions as an economy measure, no overall pruning had been carried out as Government's final decision regarding the scope and size of the Corporation's market operations was awaited. Commerce Ministry hope that a decision on this question would be available shortly from the Cabinet.

9.35. Asked whether the constitution of large infrastructure in 1973-74 was not rendered infructous when the CCI had not been able to purchase cotton for more than Rs. 30 crores during that year, the Ministry of Commerce in a written reply stated:—

"for the 1973-74 season, the Board of Directors of Cotton Corporation approved a purchase programme to the extent of 30 lakh bales involving an estimated outlay of Rs. 300 crores. When this requirement was passed to the Ministry of Finance, an indication was given by that Ministry that while Rs. 300 crores would be very much on the higher side, a credit limit of Rs. 100 crores could be considered. The Department of Economic Affairs, Ministry of Finance was expected to make the necessary arrangements for release of Rs. 100 croses of credit by the Reserve Bank of India. The Reserve Bank evidently proceeded on their own assessment of the situation and took the view that additional credit for the Corporation was not called for as cotton prices were already high and were ruling far above the support prices recommended by the Agricultural Prices Commission.

The Ministry did not officially inform the Cotton Corporation of India that the credit of Rs. 100 crores may not be made available as the Cotton Corporation was maintaining direct contacts with the Reserve Bank of India office in Bombay to assess the position. So far as the extra expenditure incurred by the Cotton Corporation of India on building up its infra-structure for purchasing additional cotton is concerned, Government do not have an assessment of, such expenditure.

To obviate such situations in future, the Commerce Ministry has proposed that the Corporation's role should be very clearly defined an it should be authorised to make substantial purchases in the domestic market, irrespective of whether the size of the cotton crop is above or below average. It has also been stressed that the Corporation cannot be expected to function efficiently on a stop-go basis."

9.36. The Committee regret to note that management have admitted that while the volume of purchases of cotton is going down from to year, the infrastructure set up by the Corporation continued to be large adding to the overheads. The Management have admitted that the overhead costs have high with an infrastructure suitable for purchase of 30,00,000 bales and have stated that suitable measures are being taken to cut the infrastructure to size and bring down the overheads considerably. The Committee fail to understand as to why infrastruture for purchase of 30,00,000 bales should at all be created in 1973-74 when its demand for a credit limit of Rs. 300 crores for a purchase programme to the extent of 30,00,000 bales was not accepted by the Ministry of Finance or Reserve Bank at any time. The Committee would like the Corporation to evolve a norm for overheads after studying the pattern in the Maharashtra Monopoly Scheme and, if possible, of the private trade and ensure that its own overheads do not exceed the norm. In the opinion of the Committee it was not commercially prudent for the Corporation to have established an elaborate infrastructure all over the country without making sure about the availability of funds to the desired level. The Committee cannot also appreciate why the large infrastructure was maintained so long when for almost two years when the Corporation's purchase operations have been very much on the low side and the future role of the Corporation is yet to be decided.

9.37. It is also surprising that the Ministry failed to communicate to the Corporation about the non-availability of the reduced credit of Rs. 100 crores. The Committee regret to note that neither the Corporation nor the Ministry have any idea about extra expenditure on the infrastructure. The Committee are informed that the Ministry has proposed to the Ministry of Finance that the Corporation's role should be clearly defined and it has been stressed that the Corporation cannot be expected to function efficiently on a stop-go basis. The Committee recommend that Government should deal with the matter with all seriousness and clearly define the

role of the Corporation and provide adequate finance if the Corporation has to achieve its objective.

9.38. The Committee expect that at least now the Organisation will be pruned suitably and the lessons learnt from the past will be borne in mind while planning purchase operations in the future.

## E. Demurrage

- 9.39. The Statutory Auditors of the Corporation in the course of the audit of the accounts of Corporation for 1970-71 have pointed out that the Corporation had to pay as demurrage a sum of Rs. 4,80,721. Asked about the reasons for payment of such huge demurrage, the Corporation in a written reply stated that the reason for payment of demurrage of Rs. 4,80,721/- had been fully gone into and necessary steps taken for recovering the same. In this connection, the consignment-wise analysis was conducted and the various sources from which it should be recovered, was determined. From such analysis it was found that the claims had to be filed with foreign shippers for the recovery of demurrages. Accordingly the claims were filed with various shippers. The Clearing agent who was responsible for the demurrages was black-listed and removed from the Corporation's list of clearing agents. The explanations were called from the other clearing agents. It was also noticed that in the initial stages of working of the Corporation, due to the heavy arrival of the bulk consignments on CCI's account, in many cases TROs were to be abstained from the various ports, to Bombay port which had taken some time, and hence there was delay in clearance.
- 9.40. The recovery from the shippers in respect of the demurrage is being pursued.
- 9.41. A separate section was set up to deal with clearing and forwarding work. A Committee was also set up under the Chairmanship of the Secretary to consider allocation of work to the different Clearing and Forwarding agents. Whenever original documents were not received delivery orders were obtained on the basis of guarantee. Personal contacts with the Officers of the Customs, B.P.T. and shipping companies were strengthened and in this manner the incidence of demurrages has been completely removed. As a result of all these measures, during the last two years no demurrage was paid."
- 9.42. The Committee note that during the first year of its existence, the Corporation had to pay a sum of Rs. 4,89,721 as demurr-

- age. They are informed that it happened in the initial stages when the Corporation was not well organised. The demurrage had been recovered from mills and action to recover it from the shippers is under way. The Committee would like to know the total amount of demurrage recovered so far and the time by which the balance is expected to be recovered.
- 9.43. They note that a separate section has been set up to deal with clearing and forwarding work and a Committee was also set up to consider allocation of work to the different clearing and forwarding agents. A Clearing Agent who was responsible for the demurrage was black-listed. As a result of the remedial measures taken, during the last two years, no demurrage has been paid. The Committee would, however, like to watch the performance and recommend that the Corporation should gear up its machinery to ensure that payment of demurrage charges is obviated.

## F. Accounting Manual

- 9.44. The Committee find from the Minutes of the 41st Meeting of the Board of Directors of the Corporation held on 31st May, 1974 that the Board of the Corporation approved the proposal for entrusting the work of preparation of the Accounting Manual of the Corporation to M/s. Thakur Vaidyanathan & Co. Auditors on a payment of Rs. 45,000 including all expenses therefor.
- 9.45. Asked about the reasons for engaging a firm of chartered Accountants for the job, the Managing Director of CCI stated during evidence:—
  - "This firm has prepared manuals for the Fertiliser Corporation and Food Corporation. They knew the working of public sector Corporations of a similar character. This went to the Board and they approved the appointment. They are incidentally our internal auditors. As internal auditors, they had prepared similar manuals and they were, according to us, suitable for undertaking this job. They were appointed by the Board."
- 9.46. In a note furnished after the evidence, the Corporation stated that the accounting manual could not be prepared by the Corporation themselves. The manual is in final stage of completion.

9.47. The Committee regret to note that so far the Corporation has not prepared any comprehensive Accounts Manual indicating the accounting and book keeping, administrative and financial procedure etc. and the work of preparing the manual has been entrusted to a firm of chartered accountants on a remuneration Rs. 45,000 including all expenses therefor. The Committee fail to understand why this work could not be undertaken by the Finance and Accounting Organisation of the Corporation and work completed till now. The Committee regret to observe that the absence of Financial Accounting Manual and the lack of an efficient Management Information System has already caused delays in finalisation of accounts of the three years (1970-71 to 1972-73). The Committee are informed that the manual is now in the final stage of compilation. The Committee recommend that in the interest of streamlining the administrative and financial procedures at various levels and establishing a proper Management Information System, the Corporation should finalise its Financial Accounting Manual without further delay.

#### G. Internal Audit

- 9.48. The Committee drew the attention of the Corporation to their 15th Report (4th Lok Sabha) on "Financial Management in Public Uundertakings" wherein they had recommended that the functions of Internal Audit should include a critical review of the systems, procedures and operations as a whole. The Committee also pointed out that in September, 1968 the Ministry of Finance while accepting the above recommendation directed the Public Enterprises to introduce such a system.
- 9.49. Asked whether the Corporation had conducted any appraisal of the performance of the CCI on the above lines and whether it had introduced any internal Audit Manual outlining the scope and programme of work of Internal Auditing for the guidance of the staff of Internal Audit, the Management of CCI stated in a written reply that the Corporation had entrusted the work of internal Audit to a firm of professional auditors experienced in the job. There was no separate manual prepared for the guidance of internal audit.
- 9.50. The Committee regret to note that the Corporation has not so far prepared any Manual for Internal Audit of the transactions of the Corporation and the work of Internal Audit has been entrusted to a firm of professional auditors. The Committee need hardly stress that internal audit being one of the effective tools

of Management Control, steps should be taken to have an effective system of internal audit keeping in view the recommendations of the Committee on Public Undertakings in their 15th Report (Fourth Lok Sabha) on Financial Management in Public undertakings. The Committee recommend that the Corporation should develop an internal audit cell of its own and also prepare an Internal Audit Manual setting out the scope, functions and procedures of internal audit for the guidance of the internal audit cell.

#### **ORGANISATION**

## A. Organisational Set-up

In the Report of the Committee on Public Sector Agencies for canalisation of Cotton Imports, (known as Rangaswami Committee Report) the Committee inter-alia recommended that—

- (1) The Agency for canalisation of cotton should be full-fledged independent corporation. It will be managed by a Board of Directors consisting of a Chairman-cum-Managing Director and seven ex-officio Directors.
- (2) The Corporation should be a compact organisation and manager-oriented. In the beginning the Chairman should also be the Managing Director.
- (3) The objectives of the Corporation should be:-
  - (a) to purchase, sell and otherwise dispose of raw cotton imported from outside India;
  - (b) to purchase cotton grown in India at the support price fixed by the Government of India from time to time, to sell and otherwise dispose of such cotton;
  - (c) to purchase, sell and otherwise dispose of kapas or unginned cotton as the Government of India may direct from time to time;
  - (d) to generally implement such special arrangements for imports or internal trade or distribution of raw cotton as the Government of India may specify from time to time in public interest.
- 10.2. The Corporation has got a Chairman/Board of Directors/Managing Director/Secretary-cum-General Manager. Head Office at Bombay, Regional Offices at New Delhi, Indore, Ahmedabad, Adoni (A.P.), Bangalore. Sub-Regional Offices at Calcutta; Kanpur, Sriganganagar, Sirsa, Bhatinda, Broach, Surat, Manavadar, Surendra Nagar, Guntur, Gadag and Coimbatore. Besides the Chairman (Part-time), Managing Director and Secretary-cum-General Manager, the strength of the staff is 648 (vide Appendix I).

- 10.3. The Committee pointed out that the Rangaswami Committee wanted CCI to become a manager-oriented organisation and asked as to how far the organisational set-up of the CCI was manager-oriented and was condusive to the development of special...... expertise. The Managing Director stated during evidence that—
  - "Rangaswamy Committee report was mainly based on the idea that CCI should be more a vehicle for import of cotton with lesser emphasis on domestic trade in cotton. On the import side, we have only an office-oriented organisation, where the managers and the higher staff only are dealing with the thing. But, on the side of domestic trade, I do not think that that Committee has gone into the details of the set-up for a domestic trade-oriented Cotton Corporation. As it is today, the Corporation's turn-over consists-mainly of domestic trade and when an organisation is meant for handling imports from Sudan and Egypt, it is to be manager-oriented. But, we should have Selectors and accountants, payment of crores of rupees to the co-operative societies, checking their bills etc."
  - 10.4. Asked whether the staff requirement of the Corporation had been reviewed by any expert body, the Management of CCI stated in a written reply that a sub-committee of the Board which went into the structure of regional set-up of the Corporation reviewed inter-alia the staff requirements of the Corporation and the present staffing pattern was based on recommendations of that Committee. In order to make sure that the present set-up was the ideal one, the Corporation had requested the Indian Institute of Management, Ahmedabad to undertake a review of the organisational set-up of the Corporation. The Institute was examining the position.
  - 10.5. In regard to the need for approaching the Indian Institute of Management for a review of the organisational set-up, the Managing Director stated:—
    - "I am convinced that with the present set-up alone, we can do the things. I thought it is better to have a second look through an expert body. This is the idea...... It is possible to have a manager-oriented set-up on the import side, whereas it is not possible to do without the subordinate

staff in the domestic cotton trade. A manager, sitting in Delhi, cannot buy cotton in the villages of Haryana."

- 10.6. The Committee note that the Report of the Committee on Public Sector Agencies for Canalisation of Cotton Imports (Rangaswami Committee) had recommended that the Agency for Canalisatien of Cotton should be a full-fledged independent Corporation managed by a board of directors consisting of a Chairman-cum-Managing Director and seven ex-officio directors. The Corporation should be a compact organisation and manager-oriented. At present, the Corporation has a Board of Directors in which besides the Chairman and the Managing Director, there are 8 Directors. The Committee are informed that the Rangaswamy Committee Report was mainly on the idea that the Corporation should be more a vehicle for import of cotton with a lesser emphasis on domestic trade in cotton. On the import side, the Corporation is stated to have only an officeroriented organisation where the managers and higher staff only are dealing with this subject. The Committee, however, find that the recommendations of the Rangaswami Committee also envisage the present objectives of the Cotton Corporation of India in domestic cetton purchases. Moreover the quantum of imports has also come down from 10.71 lakhs in 1970-71 to 43000 bales in 1973-74. The Committee, therefore, feel that the Corporation should have a campact organisation consistent with the volume of operations handled by it. It has been stated that the Indian Institute of Management, Ahmedabad, has been requested to take a review of the organisational set-up of the Corporation. The Committee hope that after the report of the Institute is received, the Corporation would not lose any time in finalising the staff strength and re-structure the organisation as a compact body with an eye for efficiency and economy.
  - 10.7. During discussion on a Calling Attention Notice in Rajya Sabha by Shri Deorao Patil on 14th March, 1975, Dr. K. Mathew Kurion, M.P., brought the following to the notice of the Minister of Commerce:—
    - "Sir, I have got here information with me, including photostat copies showing how corrupt the Cotton Corporation staff has become. For example, one Dharam Dev, who is a technical man in the sphere of wool, who lacks technical competence in this particular field, has been made Secretary-cum-General Manager, Sir, Shri Dharam Dev's appointment as Secretary in a Public Sector Undertaking is rather surprising because this gentleman's in-

tegrity at that time was doubtful. There was a CBI injury against him and there was serious allegations of corruption, mal-practices, mismanagement and harassment of the employees against him. I would only like to show that there has been also of nearly 18 lakhs of rupees in the Cotton Corporation as a result of bureaucratic bungling and corruption. For instance, a contract was entered into in January, 1974 to sell Punjab Cotton at a rate below the Cotton Corporation rate with Mis. Dhanraj Das Gobind Ram, a cotton trader of Bombay, who does not own a single mill. The contract was for selling 50,000 bales of Punjab cotton. I have got here a copy of letter of this Company No. DG|19|74 dated 12th December, 1974, from which it is very clear that Mr. Dharam Dev and the Chair man, Shri Panjhazari are responsible for taking decisions contrary to the interests of the Cotton Corporation. I would also like to say that this party has lifted bales according to the statement and the Cotton Corporation has so far lost a sum of Rs. 16,61,887. As per the existing practice, 25 per cent of the total value of cotton is taken as deposit from the party. In this case, Shri Dharam Dev not only waived the clause, but also gave some commission on the total value of these bales. CCI's model contract was cast aside in this case and the Corporation's General Manager signed the contract as dictated by the buyer. This is in contravention of the existing policy of the Corporation. It is rather intriguing to note that M/s. Dhanraj Das Gobind Ram was previously a black listed firm. This contract was entered into with a previously blacklisted firm. The file in the office of the Cotton Corporation of India will bring out the truth. I would like the hon. Minister to really examine as to how the money given to the Corporation is being misused and wasted in the interest of these people. Now, I will give one more instance. In the cotton year 1972-73, when  $M\tau$ . Panjhazari was the Chairman, out of 3,86,104 bales, 2;33;833 bales were purchased from Punjab, the State from which he belonged. Mysore, Madhya Pradesh, Rajasthan and Haryana were ignored. I have got instances where a deliberate attempt to fleece the resources of the Corporation is being made. For example, sometimes in the night some of the heaps of kapes are taken out and sold to private parties. A fire is put in a little kapas and huge losses are registered. There is a deliberate attempt to show losses

by putting fire to the kapas. I have got more evidence to show. The question that I would like to put is: Has he made an inquiry into the working of the Corporation, particularly the mismanagement and corruption by the top officials including the present General Manager and the Secretary? I would like to know whether the resources handed over to the Corporation are being utilized to help the growers and the consumers rather than in the interest of the various types of middlemen and vested interests. Will the Government institute a public inquiry into this, and if so when? This is my question.

## The Minister of Commerce replied:

- "Sir, we will certainly look into the allegation which the hon. Member has brought. But I would say that the Corporation, as a whole, has been functioning very well. Sir, may be, one or two officers have not been functioning very well but I have no reasons.... I am very glad if you are ready to help. If you make those things available, I will certainly look into the matter. And if some people are found tobe guilty of doing wrong things, they willbe firmly dealt with according to rules."
- 10.8. During evidence when the Committee enquired about the enquiry which was going against Shri Dharam Dev in the Textile Commissioner's Office, the Secretary-cum-General Manager of CCI stated:—
  - "There was inquiry. The charge against me was not established. The CVC report has come....."
- 10.9. In this connection during evidence the representative of the Ministry of Commerce stated:—
  - "The result (of enquiries) was that non-recordable warning should be administered to him in respect of 2 or 3 charges.....CBI's recommendation was to this effect."
- 10.10. The Committee drew the attention of the Corporation to Article 106 of the Memorandum and Article of Association of CCI which reads as follows:—
  - "(1) A Secretary may be appointed by the Board for such time at such remuneration and upon such conditions as tt

may think fit; and any secretary so appointed may be recommended by the Board."

- 10.11. The Committee asked about the justification of upgrading/combining the post of Secretary and General Manager and whether it is beneficial for efficient management, the Corporation in a written reply stated that their meeting held on 11th April 1972 the Board of Directors resolved that in view of the increase in the activities of the Corporation, a post of Executive Director be created in the Corporation. That was subsequently referred to the Ministry for their consent and this took sometime to finalise; so, in February 1973, directive came from the Ministry for appointment as a General Manager. However, in order not to have separate person as a Secretary the post was re-designated as Secretary-cum-General Manager, The incumbent was thus vested with more powers and higher authority as General Manager in addition to those of Secretary. This did not involve any additional remuneration.
- 10.12. Asked whether the Government consider the present organisational structure of CCI ideally suited for a trading enterprise like CCI for taking timely decisions and for prompt implementation in the interest of achieving the objectives, the Ministry of Commerce in a written reply stated—
  - "While the Commerce Ministry consider the present organisational structure of the Cotton Corporation of India quite suitable, it has been felt that instead of having a Secretary-cum-General Manager at the Head Office, who has, on occasions, tended to operate in a sphere meant for the Managing Director, it would be better to have a Secretary who is qualified in Company Law and separate functional executives to assist the Managing Director in the matter of handling imports, domestic purchases, sales, warehousing and other activities. The post of the Secretary, cum-General Manager is thus proposed to be replaced by that of a qualified Secretary and functional executives, if any, who may be required to assist the Managing Director on cotton purchased and marketing. Action has already been initiated in this direction.
    - So far as the sub-regional offices of the Corporation are concerned, the ones at Kanpur, Baroch and Surat have since been closed. The future of the remaining sub-regional offices would depend on the size and scope of future market operations of the Corporation."

10.13. The Committee note that in 1973 the post of Secretary was re-designated as Secretary-cum-General Manager and the incumbent was thus vested with more powers and higher authority as General Manager in addition to those of Secretary though this did not involve an additional remuneration. They were informed by the Ministry that instead of having a Secretary-cum-General Manager at the Head Office who had on occasions tended to operate in a sphere meant for the Managing Director, it would be better to have a Secretary who was qualified in company law and separate functional executives to assist the Managing Director in the matter of handling imports, domestic purchases, sales, warehousing and other activities. The Committee are informed that the post of the Secretary-cum-General Manager is proposed to be replaced by that of a qualified Secretary and functional executives and action has already been initiated in this direction by the Ministry. The Committee fail to understand why the post of Company Secretary was at all combined with that of a functional executive, although this arrangement did not involve any additional remuneration, and why this arrangement was continued for all these years.

The Committee recommend that suitable guidelines in this regard should be issued by the Ministry so that the post of Company Secretary is always held by an officer qualified in Company Law and well-versed with the responsibilities thereunder and it is always separate from that of functional executive.

#### B. Chairman

- 10.14. It is seen from the Annual Reports of Corporation that the incumbent of the post of Chairman has been changed frequently during the last four years.
- 10.15. Asked whether such frequent changes, were good for the Corporation, the Management of CCI in a written reply stated—
  - "The Corporation has to accept the decisions as they come from the Ministry with regard to appointment of Chairman from time to time. It would always be desirable to have some continuity. The Ministry be in a position to state the reasons for the frequent changes of the Chairman of the C.C.I."
- 10.16. In this connection the Ministry of Commerce stated in a written reply that it was a fact that since its inception on 31-8-70 the Corporation had had six part-time Chairmen todate. The first incumbent Shri Rasikh Lal Parekh resigned when he stood for election

to Parliament in March 1971. On his resignation the Managing Director, Shri N. S. Kulkarni was appointed concurrently as Chairman and functioned in that capacity for eight months. Thereafter, the then Textile Commissioner Shri K. Kishore was appointed as part-time Chairman in addition to his duties. In June 1972, Shri R. S. Panjhazari was appointed as Chairman for a period of one year to begin with. His term was extended in June 1973 upto the next Annual General Meeting which was held on March 25, 1974. demission of Office by Shri Panjhazari after Annual General Meeting, Shri S. K. Bagchi, Textile Commissioner was appointed as the part-time Chairman. In November, 1974, Shri G. Ramanujam had been appointed as part-time Chairman for a period of two years. The above appointments were all made with the approval of the Appointments Committee of Cabinet. In the case of non-official Chairman, the proposals emanated in the form of a Minute from the Minister. In the case of Official Chairman proposals were put up by the Commerce Ministry Officials and approved by the Minister and the Appointments Committee of Cabinet.

10.17. The appointments of officials as Chairman on three occasions, in addition to their normal duties, were in the nature of stop-gap arrangements until Government took a decision about appointing some other non-official as part-time Chairman. The appointment of Shri Ramanujam as part-time Chairman for two years in the first instance was with a view to ensure better continuity in the Chairman's tenure in future so that the Corporation could benefit from his guidance and direction. The Articles of Association has also been amended to provide that instead of the Chairman and other Directors retiring automatically at every Annual General Meeting, the automatic retirements would now take place at every third Annual General Meeting.

10.18. The Committee regret to note that since the inception of CCI in August, 1970 there have been too frequent changes in the incumbent to the post of Chairman inas much as there have been 6 part-time Chairmen appointed within a span of about 4 years. They were informed that the appointment of the present Chairman in November, 1974 as part-time Chairman for 2 years in the first instance was with a view to ensure better continuity in the Chairman's tenure in future so that the Corporation could benefit from his guidance and directiaon. The Articles of Association have also been amended to provide that instead of the Chairman and other Directors retiring automatically at every Annual General Meeting, the automatic retirements would now take place at every third

Annual General Meeting. The Committee wish that the consideration of continuity of the Chairman for a reasonable length of time should have weighed with the Government right from the inception of the Corporation. They feel that it is essential to have stability at the top level for the effective functioning of the Corporation. They hope that this consideration will not be lost sight of hereafter and frequent changes of Chairman would be avoided in the interest of better functioning of the Corporation.

# C. Relationship between CCI and NTC

- 10.19. In regard to a proposal whether both the NTC (National Textile Corporation) and the CCI should be under the same Ministry, the Managing Director stated during evidence that—
  - "I would very clearly say that the existence of separate controls, as such, has not hindered working together. But it would always be very much conducive to common working if they are under the same holding company."
- 10.20. In a written reply furnished after the evidence the Management of CCI stated that although the N.T.C. and the C.C.L. were controlled by different administrative ministries, close cooperation and coordination between these two organisations was ensured by arranging frequent meetings with the representatives of these organisations with regard to purchases of cotton, required by the mills under the N.T.C.
- 10.21. In this connection the Ministry of Commerce stated in a written reply that Co-ordination and Co-operation between the policies of the Cotton Corporation of India and National Textile Corporation were being achieved through necessary inter-Ministerial and inter-corporate consultations. Thus in order to evolve mutually acceptable terms of sales of cotton by the Cotton Corporation to National Textile Corporation's mills, an inter-Ministerial group comprising of Ministries of Commerce, Industry, and Civil Supplies, and the two Corporations had been set up last year. There were inevitably certain aspects of C.C.I.'s operations which impinge on subjects under the administrative control of other Ministries. In the matter of purchases, the Corporation had been using the Cooperative net-work and until recently, the interest of Co-operative Marketing Federations, etcs. were being watched by the Ministry of Agriculture, Department of Co-operation.
- 10.22. In their experience, no major issues had come up between the National Textile Corporation and Cotton Corporation of India,

which could have been more efficiently resolved had the two Corporations been under the administrative control of one rather than different Ministries.

10.23. Asked about their views on merging CCI and NTC into one Corporation, the Secretary, Ministry of Commerce stated during evidence that—

"The CCI is an independent organisation which has objectives other than that of supplying cotton to the NTC. Those objectives will have to be continued. The Cotton Corporation will have still to be there, whether the agency for buying the cotton for the NTC should be the Cotton Corporation or any other body or whether the NTC wishes to set up their own agency for buying cotton and not entrust the task to the CCI. Probably one could have said that the CCI is unnecessarily interfering in this matter, but since they know the market and they have got the experience, it was suggested that a Government organisation readily available for this purpose with all its staff geared up, with all the training available in grading, selecting, ginning and baling-all those things have been now geared up-could be utilised. That was the idea with which this proposal has been mooted. is being continued and we hope we will be able to serve but the picture that emerges as at present looks as if the CCI is almost like an agency for buying operations of cotton in the market for the NTC. I am only trying to clear the picture. That does not mean that the CCI loses its other objectives. There are the four other objectives at present defined and we are going in for further redefinition if it is possible."

10.24 Giving evidence before the Committee on 17-9-74, the representative of the Maharashtra Cotton Growers Sangh expressed the view that the Textile Commissioner regulated the use, distribution and stocking of cotton. So unless and until the Cotton Corporation of India and the Textile Commissioner co-ordinate their activities and functions, the CCI would not be able to play its role effectively.

10.25. The Committee enquired about the views of the Government in this regard and steps taken to ensure co-ordination between the activities and functions of Textile Commissioner and CCI. In a written reply the Ministry of Commerce stated that there had

been complete cordination between the Cotton Corporation of India and the Textile Commissioner. Textile Commissioner operates the various provisions of the Cotton Control Order, 1962. Under this Order, stocks limits could be prescribed for the trad eas well as the mills, ceiling and floor prices could be laid down and quality and packing standards prescribed. While the Cotton Corporation of India would be agency for undertaking the actual marketing operations, both in the matter of purchase and sale, the framework of stock limits, prices, which might be prescribed by the Textile Commission went a long way in ensuring that the Cotton Corporation's market operations had the desired impact. The Managing Director of the Cotton Corporation was a member of the Textile Commissioner's Cotton Advisory Board and the Textile Commissioner was also a Director on the Board of the Cotton Corporation. Another point of co-ordination between the Textile Commissioner and the Managing Director of the Cotton Corporation was available within the Commerce Ministry as views of both the Textile Commissioner and the Managing Director of the Cotton Corporation were elicited by the Ministry in important issues relating to cotton.

10.26. The existing arrangements had resulted in satisfactory co-ordination between the Textile Commissioner and the Cotton Corporation of India and  $n_0$  special steps appear to be called for in this behalf.

10.27. The Committee note that although the National Textile Corporation (NTC) and the Cotton Corporation of India (CCI) are controlled by different administrative Ministries close co-operation and co-ordination is reported to be maintained between these two organisations with regard to purchase of cotton required by the mills under the NTC. Co-operation and co-ordination between the policies of CCI and NTC is being achieved through necessary inter-Ministerial and inter-corporate consultations. According to the Ministry of Commerce, no major issues have come up between the National Textile Corporation and Cotton Corporation of India which could have been more efficiently resolved had the two Corporations been under the administrative control of one rather than two different Ministries. But according to the Cotton Corporation of India though the existence of separate controls as such has not hindered their working together, it would be very much conducive to common working if these two Corporations are under the same holding company. The Committee, however, understand that the Managing Director of NTC is already a Member of the Board of Director of CCI.

- 10.28. On the question of merger of CCI with NTC, they were informed that CCI had objectives other than that of supplying cotton to NTC mills also and the CCI would have to be there to fulfil other objectives whether the agency for buying cotton for NTC mills was the CCI or anybody else or whether NTC set up its own agency and did not entrust this work to CCI.
- 10.29. The Committee have already expressed their views in paragraph 5.24 of their Report on National Textile Corporation, on placing the NTC and CCI under the administrative control of one Ministry which deals with all other matters relating to textile industry. The Committee would like Government to consider the feasibility of this arrangement and take an early decision in the larger interest of functioning of the two Corporations.
- 10.30. The Committee also note that a view has been expressed that unless and until the Cotton Corporation of India and the Textile Commissioner of the Government of India co-ordinate their activities and functions the Cotton Corporation would not be able to play its role effectively. The Committee are informed that there been complete co-ordination between the Cotton Corporation of India and the Textile Commissioner. The Managing Director of the Cotton Corporation is a member of the Textile Commissioner's Cotton Advisory Board and the Textile Commissioner is a Director on the Board of the Cotton Corporation. Besides, the Ministry of Commerce elicits the views of both the Managing Director of the Cotton Corporation and the Textile Commissioner on important issues relating to cotton. They hope that the existing arrangements which are reported to have resulted in satisfactory co-ordination between the Textile Commissioner and the Cotton Corporation of India, will be continued and, if necessary, further improved in the interest of evolution of sound policies for the purchase and sale of cotton for the efficient working of the Corporation.

## CONCLUSION

The Cotton Corporation of India was incorporated on 31st July, 1970, with the following main objectives:—

- (i) to act as a canalising agency for import of cotton;
- (ii) to act as the agency for price support operations on behalf of Government of India, as and when necessary.
- (iii) to purchase cotton for supply to mills in the public sector;
- (iv) to provide a ready market to growers of long staple varieties which were being developed as a measure of import substitution;
- (v) to undertake further operations to the extent possible in the domestic cotton market so as to meet the needs of private sector cotton textile mill.
- 11.2. The Corporation had also two broad objectives in all their operations, namely ensuring a remunerative price to farmers and at the same time ensuring stabilisation of prices for the general welfare of the consumers, though these have not been incorporated in the Memorandum and Articles of Association of the Corporation.
- 11.3. During the course of examination of the working of the Cotton Corporation of India, Ltd. the Committee have found that—
  - (i) Ever since the appointment of Cotton Corporation of India as canalising agency for cotton imports the percentage of cotton imported through the Corporation has risen from 26 per cent of the total imports in 1970-71 to 82 per cent in 1972-73. The percentage of imports through the Corporation has come down to 16 per cent in 1973-74.
  - (ii) The cotton purchased by the Corporation from Egypt and Sudan was on f.o.b. basis with the result that the foreign exchange cost of freight and insurance had been conserved. On a broad assessment the foreign exchange saving resulting on account of freight and insurance has amount-

- ed to Rs. 45 crores since the Corporation started functioning as the canalising agency.
- (iii) Indigenous production of long staple cotton has risen from 3.3 per cent in 1970-71 to 19.6 per cent of total production in 1972-73 and the import of such cotton has been progressively brought down from 7.4 lakhs bales in 1970-71 to 49,000 bales in 1973-74.
  - (iv) In 1971-72, the cotton prices had fallen very low and the Government had directed the Cotton Corporation of India to purchase cotton at the prices fixed by them to save the growers from heavy losses.
  - (v) The profit of the Corporation has increased from Rs. 10.38 lakh in 1970-71 to Rs. 504 lakh in 1972-73 and the dividend declared has also risen from 3 per cent in 1970-71 to 12 per cent in 1972-73.

## 11.4. The Committee, however, find that-

- (i) As against its credit requirements of Rs. 300 crores in 1973-74, the Corporation got only Rs. 30 crores and as against its credit requirements of Rs. 200 crores for the year 1974-75, the Corporation has been allowed a credit of only Rs. 10 crores which according to CCI is too inadequate even to enter the market, much less to carry out all its objectives. During 1974-75 a scheme has, however, been prepared to purchase cotton on a deferred payment basis. The scheme envisages the purchase of cotton by immediate payment in cash of 50 per cent of the price and the remaining 50 per cent of the price is payable at the end of six months with interest at 6 per cent per annum.
- (ii) The Corporation has not so far attempted any specific estimates of cotton production in any particular year although it realises the need for a mechanism to make a fairly correct and workable estimate of cotton crop. The Corporation has been relying only on the reports of the Ministry of Agriculture and the State Departments of Agriculture and has also been taking into account the assessment by the trade. The estimates prepared by the Ministry had been on the lower side, compared to the figures reported by ginning factories and the cotton trade. The crop estimates given out by the trade are

stated to be higher than the actuals and according to the Corporation the higher trade estimates are likely to be motivated.

- (iii) The support price worked out by Agricultural Prices Commission have not been higher than the market prices, in fact the market prices have been 14 times the support prices. The Ministry of Commerce admitted that there was no real and proper costing data available from which they could infer whether or not a particular tariff was profitable and that they were groping in the dark to some extent in this regard. The Agricultural Prices Commission has also observed in successive reports that the available data on the cost of production of cotton suffer from several limitations.
- (iv) The Committee find that the support prices as recommended by Agricultural Prices Commission were not, notified during, 1971-72 and 1973-74 and have not been notified for the year 1974-75, so far. For the year 1972-73 the prices were notified only in January, 1973.
- (v) The Cotton Corporation of India purchased 5,17,364 bales of cotton in 1971-72, 386037 bales in 1972-73 and 3,24,677 bales in 1973-74. During 1972-73 and 1973-74, the bulk of the purchases made by the Corporation was from the State of Punjab, Haryana and Rajasthan, the purchases in Punjab alone being 60.2 per cent and 55 per cent respectively. The Board of Directors which discussed the purchase policy almost every month failed to take notice of the Corporation purchase operations being heavily weighted in favour of certain states and neither the Government not the Board of the Corporation did anything to correct the lopsided approach of the Corporation in this regard.
- (vi) During 1973-74, the Corporation is reported to have drawn up a massive programme for the purchase of 25 to 30 lakhs bales throughout the country on the basis of finances assured by the Ministry of Finance and at least Rs. 150 crores worth of credit was expected. But in March, 1974 the Corporation was told that no credit would be given beyond Rs. 37 crores. The Corporation therefore, decided to stop its purchases in Punjab, Haryana and Rajasthan and took up limited purchases in Karnathaka, Tamil Nadu and Madhya Pradesh. However, even out of the Rs. 37 crores the Corporation was asked to return a sum of Rs. 7

- crores immediately. The Corporation was therefore, stated to be not in a position to effect purchases equitably in the other states as per programme drawn up earlier.
- (vii) The Corporation's purchases of cotton have been 7.8 per cent, 7.07 per cent and 5.41 per cent of the total production in the country during 1971-72, 1972-73 and 1973-74 respectively. The Ministry of Commerce has admitted that the extent of purchases made by the Corporation in the domestic cotton market in the past four years of its existence have been completely inadequate to enable the Corporation to play an effective role in stabilising cotton prices and ensuring a steady supply of cotton to textile industry.
- (viii) As against the reportedly realistic norm of 1 per cent to 1.5 per cent of ginning loss, the actual loss in certain cases has been much higher ranging between 3 per cent and 5 per cent.
  - (ix) According to RBI inquiry, the cloth manufactured out of imported cotton was only for domestic use. As admitted by the Ministry only 10 per cent of yarn and cloth manufactured out of imported cotton has figured in textile export and 70 per cent of yarn spun from imported cotton is supplied to the dencentralised sector, consisting of handloom and power loom and has been used for manufacture of sarees, dhotis, etc.
  - (x) There were as many as 158 cases of fire (the highest number of cases is 62, being in Punjab) in the warehouses during the year 1971-72 and 1972-73, where cotton was stored involving loss of stocks worth Rs. 75.70 lakh out of which a sum of Rs. 50.83 lakh has been received by the Corporation through insurance and other claims.
  - (xi) The Corporation had been following a policy of selling cotton at the purchase prices adding thereto expenses of the Corporation and a service charge of one per cent and this policy was uniform both for sale to mills and to others. There is no fixed relationship between the prices received by the Cotton growers and the prices fetched by non-controlled yarn and cloth. It has been stated that Government however, recognise the logic and justification of the proposition that the margins of the trade and the mill sector should be suitably pruned to ensure that the

- yarn and cloth prices bear a reasonable relationship to prices of cotton fetched by the growers.'
- (xii) One of the roles assigned to the Corporation is that of an Agent for the Mills in the Public Sector for supplying the requirements of cotton throughout the year. It has been stated that the Corporation is keen to develop trade relations with NTC and with that view has been having correspondence with NTC who were also assured that 25 per cent to 30 per cent of their requirements would be made through CCI. It has taken more than four years to finalise the working arrangements with the NTC inspite of the fact that both the organisations are in the public sector.
- (xiii) Management have admitted that while the volume of purchases of cotton is going down from year to year, the infractructure set up by the Corporation continued to be large adding to the overheads. The large infrastructure was created in 1973-74 without making sure about the availability of the funds and was continued for almost 2 years when the Corporations purchase operations have been very much on the low side. The Ministry failed to communicate to the Corporation about the non-availability of the reduced credit of Rs. 100 crores. Neither the Corporation nor the Ministry have any idea about extra expenditure on the infrastructure.
- (xiv) The deal for the sale of 25,000 bales of cotton to M/s. Dhanrajmal Gobindram was concluded in undue haste in utter violation of the powers vested in the Regional Manager and allowing relaxations about extension of grace period, reduction in additional charges from 2½ per cent to 2 per cent and waiving of the deposit of 15 per cent.
- 11.5. To sum up the Committee are of the opinion that the extent of purchases made by the Corporation in the past four years of its existence have been completely inadequate to enable the Corporation to play an effective role in stabilising the Cotton prices and ensuring a steady supply of Cotton to textile industry due to non-availability of adequate finances. They feel that if the twin objectives of the Corporation viz. ensuring remunerative prices to growers and at the same time stabilising the prices of Cotton for the general welfare of the consumers are to be achieved, it is essential that the Government should take an early decision regarding the precise role of the Corporation and the magnitude of its operations and also take steps to provide it with adequate funds. The support prices should

be fair and remunerative and announced well in advance of the sowing season. The purchases should be spread out equitably in all the Cotton growing States. Government should evolve a policy by which Cotton growers get a share of price realised for the end product. They feel that the policy of selling Cotton at fixed prices to private sector mills is not in the best interests of the Corporation especially when it has not been possible to get a guarantee regarding the sale price of cloth to consumers. The sale of cotton to mills other than NTC mills should only be at the prevailing market rate. The Committee have not been able to see any justification behind importing cotton and spending precious and scarce foreign exchange in the past merely to satisfy the needs of the affluent sections of Society and hope that the policy decision since taken by Government to restrict future imports of Cotton to meet the requirements of export production will be strictly adhered to.

NAWAL KISHORE SHARMA.

New Delhi;

Chairman,

April 28, 1975.

Committee on Public Undertakings.

Vaisakha 8, 1897 (Saka).

### APPENDIX i

# THE COTTON CORPORATION OF INDIA LTD.

## Organisational Chart (Staff)

BOARD OF DIRECTORS

CHAIRMAN

MANAGING DIRECTOR

MANAGER
SECRETARY-CUM-GENERAL

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L. D. C. 260—400	15					. 4			2 80
Grand Total	53 31 28 15 8	12 7 18	7 5	3	73 40	97	246		648
		Explanation							1
R.M./D.M.	Regional Manager/Divisional Manager.	nal Manager.							
Acets.	Accounts Divison.								
Sectt. Bat, & Adm.	S:etretariat, Bstablishments & Administration Sections.	s & Administration Sec	tions.						
L'g:1, H. K., Typ. & Yam.	Ligal, House Keeping, Typing and Yarn Sections.	oing and Yarn Sections							
CMF	Clearing & Forwarding								
A.I.E. Sudan	Atab R-pu'lic of Bgy $\rho t$ (Division dealing with import of $\cot$ ton Bgypt.) Sudan.	ivision dealing with im	port of ection	Bgypt.	_				
1.1.	Licensing Section Internal Trade Division								
Sales. P. Sectt. of Ci/MD. P. R. Cill S.O. U.D.C.	Section dealing with sales of indigenous cotton. Personal Secretariat of Chairman and Managing Director. Public Relations Cell Section Officer Upper Division Clerk Lower Division Clerk	of indigenous cotton. irmsn and Managing I	lirector.						

### APPENDIX II

### Summary of Conclusions/Recommendation of the Committee on Public Undertakings contained in the report

Sl.	Reference t		Summary of Conclusions/
No.	No. in the	Report	Recommendations
1	2		3
1	1.20	up we the purch public dome according remussation of contract sions for particles the ces	the Committee note that though CCI was set with the Principal objectives of (i) acting as agency for price support operations (ii) hasing cotton for supply to mills in the ic sector and (iii) undertaking purchase of estic cotton on its own and selling it to mills, reding to Corporation and Government, the objectives of Corporation were payment of inerative prices to the farmers and stabilism of prices of cotton for general welfare onsumers. The Committee were informed these were based on administrative decise of Government, who have felt the need providing remunerative prices to farmers for aining interest in cotton production and also need for maintaining stability in cotton print in the interest of catering to domestic and out market effectively.

The Committee regret to point out that though the Corporation and Government claim that these are the twin objectives of the Corporation, these do not find a specific place in the Memorandum and Articles of Association of the Corporation. The Committee were that the Ministry had already submitted proposals for enlarging the objectives of the Corporation to cover these aspects to the Committee of Secretaries appointed to examine the integrated policy for the cotton textile industry and a further note is under submission to Government wherein approval of the Corporation's role would also be solicited.

The Committee find that inspite of their recommendation in the 40th Report on 'Role and Achievement of Public Undertakings' were in they recommended that the role and objectives should be clearly defined, Government had not so far taken a decision in this regard. The Committee recommend that the Government should come to an early decision about the role and objectives of the Corporation in specific terms, and include them in the Memorandum and Articles of Association without further delay.

2 1.23 to 1.26

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The Committee also regret to note that the undertaking had not been able to fulfil effectively its role of purchasing cotton in the domestic market due to non-availability of adequate finances.

The Committee find that as against its credit requirements of Rs. 300 crores in 1973-74, it got only Rs. 30 crores and as against its credit requirements of Rs. 200 crores for the year 1974-75, the Corporation was allowed a credit of only Rs. 10 crores which according to CCI is too inadequate even to enter the market, much less to carry out all its objectives.

In the opinion of the Committee the Corporation cannot achieve the two laudable objectives of ensuring remunerative prices to farmers and stabilising cotton prices for general-welfare of the consumers and play a dominent role in cotton 'trade unless it is assured of adequate resources well in advance of the cotton season.

The Committee recommend that Government should take an early decision about the role of the Corporation, define its aims and objectives in specific terms, provide adequate finances to subserve the needs of the Corporation in discharging the role and objectives. The Committee would like Government to take all necessary measures to ensure that the sudden extension of financial resources on a large scale really subserve the twin objectives of giving a remunerative price to cotton growers and make available cotton to the textile industry (Public Sector) at reasonable prices in the interest of general consumers. There is need for taking every precaution in this behalf as there have been serious allegations in recent months about the working of the Corporation.

2.11 to 2.14 The Committee regret to note that the Corporation has not so far attempted any specific estimates of cotton production in any particular year, although it realises the need for a mechanism to make a fairly correct and workable estimate of cotton crop. The Corporation has been relying only on the reports of the Ministry of Agriculture and the State Departments of Agriculture and has also been taking into account the assessment by the trade.

The Committee were informed that the Agriculture Ministry made periodical assessment of cotton crop on the basis of reports received from State Governments but the estimates prepared by the Ministry had been on the lower side compared to the figures reported by ginning factories and the cotton trade. The crop estimates given out by the trade were also stated to be higher than the actuals and accord-

ing to the Corporation the higher trade estimates are likely to be motivated.

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The Committee were informed that the Hindustan Lever has established a system under which its estimates of groundnut crop have been 99 per cent correct during the last 15 years and that the Operations Research Group of Baroda has been estimating production of oilseeds during the last several years with only 1 per cent variation from the actuals. If these two agencies can evolve an almost perfect system of Estimating Production of groundnut and oilseeds, the Committee feel that it should not be difficult for the Government having a vast network of agencies to evolve a system of arriving at reasonably accurate estimates of cotton crop from year to year.

The Committee find that at present estimates of cotton production are done by the Agriculture Ministry while the Cotton Corporation is under the Commerce Ministry. The Committee recommend that there should be greater coordination between the Ministries of Agriculture and Commerce so that accurate and objective estimates of cotton are available to CCI in time to enable the Corporation to plan its procurement operations as realistically as possible.

3.12 and 3.13 The Committee note that Government of India notify the support prices for different varieties of cotton based on prices worked out by the Agricultural Prices Commission while fixing such prices the views of the representatives of the cotton growers, Textile Commissioner and of textile industry are taken into account. It has been stated that the prices are reviewed every year with reference to cost of inputs yield and other factors making allowance for a reasonable margin of profit to the cotton growers.

The Committee are informed that the support prices have not been higher than the market, prices; in fact the market prices have been 11 times the support prices. The Ministry of Commerce admitted that there was no real and proper costing data available from which they could infer whether or not a particular tariff was profitable and that they were gropping in the dark to some extent in this regard. Reports of Research Scholars and Research bodies show different profits and profitability on cotton though all of them show a fairly good profitability in. regard to cotton and market price mechanism. is considered to be adequate to meet the cost of cultivation. The Agricultural Prices Commission has also observed in successive reports that the available data on the cost of production of cotton suffer from several limitations. As the support prices have been much below the market prices, the market prices based on the operation of the normal forces of demand and supply have proved to be more advantageous to the farmers than the support prices. In view of this the Committee feel that the Government should examine whether the support prices which have been quite unrelated to the normal market prices, have served the purpose for which the system of support prices was introduced and whether the parameters within which the Agricultural Prices Commission functions in calculating the support prices should not be made realistic. In the opinion of the Committee the support prices should be as close as possible to the fair and remunerative prices.

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3.14

The Committee note that in 1971-72, the cotton prices had fallen very low and the Government had directed the Cotton Corporation of India to purchase cotton at the prices fixed by them to save the growers from heavy losses. In subsequent years, the Corporation has been

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purchasing cotton at ruling market prices which. have been 1½ times the support prices calculated by the Agricultural Prices Commission and considered remunerative. The Committee however, find that the support prices as recommended by Agricultural Prices Commission were not, notified during 1971-72 and 1973-74 and have not been notified for the year 1974-75, so far. For the year 1972-73 the prices were notified only in January, 1973. The Committee recommend that if the declared policy of Government to ensure to the best of their ability a fair and reasonable price to the cotton growers is to be achieved through the mechanism of support prices. ernment should ensure that the support prices as calculated by Agricultural Prices Commission are announced from year to year well in advance of the commencement of the cotton sowing seaso that not only the Cotton Corporation knows when it should enter the market to protect the interests of cotton growers and discharge its social obligations towards them but also the Cotton growers may know the pricelevel below which they should not sell their crop of cotton to the private traders.

3.27 and 3.28

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The Committee note that the Cotton Corporation of India normally makes purchases in regulated markets through the agencies of the Apex Cooperative Marketing Federations or where such bodies are not organised or sound. through the Primary Co-operative marketing societies. Where, the co-operative structure was developed, the well Corporation to entrust the work to other agencies like AgrooCrporation and State Trading as per the request of the Corporation Government or to the nominees of the Government. In all these cases, the Corporation pays a purchase commission of 1 per cent of the value of kapes. The Committee are informed that it would not be feasible nor economical to have its organisational set up in remote areas of production and it had been the avowed policy of Government to encourage cooperative marketing especially in rural areas.

The Committee note that, while regulated markets exist in most of the States, in Guntur and Prakasam Districts of Andhra Pradesh and Saurashtra District of Gujarat, there are no regulated markets. On the Corporation's taking up the matter with the Government of Andhra Pradesh, they agreed to set up regulated markets 'in the ensuing cotton season'. The Committee would like the Corporation to pursue the matter not only with the Government of Andhra Pradesh, if the regulated markets have not been set in Andhra Pradesh so far, but also with the Government of Gujarat for setting up regulated markets in Saurashtra District of Gujarat so that the Corporation's purchases may be made through regulated markets these areas also.

3.29

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The Committee are informed that there are certain procedural difficulties before the Cotton Corporation because of which it cannot extend its operations fully to the areas of Tamil Nadu where there is no system of open auctions. has been stated that Tamil Nadu Federation wanted to entrust the purchases to the State Cooperative Marketing Federation and also a higher commission than what the CCI was paying in other states. In regard to payments, the Tamil Nadu Marketing Federation insisted that agreements should provide a clause under which the Cotton Corporation would pay penal interest in case the payments were not made within the stipulated time. The Committee are informed that the Corporation paid 90 per cent of the value of cotton the same day and the balance after certain precedural malities and occasionally there might be a delay,

of one or two days. It has also been stated that according to the authorities in Tamil Nadu Government, it would not be possible for them to modify their market committee's procedure immediately or to drop the demand for penal interest for delayed payments. The Committee recommend that the Government of India may take up the matter with the Government of Tamil Nadu to find out a workable solution to enable the Corporation to extend its sphere of its purchase activities and operate in all the cotton growing states without any difficulty

3.36 and 3.37

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Company a

The Committee note that the Corporation appoints 2 type of cotton selectors at each procurement centre—one selector from the trade who can judge the quality by visual examination and other selector qualified in Textile Techonology The Committee are informed that the object of keeping 2 selectors in each centre is to ensure that one keeps a watch on each other and there is a proper selection of cotton and prices paid. It has also been stated that it is necessary to have two cotton selectors for each centre as that would enable not only serve the purpose of each one having a watch on the activities of the other but also help in the communication of the purchase details and payment, to the Sub-Regional/Regional Offices. The Committee are not able to appreciate the justification for having the two selectors one of them merely for communication of the purchase details and payment, to the Sub-Regional and Regional Offices, when one of the selectors is already meant for making the selection and bidding at the auction under the instructions from the Regional Office.

The Committee suggest that Government should examine the merit of keeping two selectors in each centre as in their opinion, that by itself is no guarantee for the quality and price

of cotton nor is it a fool proof method against any of the under-hand dealings. The Committee feel that it is more essential to have strict control and surprise inspection of a work of the selectors by the supervisors and the Regional Managers especially during the purchase seasons. The Committee also suggest that Government should examine the feasibility of introducing scientific equipment for testing the quality of cotton at each major centre of purchase.

3.52

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The Committee note that the Cotton Corporation of India purchased 5,17,364 bales of cotton in 1971-72, 3,86,037 bales 1972-73 and 3,24,677 bales in 1973-74. During 1972-73 and 1973-74, the bulk of the purchases made by the Corporation was from the States of Punjab, Haryana and Rajasthan, the purchases in Punjab alone being 60.2 per cent and 55 per cent respectively. The Committee are informed that no directives had then been issued by the Government to the Corporation in regard to spreading its purchases equitably in all cotton growing states. The Board of Directors had also not fixed any schedule of purchases statewise. On 20th December, 1972, the Board decided to buy 2 lakh's bales on a revolving basis. Since by 30th December, the Corporation had already purchased 1,06,737 bales in Punjab, where the season started earlier, the purchases of the Corporation had to become restrictive as the balance quantity left was very nominal. Besides, the season had advanced by that time and the prices were ruling very high and the situation did not necessitate purchases Moreover during 1972-73 by the Corporation. introduced the Maharashtra Government scheme for monopoly procurement of cotton in that State. Even then the total number of bales purchased in Punjab during the year 1972-73 rose to 2,33,837 (60 per cent of the total purchases)." During 1973-74, the Corporation is re-

ported to have drawn up a massive programme for the purchase of 25 to 30 lakh bales throughout the country on the basis of finances assured by the Ministry of Finance and at least Rs. 150 crores worth of credit was expected. The purchases were started first in North India, where season started first, with the expectation that the finances for the entire purchase programme of 25 to 30 lakhs bales would be forthcoming. But in March 1974 the Corporation was informed that no credit would be given beyond Rs. 37 The Corporation therefore, decided to stop its purchases in Punjab, Haryana and Rajasthan (purchases in these States being 2,48,855 bales out of total purchases of 3,24,677 bales in 1973-74) and took up limited purchases in Karnataka, Tamil Nadu and Madhya Pradesh. However, even out of the Rs. 37 crores the Corporation was asked to return a sum of Rs. 7 crores immediately. The Corporation was therefore stated to be not in a position to effect purchases equitably in the other states as per programme drawn up earlier. The Committee regret to note that the Board of Directors which discussed the purchase policy almost every month failed to take notice of the Corporation's purchase operations being heavily weighted in favour of certain States and neither the Government nor the Board of the Corporation did anything to correct the lop-sided approach of the Corporation in this regard. The Committee are informed that, in the current year, the Board has taken a decision to the effect that when funds were available the Corporation would follow a policy of equitable purchases on prorata basis in all the cotton growing states. The Committee are not convinced by the arguments advanced by the Corporation in justification of its inability to spread its purchases equitably in all the cotton growing states. The Committee are surprised that during the period 1971-72 to

1973-74 the Corporation followed a policy of making overwhelming part of its purchases mainly from the regions of Punjab, Haryana and Rajasthan. They are not satisfied with the reason advanced by the Corporation that it could not due to certain circumstances follow the policy of equitable spreading of its resources to purchase cotton from various other cotton growing regions in the country. It looks as if this imbalance in purchase was deliberate. The Committee recommend that a thorough study in depth of the purchase policy followed by the Corporation and a thorough investigation of the purchases made by the Corporation in the past be conducted responsibility fixed and lessons drawn.

10 3.53

The Committee feel that the Ministry should have issued suitable guidelines to the Corporation, in regard to purchase of cotton within the available resources so that purchases were equitably spread over the cotton growing States.

They note that at present a High Powered Committee consisting of representatives of Ministries of Agriculture, Planning, Commerce and Finance determine the price differential for different qualities of cotton after Government have fixed the price of standard quality of cotton on the recommendations of the Agriculture Prices Commission. They would like Government to consider whether this High Powered Committee could also be entrusted with the task of laving down broadly the targets for purchase of different varieties of cotton from the cotton growing States having regard to anticipated production, requirements particularly of Mills under N.T.C. need for sustaining production of desirable varieties of cotton in the interest of attaining self-sufficiency, price situation, availability of funds, etc. The Committee would like

to be informed within three months of the precise action taken by Government to ensure that the purchases of the Corporation are so regulated as to subserve equitably the interests of major cotton growing States and it acts in time tomake such purchases.

11 3.55

The Committee note that the Corporation was hampered in its operations to purchase MCU-5-cotton in Andhra Pradesh as the State did not have regulated markets. They were informed that the Corporation had brought this fact to the notice of Andhra Pradesh Government. The Committee has already observed in para 3.28 the need for setting up regulated markets in all cotton growing states to enable the Corporation to operate in all the states without difficulty.

12. 3.65 to 3.67

The Committee note that the Corporation's purchases of cotton have been 7.8 per cent, 7.07 per cent and 5.41 per cent of the total production in the country during 1971-72, 1972-73 and 1973-74 respectively. The Ministry of Commerce has admitted that the extent of purchases made by the Corporation in the domestic cotton market in the past four years of its existence have been completely inadequate to enable the Corporation to play an effective role in stabilising cotton prices and ensuring a steady supply of cotton to textile industry. The Committee are given to understand that the proposals regarding increase in the market purchases of the Corporation and provision of financial accommodation are already under consideration of Government and decision is yet to be taken in this regard. It was indicated that about 12 lakh bales of cotton should be purchased by the Corporation involving a credit requirement of Rs. 200 crores. commercial banks are of the view that the Corporation's market purchase operations should be

limited to price support purchases and as ruling prices are above the supply levels, there is no economic justification for the Corporation entering the market in a big way.

The Committee feel that if the twin objectives of the Corporation viz., ensuring remunerative prices to growers and at the same time stabilising prices of cotton for the general welfare of the consumers are to be achieved, it is essential that Government should come to an early decision regarding the precise role of the Corporation and the magnitude of the operations to be performed by it and also take steps to provide the Corporation with adequate funds to achieve the objectives.

The Committee also note that the Corporation has been sanctioned a credit limit of Rs. 10 crores for its market operations during 1974-75 but the Corporation did not enter the market for some time as it was not possible to purchase substantial quantities of cotton with this amount. A scheme has, however now been prepared to purchase cotton on a deferred payment basis. The Scheme envisages the purchase of cotton by immediate payment in cash of 50 per cent of the price and the remaining 50 per cent of the price is payable at the end of six months with interest at 6 per cent per annum.

The Committee are of the opinion that this scheme would force the producers to sell their cotton to the private trade at lower though cashdown prices. This in the opinion of the Committee would defeat the very objective of the Corporation, namely of ensuring remunerative price to the producers, encouraging cotton production and stabilising prices. The Committee

would therefore like the Government to take necessary and urgent measures to ensure that the Cotton Corporation is able to achieve its objective.

13. 3.77 to 3.79

The Committee note that according to the Corporation monopoly procurement would in the long run be beneficial to farmer and eventually to consumer, if the farmers are paid remunerative prices and there was efficient conversion of Kapas into full pressed bales and direct sales to the mills from a Government agency. It has been stated that chances of over-invoicing by mills would be considerably reduced and the cost of conversion from full pressed bales to yarn and cloth would be more realistic and also the payment of income tax etc. The prices of the finished cloth could be regulated which would eventually benefit the consumers as well as export market.

The Committee however note that according to the Ministry it will be difficult for a single monoply agency to duplicate all the technical administrative services rendered by the cotton trade and at the same time it has been stated that Government have recognised the importance of keeping kapas and lint prices at reasonable level and an agency like the CCI would be the best instrument for securing commanding position in the market.

The Committee feel that to achieve this objective, Government should ensure payment of remunerative price to the farmers so that the latter do not change over to other cash crops where there is better price realisation thus creating the necessity for the country to take to imports of this much needed commodity. The

Committee also recommend that since the Corporation has by now considerable expertise and has the necessary infrastructure developed, the Government should provide the Corporation with the necessary wherewithal in order that CCI may attain the commanding position in the cotton market.

14. 4.10

The Committee note that the percentage of loss in ginning of kapas prescribed in the guidelines issued by the Corporation is 1/4 per cent while according to the management and the reported expert opinion it should not exceed 1 per cent to 1.5 per cent(though it has in fact ranged from 3 per cent to 5 per cent in certain cases). The Committee are informed by the Management that the 1/4 per cent of ginning loss laid down in guidelines "is only a threat to our people to keep it as low as possible" though the Corporation has also admitted that "this is not possible to restrict it to that". The Committee do not appreciate the advantage of laying down unrealistically low norms in such matters which are not possible of achievement. They are of the opinion that norms prescribed in such cases should be realistic and practical and once prescribed, these should be enforced strictly.

15. 4.11 to

4.13

The Committee note that as against the reportedly realistic norm of 1 per cent to 1.5 per cent of ginning loss, the actual loss in certain cases has been much higher ranging between 3 per cent and 5 per cent. The Committee are informed that standing instructions were issued 1-1/2 years ago to all the centres to submit full details, among other things, of ginning loss in a prescribed form but such information has been received only from isolated centres. From this, the Committee cannot but infer with regret that

the instructions issued by the Corporation in this regard have been ignored by some of its purchase centres and the Corporation does not appear to have taken any tangible action.

The Committee note that the Corporation had not even assessed the quantum of ginning loss for the period prior to 1973-74 as the percentage of loss had not been "abnormal". The Committee are surprised as to how in the absence of regular and timely information from the Regional Offices the Corporation was able to come to such a conclusion.

The Committee recommend that the Corporation should at least now view this matter seriously and tighten its control on the various puchase centres and ensure regular compliance of the instructions issued by the Corporation in this regard and feed back the information in time so that the Corporation may be in a position to investigate abnormal losses and take timely action to keep the ginning losses within the prescribed norms.

16. 4.14

The Committee are also informed that the Corporation had directed the Regional Managers to analyse the reasons for higher percentage of ginning losses recently noticed particularly in the Northern region and fix responsibility and on receipt of their reports, the Corporation was to take further action in the matter. The Committee would like to be informed of the outcome of the enquiries conducted by the Regional Managers and the precise action taken by the Corporation to fix responsibility and recover the loss suffered in this regard for each of the last three years.

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1 2 3 4.19 17 The Committee note that according to a survey carried out by the International Bank for Reconstruction and Development, the existing machinery of ginning and processing factories has been considerably outdated and not technically efficient leading to avoidable losses of upto 3 per cent shortage in cotton. The IBRD team had also suggested that a few modern ginning and pressing factories be set up in the country. The Committee would like the Government to take a ŧ. decision about the setting up of the plants after a critical examination of feasibility reports in this connection.

5.20

to

5.24

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The Committee note that ever since the appointment of Cotton Corporation of India as a canalising agency for cotton imports the percentage of cotton imported through the Corporation has risen from 26 per cent of the total imports in 1970-71 to 82 per cent in 1972-73. The percentage of imports through the Corporation has come down to 16 per cent in 1973-74.

The Committee are informed that Government are satisfied with the results achieved by appointing the Cotton Corporation as the canalising agency for import of cotton, since the cotton purchased by the Corporation from Egypt and Sudan was on f.o.b. basis with the result that the foreign exchange cost of freight and insurance had been conserved. On a broad assessment the foreign exchange saving resulting on account of freight and insurance has amounted to Rs. 45 crores since the Corporation started functioning as the canalising agency.

The Committee note that the imports of cotton had fallen from 10 lakh bales in 1970-71 to 3.43 lakhs in 1973-74. But in 1974-75, 6 to 8 lakh bales cotton were expected to be imported. The

Corporation feels that with the increasing spindlage capacity and demand for controlled cloth and with an export target of Rs. 299 crores, the production of cloth in the country has got to go up. Besides, the per capita consumption of cloth is planned to increase from 12 metres to 18 metres in the Fifth Plan period. In view of these facts, the requirement of cotton will also go up from 62.5 lakh bales to 80 lakh bales. Even though indigenous production of cotton has increased, unless the production catches up with the requirement, import of some quantities of cotton is stated to be unavoidable.

The Committee also note that the general policy in the matter of import of cotton is to restrict imports of quantities and varieties required for export production. As an exception to this policy, some imports of extra long staple varieties have been allowed from Egypt and Sudan under bilateral trade agreements. It has been stated that the Government of India reserve certain quantity of cotton to be imported only by the Cotton Corporation to cater to specific needs of export oriented mills or mills supplying yarn to the decentralised sector. The Committee are surprised that neither the Government nor the Corporation has made any assessment of the requirements of cotton for the export oriented mills. They are, therefore, not able to appreciate the rationale behind the statement that imports are restricted to quantities varieties required for export.

The Committee however, note that according to RBI Inquiry, the cloth manufacture out of imported cotton was only for domestic use. This has also been admitted by the Ministry which is now going into the question. The Ministry has also admitted that only 10 per cent of yarn and cloth manufactured out of imported cotton has

figured in textile export and 70 per cent of yarn spun from imported cotton is supplied to the decentralised sector, consisting of handloom and powerloom and has been used for manufacture of sarees, dhoties, etc. The imports have, however, come down for several reasons including the high import duty and the gradual evolution of substitute long staple varieties within country. The Committee have not been able to see the justification behind importing cotton and spending precious and scarce foreign exchange merely to satisfy needs of the affluent sections of society. Though a policy decision has been taken by Government to restrict future imports of varieties required for export production, the Committee fail to understand why this could not have been done earlier. They would like the Government to examine the circumstances in which cotton was allowed to be imported in the past mostly for use of affluent people. The Committee recommend that imports of cotton for meeting domestic consumers' requirements should be minimised if not altogether eliminated and imports should be compulsorily related to export The Committee also suggest that there should be deterrent penalties for misuse of imported varieties of cotton. It may not be out of place to mention that our country has the potentiality of producing cotton of requisite qualities and quantities to meet the entire requirements and what is needed is a proper detailed assessment in advance and gearing of inputs to achieve the target.

19 5.30

The Committee note that indigenous production of long staple cotton has risen from 3.3 per cent in 1970-71 to 19.6 per cent of total production in 1972-73 and the import of such cotton has been progressively brought down from 7.4 lakh bales in 1970-71 to 49,000 bales in 1973-74. They

are informed that Government want to give maximum encouragement to production of long staple cotton within the country and unlike the past, medium staple cotton is proposed to be imported in the current year for export production. The Committee are also informed that the programme of encouraging production of long staple cotton has vielded good results till now both from the point of view of the country and the cultivators. The Committee recommend that Government should give encouragement to the production of long staple cotton in the country and ensure that the growers get a remunerative prices so that such growers do not switch to other cash crops and Government are not forced to import long staple cotton.

The Committee also note that ICAR had achieved considerable success in developing successful strains of long and extra long staple cotton suitable to Indian conditions, and research efforts are being made to develop substitutes for Egyption cotton which could spin upto 120 counts. The Committee hope that with the development of such substitutes, imports of Egyption Cotton would also be reduced.

20. 6.15 and 6.16 The Committee note that the Corporation has been storing cotton in the godowns of the Bombay Port Trust and the Central and State Warehousing Corporations and the Government. The Corporation is generally satisfied about the adequacy of storage arrangements in these warehouses and it does not think it is advisable for the Corporation to enter the field of creating warehousing capacity of its own. The Committee however, find that the storage space in the seven godowns hired from Bombay Port Trust has never been fully utilised. Against the space area of 20,000 sq. ft. the Corporation has utilised a little over 50 per cent of the space in 1972 and

1974 and slightly above 75 per cent in 1971. The utilisation of space in August, 1973 was as low as 25 per cent. The Corporation does not consider it advisable to surrender any of the godowns as it would not be able to get it again if required at short notice. While the Committee appreciate the difficulty that may arise if any of the godowns in Bombay is surrendered, the Committee would like the Corporation to keep this matter under constant review and retain only such godown space as may be necessary for storage consistent with its plan of operations.

The Committee also recommend that Corporation should consider the feasibility of putting the unutilised portion of the space to profitable use by hiring out to other public sector undertakings on temporary basis.

21. 6.17 and 6.16

The Committee regret to note that there were as many as 158 cases of fire (Madhya Pradesh-30, Punjab-62, Rajasthan-34, Haryana-21, Karnataka-5, Andhra Pradesh-5; Gujarat-18) in the warehouses where cotton was stored involving loss of stocks worth Rs. 75.70 lakhs out of which a sum of Rs. 50.83 lakhs has been received by the Corporation through insurance and other claims. The Committee are surprised to notethe highest number of fire incidents (62) occurred in Punjab, that in spite of the huge loss Government have not investigated the causes though they had issued some administrative instructions to the Corporation to make available fire fighting equipment in the storage godowns. The Committee understand that the details of fire incidents are being gone into by a senior officer of the Corporation whose report is awaited.

In the opinion of the Committee, as the fire incidents relate to the period as far back as 1971-72 and 1972-73, Government Corporation should have instituted enquiries into the causes

of fire incidents much earlier. Obviously the Corporation has not viewed these incidents with the seriousness which they deserved. In view of the large number of incidents and heavy losses caused as a result thereof, the Committee recommend that Government should take steps to conduct a thorough investigation into the causes of the incidents by an officer independent of the Corporation with a view to fixing responsibility thereof. The Committee would like to be informed of the findings of the Enquiry and the action taken by Government|Corporation thereon within six months. The Committee would also like that Government should take concerted measures for tightening the safety arrangements for storage of cotton to prevent accidents due tofire etc. and arrange for surprise inspection of the godowns to ensure that arrangements are sound.

22. 7.21 and 7.22

The Committee note that the Corporation had been following a policy of selling cotton at the purchase prices adding thereto expenses of the Corporation and a service charge of one per cent and this policy was uniform both for sale to mills and to others. The fixation of catalogue price was done by the Sales Committee at headquarters for all major varieties on the basis of the data received from the Regional Offices regarding the price of Kapas, cost of conversion, sale realisation from seeds, etc. and adding one per cent service charges. No variation from the catalogue price was permitted except by the Sales Committee at headquarters. It was also - stated that the sales were effected on spot-terms. The Corporation had been selling at market prices higher than the catalogue price up to 30th of April, 1974. Since May, 1974, the Corporation had been selling the stocks only to the mills and not to any trader or intermediary after invitation of quotations for 20,000 to 25,000 bales at its:

own catalogue prices plus one per cent service charge. It was stated that this decision was taken keeping in view the objective of the Corporation to stablilise the prices which had been showing bullish tendency. The Committee are informed that this policy had the desired effect as in the case of North Indian cotton the price remained within reasonable limits. The policy was changed later as it was realised that there were likely to be substantial losses in the purchase, operations in Southern Regions. With the Corporation's purchases ranging from 5 per cent to 7 per cent production in the country the Committee are not sure whether the pricing policy has actually enabled the Corporation to achieve the objective of stabilisation of prices.

The Committee therefore feel that the policy of selling the cotton at a fixed price to private sector mills is not in the best interest of the Corporation especially when it has not been possible to get a guarantee regarding the sale price of cloth to consumer.

In the opinion of the Committee the possibility of the private sector earning profit at the expense of the CCI with no relative benefit to consumers is not ruled out. The Committee, therefore, recommend that sale of cotton to the mills other than NTC mills should only be at the prevailing market rate.

23. 7.23 and 7.24 The Committee regret to note that there is no fixed relationship between the prices received by the cotton growers and the prices fetched by non-controlled yarn and cloth. It has been stated that 'Government, however, recognise the logic and justification of the proposition that the margins of the trade and the mill sector should be suitably pruned to ensure that the yarn and cloth prices bear a reasonable relationship to prices of cotton fatched by the growers.'

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The Committee would like that Government should take concrete measures to evolve a policy by which cotton growers get a share of price realised for the end product.

24. 7.25

In regard to controlled cloth, it has been stated that the Bureau of Industrial Costs and Prices had in their Report of May, 1973 made certain recommendations in regard to the price and 6-monthly revision thereof to take into account the changes in cotton price levels. The Committee recommend that the Government should take into account the recommendations of the Bureau of Industrial Costs and Prices and consider the question of fixation of prices of different varieties of controlled cloth.

**25**. **7.26** 

The Committee are informed that in the context of stabilisation of prices, the Corporation purchases cotton and holds its stock for a period of six months and releases about 20 to 25 per cent of a month's consumption of cotton to the trade. This, according to the Corporation will enable prices being held under check and the mills not escaping their obligation in respect of controlled cloth and exports. It has, however, been stated that there are difficulties in the Corporation in releasing the cotton directly to the mills because of the financial constraints of the mills in making payments to the Corporation. The Committee are, therefore, of the opinion that unless the Corporation is provided with adequate finances enable purchases being to made at the appropriate time and at economic prices, it will be difficult for the Corporation to fulfil its role.

26 7.43 and 7.44 The Committee regret to note that the contract for sale of 25,000 bales of 320-J34 cotton was entered into with one M/s Dhanraj Mal Gobind Ram by the Regional Manager, Delhi on the 16th of February, 1974 even before it was

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approved by the Sales Committee of the Corporation at Bombay and even though the Regional Manager had no powers for sales. The intimation about the deal was sent to the Headquarters of the Corporation on the 19th of February, 1974 and details of sale were communicated over the phone to Divisional Manager (Accounts) of the Corporation. The Committee find that this matter was considered by the Sales Committee of the Corporation on the 20th of February, when the Managing Director of the Corporation who was the Chairman of the Sales Committee was not present. Some more data pertaining to the deal was, however, sought from the Regional Manager, Delhi by the Secretary-cum-General Manager. The matter was again considered by the Sales Committee on the 21st February, 1974. who were informed about the receipt of the telex message indicating that the grace period of days was allowed to the party because of bulk sauda, the additional charges had been reduced from 2½ to 2 per cent and the deposit of 15 per cent of the value of cotton had been waived. The Sales Committee agreed to the extension of the grace period to 37 days and also reduction of additional charges from 2½ to 2 per cent, as such concessions had been given in some earlier cases also. It was also explained to the Sales Committee that the price offered was Rs. 6 per candy more than the listed price of 6th February, 1974. The Sales Committee agreed to the contract subject to quantities being actually available and the from kapas purchased upto sale was January, 1974. Again on the 22nd February, 1974 the Regional Manager, Delhi, while forwarding the contract to the Head Office stated that the contract was concluded when the Secretary-cum-General Manager was also present. During the evidence, it has been admitted by the representative of the Ministry that the contract was finalised and signed in Delhi on 16th February, 1974 in

advance of referring to the Sales Committee at the Head Office, Bombay. It was also stated that the Head Office, Bombay had referred the case to vigilance whose report has just been received and is under examination. The representatives of the Ministry also admitted that the Regional Manager has no powers for sale and the way in which the power has been exercised by Regional Manager was incorrect. The Committee are surprised that the contract was finalised when the Secretary-cum-General Manager was present and he allowed this to happen. The Sales Committee had agreed to waive the deposit of 15 per cent in violation of the Sales Policy approved only a few weeks before this deal. The Committee note that while according to the opinion of the Legal Adviser of the Corporation, such a condition should not have been waived, according to the Government advocate at Delhi, this deposit need not be recovered. The Committee are informed that deposit has now been recovered and full cost of the cotton realised.

The Committee are distressed at the undue haste with which the entire deal had been concluded in utter violation of the powers vested in the Regional Manager and allowing relaxations about extension of grace period, reduction in additional charges and waiving of the deposit, which could have and would have meant huge loss to the Corporation. The Committee fail to understand the urgency with which the matter was taken up by the Sales Committee on the day following the day on which intimation was received about the deal in the Head Office even when the Chairman of the Sales Committee was not present. The Committee do not also see the necessity for obtaining the legal opinion from Government advocate at Delhi when the Corporation's headquarters office at Bombay had taken the advice of its legal advisor on the same matter. It is also significant that while forwarding copy of the contract to head office it was stated that the contract was concluded when the Secretary-cum-General Manager was also present. The Committee also note that during discussion on a Calling Attention Notice in Rajva Sabha on the 14th of March, 1975, a Member quoted the instance of this contract with M/s Dhanrajmal Govind Ram and stated "The Corporation has sofar lost a sum of Rs. 16,61,887/-.... It is rather intriguing to note that M/s Dhanrajmal Govind Ram was previously a black-listed firm. The files in the Office of the Cotton Corporation of India will bring out the truth....." The Minister in the course of the reply assured that he would certainly look into the allegation. The Committee are not sure whether due care was exercised by the Chairman of CCI. Government nominees on the Board of Directors and other officials of the Corporation in this deal. The Committee therefore recommend that the entire deal should be thoroughly investigated, through CBI if necessary, with a view to pinpoint the responsibility for the lapses at the several stages. The Committee should be informed of the action taken at an earliest.

**27** 7.55

The Committee note that one of the roles assigned to the Corporation is that of an Agent for the Mills in the Public Sector for supplying the requirements of cotton throughout the year. It has been stated that the Corporation is keen to develop trade relations with NTC and with that view has been having correspondence with NTC who were also assured that 25 per cent to 30 per cent of their requirements would be made through CCI. No official confirmation is however, stated to have been received from the NTC. The Committee are informed that a number of relaxations has been made in Corporation's terms of sales to NTC and payment therefor. It has also

been stated that in a policy level meeting held with NTC in 1973-74 a system was evolved by which the CCI would work as an agent of the NTC while purchasing cotton. The NTC would give advance indents centre-wise and varietywise to CCI. It was also agreed that once the cotton is purchased by NTC from CCI the problem of rejection should not arise. Even in regard to payment certain facilities have been extended to NTC. The Committee regret to note that it has taken more than four years to finalise the working arrangements with the NTC in spite of the fact that both the organisations are in the public sector. The Committee were informed that even now the basic difficulty continues be lack of sufficient funds with the NTC mills and the inability of the Corporation to extend trading credts comparable to those of private trade. The Committee have already given their recommendations in the report of National Textile Corporation about the provisions of funds to the NTC.

7.56 to 7.58

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It has been stated that annual consumption of cotton in the mills of NTC is of the order of 11 lakhs. The Corporation is of the view that if adequate funds are provided to it to make the purchases for NTC and an undertaking is given by the mills for lifting the cotton purchased for them, it would be able to procure the additional volume of cotton & supply it to the mills.

As the N.T.C. will be having a central purchase organisation for purchasing its requirement of cotton, the CCI should establish linkage with NTC and work out the requirements of cotton variety-wise.

The Committee also recommend that Government should consider providing the Cotton Corporation with adequate funds to enable it to make purchases and supply cotton (which constitutes 50 per cent of the cost of manufacture of

cloth) at competitive prices and on assured basis to the NTC

**2**9 8.7

The Committee note that the Cotton Corporation of India has decided to set up four integrated cotton seed crushing plants in various States with a view to utilise cotton seeds to produce edible oil, oil cakes and other by-products. Though according to the Corporation the project which would cost over Rs. 1 crore is expected to yield a profit of Rs. 68457 per day the Committee regret to observe that neither the prior approval of Government for the project has been obtained nor the financial implications and economics of the scheme have been examined by the Government. In a written reply the Ministry admitted that "it may be better for the Corporation to sell the delinted cotton seed to some public sector vegetable oil factories at the best available price rather than set up such facilities itself". The Committee feel that the Corporation should with its limited finanes concentrate on fulfilling its main objectives of buying cotton by payment of remunerative prices to farmers and stablising the prices of cotton for the general welfare of consumers rather than embark upon any new schemes of ancillary nature at juncture. The Committee agree with the view of the Ministry that it may be desirable for the Corporation to sell the cotton seeds to some public sector vegetable oil factories at the best available price.

**3**0 8.13

The Committee note that at present the import of man-made fibres and wool is canalised through the State Trading Corporation and the Cotton Corporation has approached Government for entrusting it with the import of all ancillary fibres and wool as it would enable the Textile Industry to purchase all the requirements of raw materials from a single national agency and the

Corporation to gainfully utilise the organisational infra-structure which has already built up to handle cotton imports in view of the progressive decrease in imports of cotton. The Committee are informed that in the opinion of the Government, there may be some merit entrusting a single public sector with the task handling imports of various textile fibres including cotton, as the fibres utilisation pattern in the textile industry is tending to become more and more composite covering cotton, manmade as well as woolen fibres within the same unit. The Committee suggest that before taking a decision in regard to the transfer of the tasks connected with the import of ancillary fibres and wool from the STC to CCI, Government may consider the merits of such a transfer from one public sector undertaking to another and how far such a transfer will be in the interests The Committee of consumer industries. that an early decision will be taken in the matter by Government, keeping in view the experience of canalisation of imports of cotton by C.C.I. and the limited foreign exchange available for import of raw materials for Textile Industry.

31 9.9 to 9.11 The Committee are glad to note that the profit of the Corporation has increased from Rs. 10.38 lakh in 1970-71 to Rs. 504 lakhs in 1972-73 and the dividend declared has also risen from 3 per cent in 1970-71 to 12 per cent in 1972-73.

The Committee, however, find that Statutory Auditors have observed in their report for 1970-71 that large balances were carried by the Corporation on its current account while at the same time there were large borrowings on cash credit accounts. The balance sheet as on 31-8-1971 disclosed bank balance in non-interest

balancing earning current accounts exceeded Rs. one crore, while borrowed funds lying in current account could not earn interest.

The Committee are informed that the matter was considered by the Board of Directors who appointed a Sub-Committee of two Directors to go into the question. The Sub-Committee reported to the Board that there was a prima facie case of negligence on the part of FA&CAO. The Corporation had already taken action to revert the officer to his parent Department and the officer was superceded for promotion in his parent department on grounds of inefficiency which included the financial imprudence shown by him in CCI. The Committee hope that Corporation would guard against recurrence of such financial lapses.

32 9.21 to

9|25

Though according to the Companies Act, the annual accounts for a financial year (September-August) are required to be adopted by the general body meeting of the Corporation within a period of six months from the date of the expiry of the financial year, i.e. before 28th February of the following year, the Committee regret to note that there were delays in finalising and closing the accounts for the financial years 1970-71, 1971-72 and 1972-73, The Ministry has admitted that though in the year 1970-71, there was delay in the appointment of statutory auditor, there was certainly delay on the part of Cotton Corporation of India also. The accounts were adopted at the general body meeting which was held on 27-12-72 whereas it should have been held before 28-2-72.

As regards accounts for 1971-72 it is regrettable that the Ministry had to issue a directive on 12th March, 1974 requiring the Corporation to hold its Annual General Meeting to consider

the accounts not later than the 25th March, 1974 (on which date the meeting was then held and the accounts approved) as there had been delay for a period of more than one year in adopting the account.

What is shocking is that the accounts had been finalised and audited by October, 1973 and the Annual General Meeting could have been held in November-December that year.

The representative of the Ministry had stated during evidence that "it is our feeling that the then part-time Chairman could have called a meeting earlier than when it was called."

The Committee find that even in regard to the accounts for 1972-73, there had been a delay in calling the Annual General Meeting. Though the audit was completed and it was passible to hold the meeting earlier. These accounts for this year were approved at the Annual General Meeting held on 30th October, 1974.

The Committee cannot too strongly deprecate the recurring malady of delay in finalising and closing the accounts of the Corporation right from the inception and would like that the matter is examined thoroughly by the Government and responsibility fixed. As delay in closing the accounts for a year likely to create problems with income tax authorities and embarassment for the Government, they like the Government to impress upon all the public undertakings that the audit and finalisation of the accounts and holding of the Annual General Meeting should not in any circumstances be delayed as such delays entail corresponding delays in the presentation of annual reports to the Parliament.

**3**3 9.30

The Committee note that the Corporation has certain payments to the extent of Rs. 9 lakhs claimed by Gujarat State Co-operative Marketing Society for the Cotton purchase and got ginned and pressed by the Society for and on behalf of the Corporation and the Society has taken the matter to the Court. They would like to be informed of the results. The Committee, however, recommend that the Corporation should review in the light of its past experience, the procedures it has been following for making purchases through the Cooperative Societies or Marketing Committees and see how it can be streamlined to avoid such disputes in the future and safeguard its own interests without causing any inconvenience societies/committees.

34 9.36

to 9.38

The Committee regret to note that mangement have admitted that while the volume of purchases of cotton is going down from year to year, the infrastructure set up by the Corporation continued to be large adding to the overheads. The Management have admitted that the overhead costs have been high with an infrastructure suitable for purchase of 30,00,000 bales and have stated that suitable measures are being taken to cut the infrastructure to size and bring down the overheads considerably. Committee fail to understand as to why infrastructure for purchase of 30,00,000 bales should at all be created in 1973-74 when its demand for a credit limit of Rs. 300 crores for a purchase programme to the extent of 30,00,000 bales was not accepted by the Ministry of Finance Reserve Bank at any time. The Committee would like the Corporation to evolve a norm for overheads after studying the pattern Maharashtra Monopoly Scheme and, if possible, of the private trade and ensure that its own overheads do not exceed the norm. In the

opinion of the Committee it was not commercially prudent for the Corporation to have established an elaborate infrastructure all over the country without making sure about the availability of funds to the desired level. The Committee cannot also appreciate why the large infrastructure was maintained so long when for almost two years when the Corporation's purchase operations have been very much on the low side and the future role of the Corporation is yet to be decided.

It is also surprising that the Ministry failed to communicate to the Corporation about the non-availability of the reduced credit of Rs. 100 crores. The Committee regret to note that neither the Corporation nor the Ministry have any idea about extra expenditure on the infrastructure. The Committee are informed that the Ministry has proposed to the Ministry of Finance that the Corporation's role should be clearly defined and it has been stressed that the Corporation cannot be expected to function efficiently on a stop-go basis. The Committee recommend that Government should deal with the matter with all seriousness and clearly define the role of the Corporation and provide adequate finance if the Corporation has to achieve its objective.

The Committee expect that at least now the Organisation will be pruned suitably and the lessons learnt from the past will be borne in mind while planning purchase operations in the future

35 9.42 and 9.43 The Committee note that during the first year of its existence, the Corporation had to pay a sum of Rs. 480,721 as demurrage. They are informed that it happened in the initial stages when the Corporation was not well organised. The demurrage had been recovered from mills and action to recover it from the shippers is

under way. The Committee would like to know the total amount of demurrage recovered so far and the time by which the balance is expected to be recovered.

They note that a separate section has been set up to deal with clearing and forwarding work and a Committee was also set up to consider allocation of work to the different clearing and forwarding agents. A Clearing Agent who was responsible for the demurrage was blacklisted. As a result of the remedial measures taken, during the last two years, no demurrage has been paid. The Committee would, however, like to watch the performance and recommend that the Corporation should gear up its machinery to ensure that payment of demurrage charges is obviated.

36 9.47

The Committee regret to note that so far the Corporation has not prepared any comprehensive Accounts Manual indicating the accounting and book keeping, administrative and financial procedure etc. and the work of preparing the manual has been entrusted to a firm of chartered accountants on a remuneration of Rs. 45,000 including all expenses therefor. The Committee fail to understand why this work could not be undertaken by the Finance and Accounting Organisation of the Corporation and work completed till now. The Committee regret to observe that the absence of Financial Accounting Manual and the lack of an efficient Management Information System has already caused delays in finalisation of accounts of the three years (1970-71 to 1972-73). The Committee are informed that the manual is now in the final stage of compilation. The Committee recommend that in the interest of streamlining the administrative and financial procedures various levels and establishing a proper Manage-

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ment Information System, the Corporation should finalise its Financial Accounting Manual without further delay.

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9.50

The Committee regret to note that the Corporation has not so far prepared any Manual for Internal Audit of the transactions of the Corporation and the work of Internal Audit has been entrusted to a firm of professional auditors. The Committee need hardly stress that internal audit being one of the effective tools of Management Control, steps should be taken to have an effective system of internal audit keeping in view the recommendations of the Committee on Public Undertakings in their 15th Report (Fourth Lok Sabha) on Management in Public Undertakings. The Committee recommend that the Corporation should develop an internal audit cell of its own also prepare an Internal Audit Manual setting out the scope, functions and procedures of internal audit for the guidance of the internal audit cell.

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10.6

The Committee note that the Report of the Committee Public Sector Agencies on Canalisation of Cotton Imports (Rangaswami Committee) had recommended that Agency for Canalisation of Cotton should be a full-fledged independent Corporation managed by a board of directors consisting of a Chairman-cum-Managing Director and seven exofficio directors. The Corporation should be a compact organisation and manager-oriented. At present, the Corporation has a Board of Directors in which besides the Chairman and the Managing Director, there are 8 Directors. The Committee are informed that the Rangaswami Committee Report was mainly on the idea that the Corporation should be more a vehicle for import of cotton with a lesser emphasis on do-

mestic trade in cotton. On the import side, the Corporation is stated to have only an officer oriented organisation where the managers and higher staff only are dealing with this subject. The Committee, however, find that the recommendations of the Rangaswami Committee also envisage the present objectives of the Cotton Corporation of India in domestic cotton purchases. Moreover the quantum of imports has also come down from 10.71 lakhs in 1970-71 to 43000 bales in 1973-74. The Committee, therefore, feel that the Corporation should have a compact organisation consistent with the volume of operations handled by it. It has been stated that the Indian Institute of Management, Ahmedabad, has been requested to take a review organisational set up of the Corporation. Committee hope that after the report of the Institute is received, the Corporation would not lose any time in finalising the staff strength and re-structure the organisation as a compact body with an eye for efficiency and economy.

39 10.13

The Committee note that in 1973 the post of Secretary was re-designated as Secretary-cum-General Manager and the incumbent was thus vested with more powers and higher authority as General Manager in addition to those Secretary though this did not involve an additional remuneration. They were informed by the Ministry that instead of having a Secretarycum-General Manager at the Head Office who had on occasions tended to operate in a sphere meant for the Managing Director, it would be better to have a Secretary who was qualified in company law and separate functional executives to assist the Managing Director in the matter of handling imports, domestic purchases, sales, warehousing and other activities. The Committee are informed that the post of the Secretarycum-General Manager is proposed to be replaced by that of a qualified Secretary and functional executives and action has already been initiated in this direction by the Ministry. The Committee fail to understand why the post of Company Secretary was at all combined with that of a functional executive, although this arrangement did not involve any additional remuneration, and why this arrangement was continued for all these years.

The Committee recommended that suitable guidelines in this regard should be issued by the Ministry so that the post of Company Secretary is always held by an officer qualified in Comapny Law and well-versed with the responsibilities thereunder and it is always separate from that of functional executive.

40 10.18

The Committee regret to note that since the inception of CCI in August, 1970 there have been too frequent changes in the incumbent to the post of Chairman in as much as there have been 6 part-time Chairmen appointed within a span of about 4 years. They were informed that the appointment of the present Chairman in November, 1974 as part-time Chairman for 2 years in the first instance was with a view to ensure better continuity in the Chairman's tenure in future so that the Corporation could benefit from his guidance and direction. The Articles of Association have also been amended to provide that instead of the Chairman other Directors retiring automatically at every Annual General Meeting, the automatic retirements would now take place at every third Annual General Meeting.

The Committee wish that the consideration of continuity of the Chairman for a reasonable length of time should have weighed with the Government right from the inception of the Corporation. They feel that it is essential to have

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stability at the top level for the effective functioning of the Corporation. They hope that this consideration will not be lost sight of hereafter and frequent changes of Chairman would be avoided in the interest of better functioning of the Corporation.

10.27 to 10.29

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The Committee note that although National Textile Corporation (NTC) the Cotton Corporation of India (CCI) are trolled by different administrative ministries. close cooperation and coordination is reported to be maintained between these two organisations with regard to purchase of cotton requireed by the mills under the NTC. Cooperation and coordination between the policies of CCI and NTC is being achieved through necessary inter-ministerial and inter-corporate consultations. According to the Ministry of Commerce, no major issues have come up between the National Textile Corporation and Cotton Corporation of India which could have been more efficiently resolved had the two Corporations been under the administrative control of one rather than two different ministries. But according to the Cotton Corporation of India though the existence of separate controls as such has not hindered their working together, it would be very much conducive to common working if these two Corporations are under the same holding company. The Committee, however, understand that the Managing Director of NTC is already a Member of the Board of Director of CCI

On the question of merger of CCI with NTC, they were informed that CCI had objectives other than that of supplying cotton to NTC mills also and the CCI would have to be there to fulfil other objectives whether the agency for buying cotton for NTC mills was the CCI or anybody else or whether NTC set up its own agency and did not entrust this work to CCI.

The Committee have already expressed their views in paragraph 5.24 of their Report on National Textile Corporation, on placing the NTC and CCI under the administrative control of one Ministry which deals with all other matters relating to textile industry. The Committee would like Government to consider the feasibility of this arrangement and take an early decision in the larger interest of functioning of the two Corporations.

42 10.30

The Committee also note that a view has been expressed that unless and until the Cotton Corporation of India and the Textile Commissioner of the Government of India co-ordinate their activities and functions, the Cotton Corporation would not be able to play its role effectively. The Committee are informed that there has been complete coordination between Cotton Corporation of India and the Textile Commissioner. The Managing Director of the Cotton Corporation is a member of the Textile Commissioner's Cotton Advisory Board and the Textile Commissioner is a Director on the Board of the Cotton Corporation. Besides, the Ministry of Commerce elicits the views of both the Managing Director of the Cotton Corporation and the Textile Commissioner on They hope that the issues relating to cotton. existing arrangements which are reported to have resulted in satisfactory co-ordination between the Textile Commissioner and the Cotton Corporation of India, will be continued and, if necessary, further improved in the inteof evolution of sound policies for purchase and sale of cotton for the efficient working of the Corporation.