

**HEAVY LOSS ARISING FROM JOINT
VENTURE OPERATION**

MINISTRY OF COMMERCE

**PUBLIC ACCOUNTS
COMMITTEE
1998-99**

TWELFTH LOK SABHA

**LOK SABHA SECRETARIAT
NEW DELHI**

FOURTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1998-99)

(TWELFTH LOK SABHA)

HEAVY LOSS ARISING FROM JOINT VENTURE OPERATION

MINISTRY OF COMMERCE

*[Action Taken on 17th Report of Public Accounts
Committee (11th Lok Sabha)]*



Presented to Lok Sabha on 23 FEB 1999
Laid in Rajya Sabha on 23 Dec., 1998

LOK SABHA SECRETARIAT
NEW DELHI

December, 1998/Pausa, 1920 (Saka)

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Ninth Edition) and Printed by the Manager, P.L. Unit, Government of India Press, Minto Road, New Delhi.

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE

(1998-99)

Shri Manoranjan Bhakta — *Chairman*

MEMBERS

Lok Sabha

2. Shri Prithviraj D. Chavan
3. Shri Ram Tahal Chaudhary
4. Smt. Bhavna Chikhalia
5. Shri C. Gopal
6. Shri Vijay Kumar Khandelwal
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18. Shri Satishchandra Sitaram Pradhan
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20. Shri Jayant Kumar Malhoutra
21. Shri Vayalar Ravi
22. Shri K. Rahman Khan

SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Shri P.D.T. Achary — *Joint Secretary*
3. Shri Devender Singh — *Deputy Secretary*
4. Shri Rajeev Sharma — *Under Secretary*

INTRODUCTION

I, the Chairman, Public Accounts Committee having been authorised by the Committee to present the Report on their behalf, do present this Fourth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 17th Report (11th Lok Sabha) on heavy loss arising from joint venture operation.

2. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 21st December, 1998. Minutes of the sitting form Part II of the Report.

3. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

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

NEW DELHI;
22 December, 1998

1 Pausa, 1920 (Saka)

MANORANJAN BHAKTA,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on recommendations and observations of the Committee contained in their Seventeenth Report (Eleventh Lok Sabha) on Paragraph 7 of the Report of Comptroller & Auditor General of India for the year ended 31 March, 1995 (No. 3 of 1996), Union Government (Other Autonomous Bodies) relating to "Heavy loss arising from Joint Venture Operation".

2. The Seventeenth Report which was presented to Lok Sabha on 20 November, 1997 contained 12 recommendations/observations. Action taken notes have been received in respect of all the recommendations/observations and these have been categorised as follows:

- (i) Recommendations and Observations that have been accepted by the Government:

Sl. Nos. 1, 3, 4, 11 and 12
[Paragraph Nos. 56, 58, 59, 66 and 67]

- (ii) Recommendations and Observations which the Committee do not desire to pursue in the light of the replies received from the Government:

Sl. Nos. 2, 5, 6 and 7
[Paragraph Nos. 57, 60, 61 and 62]

- (iii) Recommendations and Observations replies to which have not been accepted by the Committee and which require reiteration:

Sl. Nos. 8 and 10
[Paragraph Nos. 63 and 65]

- (iv) Recommendations and Observations in respect of which the Government have furnished interim replies:

Sl. No. 9
[Paragraph No. 64]

3. The Committee hope that the final reply in respect of the recommendation/observation contained in Para 64 (Sl. No. 9) for which only interim reply has been furnished will be submitted by the Ministry expeditiously after getting it duly vetted by Audit.

Heavy Loss arising from Joint Venture Operation

4. The Tea Board was set-up under the Tea Act, 1953 for the purpose of development of Indian tea industry and promotion of exports of Indian

tea. The activities leading to export promotion of Indian tea are being carried out by five overseas offices of the Tea Board located at London, New York, Dubai, Moscow and Hemburg. During the period from 1961 to 1970, Tea Board opened tea centres at Edinburg, Melbourne, Cairo, London and Sydney. These were functioning as tea promotion outlets under the control of Tea Board's foreign officers located at London, Sydney and Cairo. None of these centres earned any profit during the years of its operation resulting in closure of the Centres at Edinburg in 1970 and Melbourne in 1975. In view of the poor financial results of the Sydney Tea Centre resulting in mounting deficits, serious concerns were also expressed from various quarters from time to time. After initial deliberations on various options, a proposal for handing over the Sydney Tea Centre to the Hotel Corporation of India (HCI) was considered by the Export Promotion Committee (EPC) for the first time on 19.1.80. Surprisingly, the EPC which was fully aware of the operational limitations and the viability of the Centre and in fact had earlier expressed serious concern time and again over its dire strait, unhesitatingly approved the proposal for handing over the Centre to HCI. Subsequently, an inspection team of HCI was sent to Sydney, London and Cairo who did not stick to the initial proposal of "Handing over" the Centres to HCI, but rather recommended for formation of a joint venture between Tea Board and HCL for running the Centres. Consequently, a feasibility report on the economic viability of the proposed joint venture was prepared by HCI. The feasibility report was later modified by the HCI which inexplicably showed substantial alterations in the profitability projections made earlier. Eventually, a new corporate entity in the name of the India Tea & Restaurants Ltd. (ITRL) which as a joint venture of the Tea Board and HCI came into existence on 30 June, 1981 with an authorised share capital of Rs. 50 lakh divided in the ratio of 51 per cent and 49 per cent between Tea Board and the HCI. After incorporation, the Company (ITRL) on 28 August, 1981 decided to set up a first class Indian Restaurant at Sydney and thereafter at London. ITRL opened two restaurants namely, Mayur Sydney and Mayur London in October, 1982 and October 1984 respectively. The Mayur Restaurant, Sydney commenced its operation on 28 October, 1982 and Mayur Restaurant, London on 23 October, 1984.

5. The Seventeenth Report of PAC (Eleventh Lok Sabha) had dealt with the case of heavy loss incurred in the running of Indian restaurants at London and Sydney by the Company (ITRL) which was formed jointly by the Tea Board and the HCI with the objective of popularising and promoting the consumption of Indian tea abroad. The Committee's examination revealed various disquieting aspects in the Joint Venture project which *inter-alia* included dependence of Tea Board on HCI, delay in starting and also in closing of restaurants, apathetic attitude of the Ministry of Commerce towards the project, and absence of competent professionals at the top level in promotional organisations like Tea Board.

6. The various observations/recommendations made by the Committee and the action taken notes furnished by the Ministry of Commerce thereon have been reproduced in the relevant Chapters of this Report. In the succeeding paragraphs, the Committee, however, deal with the action taken by Government on some of their observations and recommendations which the Committee would like to reiterate in view of the unsatisfactory replies of the Government.

Failure to take action against the officers responsible for financial lapses (Sl. No. 8—Paragraph No. 63)

7. In their 17th Report (11th Lok Sabha), the Committee had noted that the ITRL failed to repay the loans of Rs. 109.95 lakh and a overdraft of Rs. 46.60 lakh taken by it during its operation for which the Tea Board had provided guarantee to the Bank. ITRL also failed to reimburse major portion of the 70 per cent of rent, rates and services charge etc. amounting to Rs. 1.03 crore an account of its share in the premises hired by Tea Board. While deploring that no concrete measures were taken by the Tea Board to persuade the ITRL in time to take effective steps in this regard, the Committee had desired the Tea Board to inquire into the matter and take action against the officers responsible for such financial lapses.

8. The Ministry of Commerce in their action taken notes *inter-alia* stated that although Tea Board was a 51 per cent shareholder in this company, the commercial operations of the company involving take-over renovation and running of the restaurants etc. were in the hands of HCI Ltd. and the Tea Board had no actual control in the operations of the restaurants. According to the Ministry, the reasons for ITRL's failure to repay the loans and reimbursements of rent, rates, service charges etc. to the Tea Board were essentially due to poor financial performance of the company. The Ministry further stated that "Tea Board took all possible steps within its control to point out the poor performance of the ITRL for remedial action. The Tea Board has further desired that since the operating contract of the ITRL was with the HCI, the latter should be made accountable for the losses incurred by the Tea Board and the ITRL. As such the HCI should be asked to investigate the matter and take action against the officers responsible for the lapses".

9. The Committee had observed in their earlier Report that the ITRL failed not only to repay the loans and overdrafts of Rs. 156.55 lakh for which the Tea Board had provided guarantee to the Bank but also to reimburse an amount of Rs. 1.03 crore on account of its share in the premises hired by Tea Board. Taking note of the fact that no concrete measures were taken by the Tea Board to persuade the ITRL in time to take effective steps in this regard, the Committee in their earlier Report had desired the Tea Board to enquire into the matter and take action against the officers responsible for such lapses. The Committee are, however, constrained to observe from the action taken reply that the Ministry have

once again provided the same explanations as made available to the Committee earlier to shield the inefficiency and lack of concern displayed by the Tea Board in this matter. What is still more distressing is the fact that rather than acting on the recommendation of the Committee, the Ministry have now sought to contend that "Tea Board took all possible steps within its control to point out the poor performance of ITRL for remedial action" and that "HCI should be asked to investigate the matter and take action against the officers responsible for the lapses" since "the operating contract of ITRL was with the HCI" which "should be made accountable for the losses incurred by the Tea Board and the ITRL". In the opinion of the Committee, this contention of the Ministry holds no ground particularly because the Committee had made a specific recommendation in respect of the failures on the part of the Tea Board which was expected to take sufficient precautions to safeguard their financial interests while providing guarantee to the Bank for loans and overdraft taken by ITRL and also in recovering their share of the rent, rates and service charges etc., from the ITRL. While deprecating the reluctance shown by the Tea Board in taking any action to inquire into the matter, the Committee strongly reiterate their earlier recommendation and desire the Tea Board to take expeditious steps to conduct an inquiry with a view to taking action against the officers responsible for such financial lapses. The Committee would like to be apprised of the conclusive action taken in this regard.

**Questionable role played by the Ministry of Commerce and Tea Board
(Sl. No. 10—Paragraph No. 65)**

10. The Committee while expressing their concern for the heavy loss incurred in the Joint Venture had observed in paragraph 65 of their earlier Report as follows:—

"The Committee observe that in terms of the projections made in the feasibility report of the project, it was envisaged that the company (ITRL) would start making profits from the second year onwards and would recoup its project cost at the end of five years from the date of inception. Ironically, the profitability projections turned out to be wrong not only wiping out the entire capital of the company but also creating heavy liability of Rs. 8.54 crore to the Government of India. The Committee feel that the decision taking process in the Tea Board as well as in the Ministry of Commerce in regard to the joint venture had been guided by neither, prudence nor professionalism. Undoubtedly, these factors contributed significantly in collapse of the joint venture leaving a permanent scar in the form of heavy liability to the Government of India. The Committee deplore that at no stage, sincere or serious efforts were made either by the ITRL itself or by its promoting agencies namely, Tea Board and HCI which were having substantial stake in the company or by the administrative Ministries concerned, to analyse deeply the reasons for continuous

deterioration in the sale of tea and consequent incurring of accumulated losses by the company, and to devise suitable remedial measures to minimise the burden on the exchequer. The Committee, therefore conclude that the Joint Venture not only caused economical and financial burden of high magnitude on the Government of India but also miserably failed in its basic objective of promotion of Indian tea abroad. While expressing their serious displeasure over the matter, the Committee recommend that the various aspects of the case and circumstances leading to heavy financial loss to the Government in the process of formation, operation, performance, rehabilitation, liquidation of ITRL and also the questionable role played by the Ministry of Commerce and Tea Board should be thoroughly looked into with a view to not only fixing responsibility for the various omissions/commissions, but also obviating recurrence of such costly misadventures in future.”

11. The Ministry in their action taken notes have *inter-alia* enumerated the facts what they had submitted earlier to the Committee. According to the Ministry, their role in the process of formation, operation, performance, liquidation etc. of the Joint Venture is not questionable. The Ministry also stated that the project proposal was conceptually sound and the Joint Venture ran into losses due to reasons beyond control. In so far as the fixing of responsibility for the various omissions/commissions is concerned, the Ministry stated that the entire commercial operations of the company were solely in the hands of the HCL and the Tea Board did not have any actual control in the operation of the restaurants.

12. The Committee in their earlier Report had pointed out that the decision making process in the Tea Board as well as in the Ministry of Commerce in regard to the joint venture had been guided by neither prudence nor professionalism and that the profitability projections made in the feasibility Report turned out to be wrong contributing significantly in collapse of the Joint Venture leaving a permanent scar in the form of heavy liability to the Government of India. The Committee had accordingly, recommended that the various aspects of the case and the circumstances leading to heavy financial loss to the Government in the process of formation, operation, performance, rehabilitation and liquidation of ITRL and also the questionable role played by the Ministry of Commerce and Tea Board should be thoroughly looked into with a view to not only fixing responsibility for the various omissions/commissions but also obviating recurrence of such costly misadventures in future. The Committee are extremely unhappy to note that despite having suffered a heavy financial loss in the joint venture, the Ministry of Commerce have not taken any action to look into the entire episode with a view to fixing responsibility and obviating recurrence of such cases in future. The Ministry in their action taken reply have merely stated that the project proposal was conceptually sound and the joint venture ran into loss due to reasons beyond control. As

in the past, the Ministry have again elaborated on the circumstances leading to losses incurred by ITRL and made an attempt to evade responsibility in the joint venture on the ground that the Tea Board did not have any actual control in the operation of the restaurants abroad. In this context, the Committee wish to point out that they were made aware of these facts earlier at the time of examination of this subject and in their opinion mere repetition of these arguments do not in any manner absolve the Ministry of Commerce and Tea Board of their questionable role played in entering into a joint venture which not only wiped out the entire capital of the company but also created heavy liability to the Government. The Committee are anguished to note that even at this stage, the Ministry have not made any efforts to analyse the facts pointed out by the Committee in their earlier Report. While expressing their displeasure over the manner in which the Ministry have tried to evade fixation of responsibility for the various acts of omissions and commissions, the Committee reiterate their earlier recommendation and desire that concrete and conclusive action in the matter should be taken. In the opinion of the Committee, this is absolutely necessary to avoid such instances in future.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Tea Board was set up for the purpose of development of Indian tea industry and promotion of exports of Indian tea. The activities leading to export-promotion of Indian tea are being carried out by the Tea Board's five overseas offices located at London, New York, Dubai, Moscow and Hamburg. These offices are to undertake various promotional measures to boost the export of Indian Tea. The Audit paragraph deals with a case of heavy loss incurred in the running of Indian restaurants at London and Sydney by the company — Indian Tea & Restaurants Ltd. (ITRL) which was formed jointly by the Tea Board and the Hotel Corporation of India (HCI) with the objective of popularising and promoting the consumption of Indian tea abroad. The various aspects of the case as emerged from Committee's examination have been brought out in the succeeding paragraphs.

[Sl. No. 1 Para 56 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

No action required.

Observation of Audit

No Comments.

Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98.

Recommendation

The Committee's examination revealed that though the Tea Board was the major shareholder in ITRL, yet the administrative control over it was given to HCI. The Ministry's argument that HCI had the requisite expertise and experience of running hotels/restaurants professionally is not only unconvincing but also, as the later events clearly showed, an exaggerated and misplaced perception. The Committee are unhappy to note that the Ministry of Commerce and the Tea Board did not analyse carefully the implications thereon before surrendering the administrative powers to HCI particularly considering the stakes of Tea Board in terms of investment and achievement of the objectives. The Committee expect the Ministry of Commerce and Tea Board to adopt a more alert and cautious approach in all such projects in future.

[Sl. No. 3 Para 58 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

Noted for compliance.

Observation of Audit

No Comments.

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98]

Recommendation

The examination of the subject further revealed that for the entire operation and management of the restaurants, HCI was to be given a fee of two per cent of the gross income in addition to four per cent of gross profits from the two restaurants but the HCI did not give any guarantee that there would be profit from the project. Thus the operating contract was tilted in favour of HCI. The Committee observe that the Ministry of Commerce did not make any attempt to strengthen the rights of the owning company *i.e.* ITRL as well as of the Tea Board. Apparently, there was no clause in the operating contract which could have been enforced against operating company *viz.* HCI in case of their failure to operate and manage the restaurants properly. The Committee feel that for this lapse the Ministry of Commerce and Tea Board have to squarely blame themselves.

[Sl.No. 4, Para 59 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

The Steering Committee constituted by the Commerce Ministry and represented by the Tea Board and HCI considered the feasibility report prepared by the HCI for setting up of the new company called India Tea Restaurant Ltd. Though the various projections made in the feasibility report were examined in detail, it is admitted that no provision was made in the contract against the operating company in case of their failure to operate the restaurants profitably. The recommendation of the Committee has been taken note of to ensure that no such lapse occurs in future.

Observation of Audit

No Comments.

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98]

Recommendation

The Committee note that quite a good number of officers visited London and Sydney in connection with the project of joint venture. The Committee regret to note that the Ministry failed to provide the Committee with the information relating to the specific purpose of these visits and also the total expenditure incurred thereon. The available information, however, reveals that substantial amount had been spent on foreign trips and the cost so incurred had been debited to the organisation

concerned. The committee therefore, desire the Ministry of Commerce/ Tea Board/HCI to collect the entire data with regard to expenditure on these foreign visits and apprise them of the same.

[Sl. No. 11, Para 66 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

Separate statements indicating the names of the officers from the Tea Board, HCI and the Ministry of Commerce who visited London and Sydney in connection with the ITRL project along with the expenditure incurred are enclosed (Annexure-II).

Observation of Audit

No comments.

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98.]

INDIA TEA & RESTAURANTS LTD.

STATEMENT OF DUTY TOURS TO SYDNEY & LONDON BY DIRECTORS ON ITRL BOARD & OFFICERS OF HOTEL CORPORATION OF INDIA LTD.

Name S/Shri	Designation	Country Visited	Period of Tour	Amount Spent		Purpose of Visit
				Air Fare	Other Expenses (in Rs.)	
1	2	3	4	5	6	7
M. Subramaniam	Dy. C.A.M. HCI	London	11.06.80 19.06.80	Free	4164.59	Collection of material for feasibility report.
C. Behl	F&B Manager, HCI	London	11.06.80 20.06.80	14580.00	4225.51	Collection of material for feasibility report.
Malcom Baretto	MD, HCI	Sydney	25.08.80 05.09.80	Free	7380.13	To attend presentation and select Interior Decorator.
R.N. Renjen	Director	Sydney	Dec. 81	Free	4696.69	Registration of the company execution of Loan Agreement.
B.B. Bagga	Director, Development HCI	London	20.5.82 23.6.82	16568.00	1251.75	To meet Architect.
K.R. Ghatge	DF, HCI	London	30.10.83 4.11.83	Free	3666.58	Financial matters.
B.B. Bagga	DD, HCI	London	14.12.83 20.12.83	9778.00	409.80	Project matters.
A.C. Mahajan	MD, HCI	London	29.02.84 03.03.84	Free	4180.98	Surveying & inspecting Interior Decoration.
Rajan Mantri	Resident Manager	London	Sep. 9, 1983	8900.00	5884.43	Surveying the construction of the Restaurant.
B.B. Bagga	DD, HCI	London	May 18, 1984	17896.00	4135.35	Project Matters.

1	2	3	4	5	6	7
M. Mascarenhas	D.M.S., HCI	London	08.09.84 15.09.84	Free	10764.68	Opening of Restaurant.
K.R. Ghatge	Director	London	05.02.85 12.02.85	Free	9363.39	For financial matters.
R.N. Renjen	Director	London	09.09.84 17.9.84	Free	12232.49	For opening the Restaurant.
M.B. Bajaj	Dy. C.D.A.	London	08.09.84 27.09.84	9878.00	13983.00	For financial matters.
A.C. Mahajan	MD, HCI	London	Sept. 84	Free	4070.00	For opening the restaurant.
R.N. Renjen	Director	Sydney	08.11.85 15.11.85	Free	12437.49	To review the functioning of the restaurant.
Mascarenhas	D.M.S., HCI	London	02.06.85 12.06.85	Free	18418.00	For promoting the property.
R.N. Renjen	Director	London	20.01.88 23.01.88	Free	11034.00	For deciding out of court settlement with M/s A.D. DAVIES & Co.
Anil Bhandari	MD, HCI	Sydney	25.05.87 29.05.87		7368.70	Spot Inspection of property.
Anil Bhandari	MD, HCI	London	08.06.88 12.6.88	21044.00	16929.70	To investigate whether the property could be retained or disposed off.
Anil Bhandari	MD, HCI	Sydney	April 88	13306.00	10606.00	For inspection whether property can be retained or disposed.
S.R. Ayer	Accts. Mgr., Internal Audit, HCI	Sydney	April 88	13306.00	8350.00	For the internal audit.

**STATEMENT OF FOREIGN TRIPS TO LONDON & SYDNEY
UNDERTAKEN BY**

Sl. No.	Name of the Officer	Place of Visit	Total expenditure in Rupee currency	Specific purpose of Visit
1.	Shri Jayanta Sanyal, Ex-Dy. Chairman, Tea Board (5.7.83 to 4.8.83 & 16.8.83 to 11.10.83)	London	Rs. 1,20,433.53	Renovation of Mayur Restaurant, London.
2.	Shri D.K. Roy, Ex-Financial Adviser & Chief Accounts Officer, Tea Board (20.3.84 to 25.3.84)	Sydney	Rs. 31,105.91	Detailed study of Accounts and Reviewing the working of the Mayur Restaurant, Sydney.
3.	Shri D.B. Mukherjee, Ex-Financial Adviser & Chief Accounts Officer, Tea Board (28.6.88 to 1.7.88)	Sydney	Rs. 47,267.20	Audit of the Accounts of Mayur Restaurant, Sydney.

**VISIT TO LONDON/SYDNEY OF NOMINEE DIRECTORS OF
MINISTRY OF COMMERCE ON THE BOARD OF M/S. INDIA TEA
RESTAURANTS LTD.**

Sl. No.	Name	Place of visit	Expenditure incurred (in Rs.)
1.	Shri S.P. Gugnani, the then AS&FA	London 13-18 May 1981	16565
2.	— do —	London 19-22 June 1981	20497
3.	Shri V.C. Pandey, the then Additional Secretary	Geneva and London 4-25 June, 1981	27910
4.	Shri P.G. Muralidharan, the then Additional Secretary	London 28 Jan-6th Feb. 1987	22952
5.	— do —	London 24-28 Feb. 1987	19973
6.	Shri Ashok Kumar, the then Director	London 21-27 Sept. 1986	21381
7.	Shri P.G. Muralidharan, the then Additional Secretary	London 26th Sept.-4th Octo. 1987	18993

Recommendation

Another disquieting feature which the Committee found during the examination of the subject was the lack of adequate professionalism in the functioning of the Tea Board. The Committee are surprised to note that an organisation dealing with a product which has a substantial stake in the country's earning of foreign exchange through export, is most of the times manned by officers of general administrative services having no adequate experience in the relevant field. The non-professional approach of Tea Board, has, indeed, contributed to the failure of joint venture in the case. The Committee, therefore, are of the opinion that promotional organisations like Tea Board must be manned, particularly at the top level by competent professionals with proven track record and be not left at the mercy of the officers of general administrative services.

[Sl. No. 12, Para 67 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

The recommendation has been also communicated to the Deptt. of Personnel and Training and is noted for compliance.

Observation of Audit

No comments.

[Ministry of Commerce, OM No. T-44012/2/97-Plant "A" dated 9.6.98]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

The Committee note that the overseas tea centres opened by the Tea Board during the period from 1961 to 1970 at Edinburg, Melbourne, Cairo, London and Sydney were functioning as tea promotion outlets under the control of Tea Board's foreign offices located at London, Sydney and Cairo. None of these Centers earned any profit during the years of its operation resulting in the closure of the Centers at Edinburgh in 1970 and Melbourne in 1975. Concerns were expressed from various quarters from time to time and particularly from the year 1977 in respect of the poor financial results of the Sydney Tea Centre. The High Commissioner of India at Australia wrote to the Chairman, Tea Board on 2 August, 1978 that the Centre had outlived its utility and that the expenditure on running it was unproductive and it should be closed down. The question of continuance of this Tea Centre in the context of mounting deficits was discussed in several meetings of the Export Promotion Committee (EPC) of the Tea Board who left the matter to the discretion of the chairman, Tea Board. Further, the Director, Tea Promotion, Sydney suggested closure as one of the options in regard to the fate of the Centre. However, a proposal for handing over the Sydney Tea Centre to the HCI was considered by the EPC for the first time on 19 January, 1980. In the agenda paper, it was indicated that the Tea Board had been in touch with the HCI and that the Board had felt that it would be in their interest to handover Sydney Tea Centre to HCI. Curiously enough, neither the Ministry of Commerce nor the Tea Board were able to apprise the Committee of the authority at whose instance the proposal was included in the Agenda. Surprisingly, the EPC which itself had earlier expressed serious concern time and again over the dire strait of the Centre and which was fully aware of its operational limitations and the viability, unhesitatingly approved the proposal for handing over the Centre to HCI. Subsequently, an inspection team of HCI was sent to Sydney, London and Cairo who did not stick to the initial proposal of "handing over" the Centres to HCI, but rather recommended for formation of a joint venture between Tea Board and HCI for running the Centres. Consequently, a feasibility report on the economic viability of the proposed joint venture was prepared by HCI. The feasibility report was latter modified by the HCI which inexplicably showed substantial alterations in the profitability

projections made earlier. Eventually, a new corporate entity in the name of the India Tea & Restaurants Ltd. (ITR) which was a joint venture of the Tea Board and HCI came into existence on 30 June, 1981 with an authorised share capital of Rs. 50 lakh divided in the ratio of 51 per cent and 49 per cent between Tea Board and HCI. After incorporation, the Company (ITRL) on 28 August, 1981 decided to set up a first class Indian Restaurant at Sydney and thereafter at London. The Committee regret to observe that despite their bitter experience from running the overseas tea centres, the Tea Board without analysing the viability of the project in all its ramifications, went ahead with the venture largely depending upon the judgment of the Hotel Corporation of India.

[Sl. No. 2 Para 57 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

The joint venture project designed to facilitate promotion of Indian tea and cuisine by taking over the tea centres of the Tea Board was conceptually a sound project. The decision of the Tea Board to enter into a joint venture with the HCI was in the best interests of making the erstwhile tea centres viable.

A feasibility report was prepared by the Hotel Corporation of India and considered by the Steering Committee constituted by the Ministry of Commerce. The Steering Committee comprised of nominees of the Govt., Tea Board and HCI with the Additional Secretary and Financial Adviser, Ministry of Commerce as chairman. Based on the decision taken at the meeting the feasibility report was revised. The profit and loss account in the report indicated that while there would be loss in the first year, the Company would start making profits from the second year onwards. HCI was authorised to operate the Joint Venture based on their expertise and experience of running hotels/restaurants professionally.

Observation of Audit

No Comments

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98]

Recommendation

The Committee further note that though the ITRL was incorporated on 30 June, 1981, the two restaurants viz., Mayur, Sydney commenced its operation on 28 October, 1982 and Mayur, London on 23 October, 1984 thus after considerable delay. The delay in commencement of operation of these restaurants was attributed to factors such as problems in obtaining possession of the premises, delay in renovation work etc. which are not convincing. Significantly, the Tea Board quoted the delay in starting the restaurants as one of the major reasons for the failure of the joint venture

in the ultimate analysis. The Committee are of the view that the Ministry did not take prompt action in the matter to persuade ITRL to perform its functions effectively and efficiently in the prescribed time schedule.

[Sl. No. 5, Para 60 of 17th Report of PAC(11th Lok Sabha)]

Action Taken

Though as per the feasibility report, the two restaurants at London and Sydney were expected to be commissioned by February 1981, they could be opened only in October 1982 and October 1984 respectively. The delay in starting the operations of the two restaurants was mainly due to the problem in obtaining possession of the premises at London Tea Centre due to lack of consent of the landlord, delay in renovation work, shifting of premises at Sydney etc. which were beyond the control of the Tea Board/Govt. Due to the delay, the cost of fixed assets mounted resulting in increased foreign exchange borrowing from banks. The fact that there was no commercial operation further worsened the situation as the liability on account of interest burden on borrowed capital and depreciation coupled with insufficient income during the initial period of operation of the two restaurants took the company to a state of no return.

The fact that the restaurants were not doing well was brought to the notice of the Board of the ITRL by the nominee Directors of the Ministry of Commerce and the Tea Board during several meetings of the Board. In view of the dismal performance of ITRL, a meeting was held between the Commerce Secretary and Secretary, Tourism and Civil Aviation as early as 5.3.85 to consider various options for profitable running/revival of the Company. It was decided in the meeting that the shareholding of the HCI may be increased to 80% in order to give more stake to the HCI which was ultimately responsible for the running of the restaurants. Later, the nominee Director of the Tea Board in the Board meeting held on 18.3.86 recommended complete disinvestment in the joint venture by the Tea Board and desired that a decision regarding future of the company should be taken by the Ministry of Civil Aviation. Meeting was held between Commerce Secretary and Joint Secretary, Civil Aviation and Tourism on 16.6.86: The Ministry of Civil Aviation informed that change in the shareholding pattern to give a major share of 80% to the HCI was not acceptable to them, It was also decided in the meeting that a rehabilitation plan may be prepared and specific measures may be taken for promoting tea through the ITRL. The Tea Board would not meet any future liability on behalf of the Company. The HCI submitted a rehabilitation programme to the Ministry of Civil Aviation which suggested that the tea centre at London and Sydney may be transferred to the Deptt. of Tourism to be run through the India Tourism Development Corpn. at a negotiated price which would safeguard the interest of the ITRL. However, after physical verification of the site, the ITDC informed in June 1987 that they were not interested in the proposal. Detailed analysis on the functioning of the

company was made in an Inter-Ministerial meeting held on 10.11.87 under the Chairmanship of the then Addl. Secretary, Ministry of Commerce wherein it was decided that Tea Board and HCI should formally communicate their views on the proposal of disinvestment/continuance of Tea Board in ITRL. In subsequent meetings it was observed that there may not be much purpose in ITRL continuing to run the restaurant. The then Commerce Minister on 30.12.88 decided that in view of Tea Board's disinclination to continue in the joint venture, possible options were either to vacate the premises on the financial settlement/or sublease either to Govt. organisation such as ITDC. Finally after obtaining the assessment of the financial implications of the options from the Indian High Commission in London and Sydney, decision was taken to windup the ITRL.

Hence, it may be seen that the Ministry took all possible steps to revive the Company throughout and also suggested various options to the ITRL in the Board Meetings.

Observation of Audit

1st Paragraph: No Comments.

2nd Paragraph: Position verified and found correct. However, the contention of Ministry of Commerce that all possible steps had been taken to revive the Company, is not forthcoming from records. From the minutes of the meeting under the Chairmanship of Shri P.G. Murlidharan, Addl. Secretary, Ministry of Commerce held on 10.11.87, it is evident that the Ministry had serious doubts about the viability of the Company. Yet, the Ministry had not taken timely action to wind-up the Company.

Comments of MoC

Since the joint venture project had not been doing well various options for revival of ITRL were considered by the Government. However, M/s. ITRL continued to incur losses and therefore various other options such as handing over of the company to M/s. India Tourism Development Corporation, were explored. These, however, did not materialise due to reluctance on the part of ITDC as mentioned above and therefore a detailed analysis of the functioning of the company was made in the Inter-Ministerial Meeting held on 10.11.87 when it was decided that in view of disinclination of the Tea Board to continue in the joint venture, no useful purpose would be served in ITRL continuing to run the restaurants. It was in this background that action was taken to wind up the ITRL. In view of the above, it is not correct to say that the Ministry had not taken timely action to wind up the company. Before taking the decision to wind-up all the possible options had to be gone into.

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98.]

Recommendation

The Committee observe that the performance of these two restaurants did not keep in line with the projections made in the feasibility report. The losses which had started occurring almost from the inception kept on increasing endlessly. The financial performance of the restaurants had reached such a dismal stage that as against income of Rs. 23.13 lakhs and Rs. 40,000/- earned by the Sydney and London restaurants in the year 1989-90, the expenditure incurred stood to the level of Rs. 62.11 lakh and Rs. 95.20 lakh respectively. Astonishingly, except formal expression of concern by ITRL, no concrete steps were taken in time to avoid recurrence of the accumulated financial burden on ITRL. Strangely enough, the Ministry of Commerce entrusted the job of rehabilitation of these two restaurants to the same company (ITRL) which was responsible for the mismanagement of the joint venture. However, the rehabilitation proposals did not yield any concrete result. Further, both the Ministry of Commerce and Tea Board failed to take effective steps immediately even after they had come to the definite conclusion in 1986 that revival was not possible and only closure was the best option. In the process, the precious time of two years from 1986 to 1988 was simply wasted in the name of exploring the alternatives and on the other side losses kept on accumulating by leaps and bounds. The Committee regret to conclude that neither the administrative Ministry viz. the Ministry of Commerce nor Tea Board, the majority shareholder evolved any mechanism to effectively monitor performance of the restaurants. The Committee express their strong displeasure over the apathetic attitude of the Ministry towards such a costly project.

[Sl. No. 6, Para 61 of 17th Report of PAC(11th Lok Sabha)]

Action Taken

Although it was known in 1986 that the restaurants had not been doing well, various options for their revival/rehabilitation and other alternatives for making the two restaurants viable had to be considered before taking the extreme step of winding up the company. Such decisions would naturally need thorough study of various options, revival packages etc. besides consultations with the concerned agencies. The fact that the restaurants owned by the ITRL was not doing well was brought to the notice of the Tea Board by the nominee Director of the Board on ITRL. At that point of time no decision in haste could have been taken to immediately wind up the company which was set up only in 1981. Various options for the revival of the company was considered at that point of time and a rehabilitation plan was submitted by the Hotel Corporation of India to the Ministry of Civil Aviation in December 1986. One of the options suggested by the HCI was the possibility of handing over the restaurants to ITDC. Accordingly the matter was taken up with the Ministry of Tourism. However, the proposal did not materialise due to reluctance on the part of

the ITDC and in June 1987 ITDC informed that they were not interested. A detailed analysis on the functioning of the ITRL was made in an Inter-Ministerial meeting held on 10.11.87 under the Chairmanship of the then Addl. Secretary, Ministry of Commerce wherein it was decided that Tea Board and HCI should formally communicate their views on the proposal of disinvestment/continuance of Tea Board in the project. Later in an Inter-Ministerial meeting held on 24.10.88 under the Chairmanship of Commerce Secretary, DG Tourism and others it was observed that there may not be much purpose in ITRL continuing to run the restaurant in its present shape. Finally in a meeting taken by the then Commerce Minister in December 1988 it was decided that views of the concerned Missions should be obtained in the matter. Based on the assessment of the Missions which was received in February 1989, it was ultimately decided to close down the restaurants. Thus it could be seen that the performance of the Company was monitored by the Govt. on a continuing basis. Moreover, the fact that the company was not performing to expectations was also brought to the notice of the ITRL by the nominee Director of the Ministry of Commerce and the Tea Board during various Board Meetings.

Observation of Audit

The factual position, as stated in ATN, was found to be correct. However, the fact that the monitoring of performance of the Company by the Ministry was ineffective is firmly established. Despite being fully aware of the dismal performance of the Company, the Ministry took unduly long time to close the restaurants and in the process, allowed the liabilities of the company to mount.

Comments of MoC

It is not correct that monitoring of performance of the company by the Ministry was ineffective and unduly long time was taken to decide on the closure of the restaurants. Government was aware of the fact that the joint venture project had been incurring losses for various reasons already mentioned. Therefore various steps were taken by the Ministry of Commerce and the Tea Board for revival of the joint venture project. Possibilities of handing over the project to ITDC were also explored as stated above. Decision to close down the joint venture could not have been taken by the Government in haste and all possible steps for its revival/restructuring had to be examined which was done as would be evident from the reply mentioned above.

[Ministry of Commerce. OM No. T-44012/297-Plant "A" dated 4.6.98]

Recommendation

The Committee further note that though the decision was taken in principle in 1989 to close down the two restaurants, the actual closure took place only in April 1990 and September 1990. The Ministry failed to furnish any convincing reply to the Committee about the delay in closure

of the restaurants. The Committee cannot but arrive at the inescapable conclusion that lack of sincerity was reflected by both the Tea Board and the Ministry of Commerce towards this project right from the commencement to the final closure of the restaurants.

[Sl. No. 7 Para 62 of 17th Report of PAC(11th Lok Sabha)]

Action Taken

Action taken since the decision of the closure of the two restaurants till the final closure in chronological order are as follows:—

Sydney Restaurant:

- Decision to close down was taken on 3.8.89.
- Tea Board and HCI were accordingly advised on 7.8.89 to take necessary steps for closure of the restaurant.
- HCI on 9.8.89 suggested closure of Mayur Sydney preceded by the use of the option for right to sublease the premises with the prior consent of the landlord whereby it may be possible to recover some of the losses.
- The operations of the restaurant was closed on 23.8.89.
- On the basis of a proposal received from ITR it was decided that a committee may be constituted for advertising in the local newspaper for subleasing their rights through the tenders. It was also decided that all formalities for closure should be completed within two months. Ministry communicated the decision to close the restaurant and modalities for closure in their telex dated 13th September, 1989.
- Though the modalities were communicated thereon, action could not be initiated to close immediately due to a pending litigation in the Supreme Court of New South Wales which was scuttled in favour of the company only on 6.12.89 and due to paucity of funds for settling pending debts.
- The matter regarding surrender of premises was deliberated at length by the Board of Directors in their meeting held on April 5, 1990 wherein it was decided that the High Commissioner/CGI should negotiate with the tenderers and take immediate action for the closure of the restaurant.
- In June, 1990 the Indian High Commissioner/Consul General at Sydney informed that the company had received two offers for assignment of lease. The first for a amount of AUD 1,50,000 and the second for AUD 1,25,000. As advised by the Ministry, the High Commissioner and the CGI Sydney negotiated with the parties and finalised the assignment with the highest bidder in consultation with the local solicitors. The premises of Sydney restaurant was surrendered to the owner of the premises themselves under the authority of the local committee for AUD 1 lakh as the party whose

offer was the highest did not honour their commitment of AUD 1,50,000.

- The Sydney Restaurant was finally closed on 13th September, 1990 after the issue relating to its premises was resolved and the lease rights were surrendered to the owners of the premises.

London Restaurant

- High Commissioner, London whose assessment was called for on the financial implications of the action had, in Feb., 1989, expressed the view that the premises at Oxford Street was suited for running a restaurant but not for location of any office (except perhaps on the 1st floor) and as Tea Board's requirement was only around 500 sq. ft. as against 6000 sq. ft. available with the Board, the present lease should be given up and Tea Board office should be relocated. He also mentioned in Sept., 1988 that landlords were prepared to give a compensation of about a quarter million pounds for vacating the premises. The High Commissioner recommended that the premises may be vacated or alternatively the first floor could be retained by Tea Board and other two floors could be leased out for running a restaurant.
- Views of Minister (Economic) London were sought on 5th Oct., 1989 with regard to the prospects for getting premature termination of the lease of the London building.
- Chairman, Tea Board on 23.10.89 intimated about the compensation package offered by the landlords.
- Assessment of the High Commissioner was also called for on the compensation package offered by the landlords which was received on 5.12.89.
- The High Commission proposed that Tea Board should ask for a compensation of at least Pounds 8,50,000 for vacating the entire premises and in case Tea Board was to vacate only basement and ground floor it was proposed that a compensation of Pounds 6,50,000 might be asked for.
- The matter was further considered on 5.1.90 and keeping in view the opinion of High Commissioner it was decided not to give up the lease of the London building and not to accept the compensation package of the landlords.
- Meanwhile a request was received from DG, Tourism on 20th Dec. 1989 for the use of the premises by the Deptt. of Tourism for housing the Indian tourist office and running a fast food restaurant. It was decided that Tea Board should get in touch with DG, Tourism and MD, ITDC to finalise arrangements

regarding Ministry of Tourism's interest in taking the two floors for housing the Indian tourist office and fast food restaurant.

- The matter was discussed on 22.1.90 by Chairman Tea Board with DG, Tourism and thereafter on 23.1.90 by Dy. Chairman, Tea Board with CMD, ITDC and Sr. Vice President, ITDC. During the meeting it was *inter-alia* agreed that two floors of the building would be made available to ITDC for running the restaurant. The prior consent of the landlord would also be required and the rental, annual service charge and general rate would be borne by ITDC and Tea Board in the proportion of 70% and 30% respectively.

In March, 1990 it was decided to close Mayur London Restaurant and the areas so released be handed over to Indian Tourism Development Corporation. The restaurant was closed on 6th April, 1990.

Observation of Audit

The factual position stated in the ATN has been verified and found correct.

Ministry of Commerce. OM No. T-44012/97-Plant "A" dated 4.6.98.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee note that the ITRL failed to repay the loans of Rs. 109.95 lakh and a overdraft of Rs. 46.60 lakh taken by it during its operation for which the Tea Board had provided guarantee to the Bank. ITRL also failed to reimburse major portion of the 70 per cent of rent, rates and service charges etc. amounting to Rs. 1.30 crore on account of its share in the premises hired by Tea Board. ITRL further failed to realize from the corporate clients. Rs. 1,66,701 and Rs. 26, 961 in respect of London and Sydney restaurants on account of credit sales. The Committee deplore that no concrete measures were taken by the Tea Board to persuade the ITRL in time to take effective steps in this regard. The Committee therefore, desire that Tea Board should inquire into the matter and take action against the officers responsible for such financial lapses.

[Sl. No. 8 Para 63 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

Although Tea Board was a 51% shareholder in this company, the commercial operations of the company involving take-over, renovation and running of the restaurants etc. were in the hands of the HCI Ltd. The Tea Board had no actual control in the operations of the restaurants. The reasons for ITRL's failure to repay the loans and reimbursement of rent, rates, service charges etc. to the Tea Board were essentially due to poor financial performance of the Company. The Tea Board in fact wanted to dilute its shareholding which was agreed to in a meeting held on 5.3.85 by the Secretary, Ministry of Civil Aviation. However, such disinvestment did not take place. The Tea Board also objected to the disassociation of HCI from the ITR. Insofar as the failure to realise Rs. 1,66,701 and Rs. 26, 961 from the corporate clients on account of credit sales is concerned, this loss constitutes only a fraction of the total loss incurred by the Company and has been treated as bad debts.

From the foregoing it would be observed that Tea Board took all possible steps within its control to point out the poor performance of ITR for remedial action. The Tea Board has further desired that since the operating contract of the ITRL was with the HCI, the latter should be

made accountable for the losses incurred by the Tea Board and the ITRL. As such the HCI should be asked to investigate the matter and take action against the officers responsible for the lapses.

Observation of Audit

1st Paragraph: No comments

2nd Paragraph: It is a fact that the commercial operation of ITRL was in the hands of HCI. However, the contention of Tea Board that they had regularly pointed out the poor performance of the company reflects Tea Board's extreme helplessness in the management of the affairs of the Company, despite having majority stake in shareholding. Mere pointing out of the poor performance of the company on regular basis without being in a position to act in a decisive manner, clearly shows that the joint venture was ill-conceived right from the beginning.

Comments of MoC

It would not be correct to conclude that the joint venture was ill conceived. The fact is that though Tea Board was the majority shareholder in the joint venture, the commercial operations of the company had been exclusively given to the Hotel Corporation of India Ltd. considering the fact that they had the expertise in operation of hotels and restaurants which Tea Board did not have. In fact rationale behind formation of the joint venture was the poor performance of the tea centres run by the Tea Board and it was felt that these centres could be run in a professional way. Thus intention behind the joint venture and the concept of joint venture was sound and cannot be treated as ill conceived.

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98]

Recommendation

The Committee observe that in terms of the projections made in the feasibility report of the project, it was envisaged that the company (ITRL) would start making profits from the second year onwards and would recoup its project cost at the end of five years from the date of inception. Ironically, the profitability projections turned out to be wrong not only wiping out the entire capital of the company but also creating heavy liability of Rs. 8.54 crore to the Government of India. The Committee feel that the decision taking process in the Tea Board as well as in the Ministry of Commerce in regard to the joint venture had been guided by neither prudence nor professionalism. Undoubtedly, these factors contributed significantly in collapse of the joint venture leaving a permanent scar in the form of heavy liability to the Government of India. The Committee deplore that at no stage, sincere or serious efforts were made either by the

IITRL itself or by its promoting agencies namely, Tea Board and HCI which were having substantial stake in the company or by the administrative Ministries concerned, to analyse deeply the reasons for continuous deterioration in the sale of tea and consequent incurring of accumulated losses by the company, and to devise suitable remedial measures to minimise the burden on the exchequer. The Committee, therefore, conclude that the Joint Venture not only caused economical and financial burden of high magnitude on the Government of India but also miserably failed in its basic objective of promotion of Indian tea abroad. While expressing their serious displeasure over the matter, the Committee recommend that the various aspects of the case and circumstances leading to heavy financial loss to the Government in the process of formation, operation, performance, rehabilitation, liquidation of IITRL and also the questionable role played by the Ministry of Commerce and Tea Board should be thoroughly looked into with a view to not only fixing responsibility for the various omissions/commissions, but also obviating recurrence of such costly misadventures in future.

[Sl. No. to Para 65 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

Role of the Tea Board and the Ministry of Commerce in the process of formation, operation, performance, liquidation etc. of the joint venture is not questionable. The project proposal was conceptually sound. The joint venture, however, ran into losses due to reasons beyond control as would be clear from the succeeding paragraphs.

Tea Board had established India Tea Centres at Cairo (1961), London (1963) and Sydney (1965) for purposes of promotion of Indian tea overseas. These tea centres were run under the supervision of Directors of Tea Promotion in Tea Board's office located at these places. These tea centres except Cairo had been showing substantial losses since inception, making it difficult for the Tea Board to maintain these tea centres.

In view of the changing concept with regard to tea promotion strategies and the fact that these tea centres were incurring losses, it was proposed to ensure the viability of these centres while fulfilling the objective of promoting sales of Indian tea. Preliminary discussions were held with the Hotel Corporation of India, a subsidiary of Air India regarding the take over of these centres and their management jointly by HCI and Tea Board. This matter was subsequently considered in detail in a meeting taken by Shri P.K. Kaul, Secretary, Ministry of Textiles on 31st May, 1980. In pursuance of the decisions taken during this meeting, a Steering Committee was set up in July, 1980 with representatives from the Commerce Ministry/Tea Board as well as representatives from the Hotel Corporation of India under Ministry of Civil Aviation to work out modalities of the proposed joint venture. A study in this regard was conducted jointly by the Tea Board and Hotel Corporation of India. Based

on a feasibility report prepared by the Hotel Corporation of India for conversion of the Tea Centres as Indian Restaurant-cum-Tea Promotion Centres, the Union Cabinet approved on 17.2.81 the proposal for the joint venture project between Tea Board and Hotel Corporation of India titled M/s India Tea & Restaurants Ltd. The Company was incorporated on 30th June, 1981.

The main objectives of the joint venture was to take over going concerns and/or otherwise manage the business and undertakings of the Tea Board's tea centres at London, Sydney, Cairo and elsewhere; to undertake and carry on throughout the world the business as dealers in all kinds of Indian tea and with that end in view to promote and popularise Indian tea through display service and sale of loose and packet tea and to take such steps as may be necessary for development of its objects including holding of exhibitions and fairs and use every media commercial or otherwise of advertisements for development of its objects; to carry on throughout the world, the business of restaurants, inflight catering to airlines abroad, cafes, refreshment rooms, clubs and casinos to establish shops, canteens, kitchens and other establishments, for this purpose and for the sale of food and drinks and to arrange for and provide all manner of entertainment, amusements, recreation and instruction for the public.

However, the management of ITRL was entirely with the HCI. ITRL had entered into an operating contract with HCI for operation and management of its restaurants at London and Sydney and any future restaurants, Tea Board/Commerce Ministry was not involved in the operation of ITRL.

The losses incurred by the ITRL was mainly due to (a) delay in starting operations of the two restaurants on account of factors such as problems in obtaining possession of the premises leading to delay in renovation work and increases in overheads (b) non-achievement of the projected turnover of the two restaurants on account of factors like stiff competition from other Indian restaurants, recessions in the economies of UK and Australia which affected entertainment spending of the common people etc. Though the projected turnover could not be achieved, the fixed costs like staff cost, restaurant furnishings continued to increase resulting in gross operating losses to the company. On account of operating losses incurred by the two restaurants the loans could not be repaid and thereby interest burden could not be reduced which resulted in further losses.

In view of the losses incurred by the two restaurants, various options with regard to future of the ITRL were considered. These include changing of shareholding pattern to reduce shareholding by Tea Board, rehabilitation plan for revival of the restaurants, handing over the premises to ITDC, running the restaurant by private entrepreneurs. However, none of the above options could materialise. After exploring all avenues ultimately it was decided to close operation of the two restaurants.

A detailed statement indicating the various options considered by the Govt. in chronological order is enclosed (Annexure-I).

Insofar as the fixing of responsibility for the various omissions/commissions is concerned, the entire commercial operations of the company involving take-over, renovation and running of the restaurants etc. were solely in the hands of the HCI Ltd. The Tea Board did not have any actual control in the operations of the restaurants. The suggestion regarding obviating recurrence of such costly misadventure in future is however, noted for compliance.

Observation of Audit

Factual position stated in the ATN is found to be correct. However, Ministry's statement that the project was conceptually sound is not tenable. That the feasibility report, on the basis of which the decision to float the joint venture company was taken, was flawed is borne out by the subsequent events.

Comments of MoC

The joint venture project was a conceptually sound one as the intention behind the joint venture was to convert the loss making tea centres of the Tea Board into professionally managed centres with the competence and expertise of the Hotel Corporation of India. While it is true that the projections made in the feasibility report were not achieved in terms of actual results, it would not be correct to conclude that the feasibility report was flawed. Reasons for the losses in the joint venture project have already been explained in detail in the Action Taken Notes.

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98.]

CHRONOLOGICAL EVENTS

Options considered for revamping the restaurant

1. In view of the dismal performance of ITR, a meeting was held between Commerce Secretary and Secretary, Tourism and Civil Aviation on 5.3.1985 to consider the future of ITR. Following decisions were taken during the meeting:—
 - (a) Shareholding pattern may be changed and HCI may ultimately hold 80% of Shares.
 - (b) The modalities of transfer of shareholding and its time phasing could be settled between the FAs of the two Ministries.
 - (c) Action to be immediately initiated in the next Board meeting of the HCI for the above steps as approved by the then CM.
The formalities of transfer of shares to HCI as decided in the meeting however did not materialise.
2. In view of the losses by the joint venture project, nominee Directors of the Tea Board in Board meetings held on 18.3.86 recommended complete disinvestment in the joint venture by Tea Board and desired that a decision regarding future of the company should be taken by the Ministry of Civil Aviation.
3. A meeting was held between Commerce Secretary and Joint Secretary, Civil Aviation and Tourism on 16.6.86 and it was informed that:—
 - (a) The Ministry of Civil Aviation were rethinking on the decision of March, 1985 that HCI would acquire major portion of the shareholding and that this was not possible.
 - (b) A rehabilitation plan may be prepared and submitted.
 - (c) Specific measures may be taken for promoting tea through ITR. Tea Board will not meet any future liability on behalf of ITR.
4. Ministry of Civil Aviation forwarded a copy of the rehabilitation programme to the Ministry on 24th July, 1986 as received by them from HCI. No specific comments were given by the Ministry of Civil Aviation and it was mentioned that the matter was under examination in their Deptt.
5. On 4th Dec., 1986 Ministry of Civil Aviation furnished their specific comments on the rehabilitation plan. It was suggested by the Hon'ble

Minister of Tourism that the tea centre in London may be transferred to the Deptt. of Tourism to be run through the India Tourism Development Corporation. Ministry of Civil Aviation had proposed that the London and Sdney restaurants might be transferred to ITDC at a negotiated price which would safeguard the interest of ITR to the maximum extent possible.

6. It was *inter alia* decided that Hotel Corporation would send a proposal to ITDC to take over the two restaurants on predetermined terms of transfer.
7. ITDC informed in June, 1987 that they were not interested in the proposal.
8. A detailed analysis on the functioning of ITR was made in an Inter-Ministerial Meeting held on 10.11.87 under the Chairmanship of the then Addl. Secretary wherein it was decided that Tea Board and HCI should formally communicate their views on the proposal of disinvestment/continuance of Tea Board in ITR.
9. In the Inter-Ministerial Meeting held 24.10.88 under the Chairmanship of Commerce Secretary, DG Tourism and others it was noted that:—
 - (a) There may not much purpose in ITR continuing to run the restaurant in its present shape.
 - (b) With options available such a compensation for vacating London premises/utilisation of existing premises of ITR by Ministry of Tourism for opening tourist office and fast food restaurant, leasing/transferring the restaurant to private entrepreneurs be explored.
10. In the meeting taken by the then Commerce Minister on 30.12.1988 with Ministry officials and Chairman, Tea Board it was decided that:—
 - (a) In view of Tea Board's disinclination to continue in the joint venture in the present shape possible options were either to vacate premises on the financial settlement/or sublease either to Government organisations such as Tourism Department/ITDC or some other entrepreneur.
 - (b) While deciding the final course of action, an assessment regarding financial implications of the options may be obtained from the Indian High Commission in London and Sydney.
11. The assessments of both the High Commissions were received in February, 1989.

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

The Committee observe that the Union Cabinet approved the proposal for liquidating the joint venture (ITRL) on 19 January 1992. The proposal for writing off the dues as irrecoverable loss from ITRL was received from Tea Board in July 1992. A sum of Rs. 8.54 crore became recoverable from ITRL. In the ratio of share in the ITRL (51% of Tea Board and 49% of HCI), these losses were to be written off by the respective partners, i.e. Rs. 4.56 crore by Tea Board and Rs. 4.18 crore by HCI. The HCI's Board had written off Rs. 3.23 crore on 31.3.97. The balance amount was to be paid to the Tea Board as the share of HCI's liability. The liability on the part of the Tea Board had to be written off by passing a resolution and its subsequent endorsement by the Ministry of Commerce. The Committee would like to be informed of the latest position in this regard.

[Sl. No. 9, Para 64 of 17th Report of PAC (11th Lok Sabha)]

Action Taken

The writing off liability on the part of the Tea Board has been held up for want of release of Rs. 1.05 crores by the HCI to the Tea Board on account of liability of share of HCI. Ministry of Civil Aviation has directed the MD, HCI to submit the proposal for remittance of Rs. 1.05 crores by HCI to the Tea Board for consideration/approval of the Board of HCI.

Observation of Audit

No further development beyond that mentioned in the ATN, is forthcoming from Tea Board's records.

Comments of MoC

The amount of Rs. 1.05 crores payable by the HCI to the Tea Board is yet to be received. The final writing-off of the liability on the part of the Tea Board is pending on this account. the HCI is being reminded on a continuous basis to remit Rs. 1.05 crores to the Tea Board.

[Ministry of Commerce. OM No. T-44012/2/97-Plant "A" dated 4.6.98.]

NEW DELHI;
22 December, 1998

MANORANJAN BHAKTA,
Chairman,
Public Accounts Committee.

1 Pausa, 1920 (Saka)

APPENDIX
CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1.	3	Ministry of Commerce	The Committee hope that the final reply in respect of the recommendation/observation contained in Para 64 (Sl. No. 9) for which only interim reply has been furnished will be submitted by the Ministry expeditiously after getting it duly vetted by Audit.
2	9	-do-	The Committee had observed in their earlier Report that the ITRL failed not only to repay the loans and overdrafts of Rs. 156.55 lakh for which the Tea Board had provided guarantee to the Bank but also to reimburse an amount of Rs. 1.03 crore on account of its share in the premises hired by Tea Board. Taking note of the fact that no concrete measures were taken by the Tea Board to persuade the ITRL in time to take effective steps in this regard, the Committee in their earlier Report had desired the Tea Board to enquire into the matter and take action against the officers responsible for such lapses. The Committee are, however, constrained to observe from the action taken reply that the Ministry have once again provided the same explanations as made available to the Committee earlier to shield the inefficiency and lack of concern displayed by the Tea Board in this matter. What is still more distressing is the fact that rather than acting on the recommendation of the Committee, the Ministry have now sought to contend that "Tea Board took all possible steps within its control

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to point out the poor performance of ITRL for remedial action" and that "HCI should be asked to investigate the matter and take action against the officers responsible for the lapses" since "the operating contract of ITRL was with the HCI" which "should be made accountable for the losses incurred by the Tea Board and the ITRL". In the opinion of the Committee, this contention of the Ministry holds no ground particularly because the Committee had made a specific recommendation in respect of the failures on the part of the Tea Board which was expected to take sufficient precautions to safeguard their financial interests while providing guarantee to the Bank for loans and overdraft taken by ITRL and also in recovering their share of the rent, rates and service charges etc., from the ITRL. While deprecating the reluctance shown by the Tea Board in taking any action to inquire into the matter, the Committee strongly reiterate their earlier recommendation and desire the Tea Board to take expeditious steps to conduct an inquiry with a view to taking action against the officers responsible for such financial lapses. The Committee would like to be apprised of the conclusive action taken in this regard.

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Ministry
of
Commerce

The Committee in their earlier Report had pointed out that the decision making process in the Tea Board as well as in the Ministry of Commerce in regard to the joint venture had been guided by neither prudence nor professionalism and that the profitability projections made in the feasibility Report turned out to be wrong contributing significantly in collapse of the Joint Venture leaving a permanent scar in the form of heavy liability to

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the Government of India. The Committee had accordingly, recommended that the various aspects of the case and the circumstances leading to heavy financial loss to the Government in the process of formation, operation, performance, rehabilitation and liquidation of ITRL and also the questionable role played by the Ministry of Commerce and Tea Board should be thoroughly looked into with a view to not only fixing responsibility for the various omissions/commissions but also obviating recurrence of such costly misadventures in future. The Committee are extremely unhappy to note that despite having suffered a heavy financial loss in the joint venture, the Ministry of Commerce have not taken any action to look into the entire episode with a view to fixing responsibility and obviating recurrence of such cases in future. The Ministry in their action taken reply have merely stated that the project proposal was conceptually sound and the joint venture ran into loss due to reasons beyond control. As in the past, the Ministry have again elaborated on the circumstances leading to losses incurred by ITRL and made an attempt to evade responsibility in the joint venture on the ground that the Tea Board did not have any actual control in the operation of the restaurants abroad. In this context, the Committee wish to point out that they were made aware of these facts earlier at the time of examination of this subject and in their opinion mere repetition of these arguments do not in any manner absolve the Ministry of Commerce and Tea Board of their questionable role played in entering into a joint venture which not only wiped out the entire capital of the company but also created heavy liability to the Government. The Committee are anguished to note that even at this stage, the Ministry have not made any efforts to analyse the facts pointed out by the Committee in their earlier Report. While

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expressing their displeasure over the manner in which the Ministry have tried to evade fixation of responsibility for the various acts of omissions and commissions, the Committee reiterate their earlier recommendation and desire that concrete and conclusive action in the matter should be taken. In the opinion of the Committee, this is absolutely necessary to avoid such instances in future.

PART II

MINUTES OF THE NINETEENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (1998-99) HELD ON 21 DECEMBER, 1998

The Committee sat from 1500 hrs. to 1530 hrs. on 21 December, 1998 in Room No. 53, Parliament House, New Delhi.

PRESENT

Shri Manoranjan Bhakta — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ram Tahal Chaudhary
3. Shri C. Gopal
4. Shri Vijay Kumar Khandelwal
5. Prof. Ajit Kumar Mehta
6. Shri Prabhat Kumar Samantaray

Rajya Sabha

7. Shri Md. Salim
8. Shri K. R. Malkani
9. Shri Satishchandra Sitaram Pradhan
10. Shri Vayalar Ravi
11. Shri K. Rahman Khan

SECRETARIAT

1. Shri P.D.T. Achary — *Joint Secretary*
2. Shri Devender Singh — *Deputy Secretary*
3. Shri Rajeev Sharma — *Under Secretary*

REPRESENTATIVES OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Shri A. Mukhopadhyay — *Pr. Director (AB)*
2. Shri P.K. Kataria — *Director (P&T)*

2. The Committee took up for consideration the following draft Reports:

- (i) Action taken on 17th Report of PAC (11th Lok Sabha) on heavy loss arising from joint venture operation;
- (ii) Action taken on 11th Report of PAC (11th Lok Sabha) on Union Government Appropriation Accounts (1994-95) Postal Services.

3. The Committee adopted the above mentioned draft Reports without any modification/amendment.

4. The Committee authorised the Chairman to finalise these draft Reports in the light of verbal and consequential changes arising out of factual verification by Audit and present the same to Parliament.

The Committee then adjourned.

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATION

Sl. No.	Name of Agent	Sl. No.	Name of Agent
ANDHRA PRADESH		UTTAR PRADESH	
1.	M/s. Vijay Book Agency, 11-1-477, Mylargadda, Secunderabad-500 306.	12.	Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad, U.P.
BIHAR		WEST BENGAL	
2.	M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).	13.	M/s. Madimala, Buys & Sells, 123, Bow, Bazar Street, Calcutta-1.
GUJARAT		DELHI	
3.	The New Order Book Company, Ellis Bridge, Ahmedabad-380 006. (T.No. 79065)	14.	M/s. Jain Book Agency, C-9, Connaught Place, New Delhi, (T.No. 351663 & 350806)
MADHYA PRADESH		15.	M/s. J.M. Jaina & Brothers, P. Box 1020, Mori Gate, Delhi-110006. (T.No. 2915064 & 230936)
4.	Modern Book House, Shiv Vilas Place, Indore City. (T.No. 35289)	16.	M/s. Oxford Book & Stationery Co., Scindia House, Connaught Place, New Delhi-110 001. (T.No. 3315308 & 45896)
MAHARASHTRA		17.	M/s. Bookwell, 2/72, Sant Nirankari Colony, Kingsway Camp, Delhi-110 009. (T.No. 7112309).
5.	M/s. Sunderdas Gian Chand, 601, Girgaum Road, Near Princes Street, Bombay-400 002.	18.	M/s. Rajendra Book Agency, IV-DR59, Lajpat Nagar, Old Dobule Storey, New Delhi-110 024. (T.No. 6412362 & 6412131).
6.	The International Book Service, Deccan Gymkhana, Poona-4.	19.	M/s. Ashok Book Agency, BH-82, Poorvi Shalimar Bagh, Delhi-110 033.
7.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-400 001.	20.	M/s. Venus Enterprises, B-2/85, Phase-II, Ashok Vihar, Delhi.
8.	M/s. Usha Book Depot, Law Book Seller and Publishers' Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400 002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, Connaught Circus, New Delhi-110 001. (T.No. 344448, 322705, 344478 & 344508).
9.	M & J Services, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuele road Nalgaum, Dadar, Bombay-400 014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Service India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay-400 001.	23.	M/s. Books India Corporation Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110 052. (T.No. 269631 & 714465).
TAMIL NADU		24.	M/s. Sangam Book Depot, 4378/4B, Murari LaL Street, Ansari Road, Darya Ganj, New Delhi-110 002.