C. P. U. No. 497

COMMITTEE ON PUBLIC UNDERTAKINGS (1982-83)

(SEVENTH LOK SABHA)

SIXTY-SECOND REPORT

ON

COTTON CORPORATION OF INDIA LIMITED

(Ministry of Commerce—Department of Textiles)

Presented to Lok Sabha on 19 APR 1983
Laid in Rajya Sabha on ....

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CONTENTS

PAGE

APPENDIX

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(1982-83)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Sixty-second Report on Cotton Corporation of India Ltd.

2. The Committee also examined the Report of the Comptroller and Auditor General of India, Union Government (Commercial) 1981, Part V on the Cotton Corporation of India Ltd.

3. The Committee took evidence of the representatives of Cotton Corporation of India Ltd. on 23, 24 and 25 November, 1982 and of Ministry of Commerce (Department of Textiles) on 13 and 14 December, 1982.

4. The Committee considered and adopted the Report at their sitting held on 24 March, 1983.

5. The Committee wish to express their thanks to the Ministry of Commerce (Department of Textiles) and Cotton Corporation of India Ltd. for placing before them the material and information which they desired in connection with the examination of the subject. They wish to thank in particular the representatives of the Ministry of Commerce (Department of Textiles) and Cotton Corporation of India Ltd. who gave evidence and placed their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered to them by the Comptroller & Auditor General of India.

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
April 6, 1983.
Chaitra 16, 1905 (*Saka*).

CHAPTER I

ROLE OF C.C.I.

A. *Introductory*

Considering the erratic fluctuations in the prices of cotton, the Agricultural Prices Commission recommended (May 1969) the setting up of an agency in the public sector charged with the responsibility of equitable distribution of cotton among the different constituents of the Industry and also to purchase and sell domestic cotton for disciplining prices within and between the years and to serve as a vehicle for the canalisation of all imports of cotton. Government accepted the recommendation and constituted in October 1969 a Committee to prepare a detailed scheme for the establishment of a Public Sector Agency. The Committee recommended (February 1970) the establishment of a full-fledged independent Corporation which was to develop necessary skill, expertise and operational finessee to enable it to progressively replace the traders in course of time. In response to these recommendations the Cotton Corporation of India Limited (CCI) was set up on 31st July 1970 by the Government of India with registered office at Bombay.

1.2 The working of the Company was examined by the Committee on Public Undertakings in 1974-75 and their recommendations are contained in their 68th Report (Fifth Lok Sabha).

B. *Objectives*

1.3 The Administrative Reforms Commission had suggested that the Government should make a comprehensive and clear statement on the objectives and obligations of Public Undertakings. This recommendation was accepted by Government and all Public Sector Undertakings were asked (November 1970) to formulate statements of their objectives/obligations clearly with the approval of Government. Action was to be taken by the administrative Ministries in consultation with the Ministry of Finance before finalising the financial aspects of such statements. Till 1974-75, however, such a statement of the Company's objectives/obligations had not been formulated.

1.4 During evidence before the Committee on Public Undertakings (1974-75), the representatives of the Ministry of Commerce stated that the Company had got 3 or 4 activities which would be sustained under any circumstances. These were (i) imports (ii) purchases for National Textile

Corporation—NTC (whenever arrangements for this purpose were worked out) (iii) price support operations, if and when the prices should fall below the levels fixed by the Agricultural Prices Commission and (iv) open market purchases. Ensuring remunerative prices to the farmers and stabilisation of prices of cotton for general welfare of consumers, were also stated to be the objectives of the Company although these did not find a specific place in the Memorandum of Association of the Company.

1.5 The Committee on Public Undertakings in their 68th Report (Fifth Lok Sabha had recommended that Government should come to an early decision about the role and objectives of the Company in specific terms. In pursuance of this recommendation Government decided (October, 1975) that during 1975-76 season, the Company should ensure payment of minimum support price to the growers and it should be used by NTC for purchase of cotton for its requirement. The same role was continued for the years 1976-77 and 1977-78. The role of Company was again reviewed by Government and its enlarged role was incorporated in the textile policy announced by the Union Minister of Industry on 7th August, 1978. The role, *inter alia*, envisaged the following:—

"The Textile Industry require that cotton should be available at reasonable prices and without wide fluctuations throughout the year. It is equally necessary to protect the interests of the farmers growing cotton and to save them from exploitation by middlemen. It is, therefore,, intended that:—

The Cotton growers would be assured of a reasonable minimum price for their produce. The role of the Cotton Corporation of India would be expanded and it will be allowed to make commercial purchases in the market so that cotton prices do not fall below the prescribed minimum. At the same time, CCI would be required to prevent cotton prices going above a prescribed limit and for this purpose would be enabled to operate a buffer stock and make sale in the market. The buffer stock would be created mainly out of domestic surplus in comfortable years and also through imports, if necessary. The buffer stock would not be operated either to subsidise for indigenous cotton production or to depress the return to the cotton growers. The CCI would also be permitted to take such other steps including exports as to maintain cotton prices within the prescribed range. The use of synthetic fibres would at all time be without detriment to the interests of cotton growers".

(i) *Stabilisation of Prices*

1.6 One of the objectives of setting up the Company was to moderate fluctuations in prices ensuring at the same time a remunerative price to the growers. Recommending the setting up of an agency in the Public Sector, the Agricultural Prices Commission in their Report on Price Policy for Raw Cotton for 1969-70 had observed that in a year of good crop the Agency would purchase extensively so as to maintain prices for the growers and in a year of short crop, before speculative elements could queer the pitch, it would release stocks in an effort to moderate the rise in prices. The National Commission on Agriculture had observed (May 1975) that the Company should be suitably strengthened so as to be in a position to buy 25 to 30 per cent of the indigenous crop including a substantial portion of the long and extra long staple cotton during a year of normal production and it should be able to purchase all quantities of cotton offered at the minimum prices during a year of bumper production and act as a holding agency for such stocks. The Agricultural Prices Commission in its Report on the Price Policy of Raw Cotton for 1977-78 season had also stressed the need for greater effort at disciplining cotton prices *via* extension of the ambit of the operation of the Company and had stated that these objectives would be better served if the Company acquired sizeable weight in the indigenous cotton trade.

1.7 Audit pointed out that during the period 1970-71 to 1977-78 when the Corporation's share of the market ranged from 0.2. per cent to 11.2 per cent, the Corporation could not be said to have played any significant role in stabilising the prices. In this connection the Ministry informed Audit that "it was only in the Textile Policy statement of August, 1978 that the role of Cotton Corporation of India Limited, in disciplining the prices of cotton within reasonable limits was given a concrete delineation."

1.8 In the performance Review Meeting of the Cotton Corporation of India held on 11th January, 1979 in the Ministry of Commerce, it was *inter alia* decided as under:—

> "Keeping in view the enlarged role entrusted to the Cotton Corporation of India, in the new Textile Policy it was decided that the Corporation should raise the target of its purchases to 15.00 lakh bales during the year 1978-79".

1.9 During 1979-80 and 1980-81 also the Company finalised its purchase programme having regard to Government's directive to the Corporation to purchase 15 lakh bales. During 1981-82, however, the target was reduced to 12 lakh bales.

1.10 The following table gives the summarised position of the quantum of CCI's purchase during 1978-79 to 1981-82:—

(Figures in lakh bales)

Year	Total Production	*Production of Maharashtra	Other State Production	Purchases of CCI	% of the procurement to total production	% of the procurement to production excluding Maharashtra
1978-79 . .	79·58	13·17	66·41	10·36	3·1	15·60
1979-80 .	76·98	16·95	60·03	11·14	13·9	18·52
1980-81 . . .	78·00	12·61	65·39	11 80	15·1	18·03
1981-82 . . .	79·50	15·00	64·50	10·42	12·4	15·81

*The Corporation cannot effect any purchase in Maharashtra due to monopoly procurement Scheme in the State.

1.11 During evidence the Committee asked as to what percentage of cotton should be handled by the Corporation so that it was in a position to dictate the market. The Chairman, CCI stated that it should be at least 20 to 25 per cent. Asked if he would admit that CCI was not able to dictate the market, the Chairman, CCI stated:

> "So long as the mills have a relationship with traders, we cannot. The mill are not going to come to the Government organisation till the traders' cotton is exhausted."

1.12 He, however, added that "by and large, institutions are now dominating in the cotton market. The prices are mostly fixed by institutional sales, not by private sales."

1.13 About the role of the Cotton Corporation in disciplining the prices, the Secretary of Ministry of Commerce (Deptt. of Textile) stated during evidence:—

> "The Cotton Corporation of India is not the only official agency in the field of procurement of raw cotton in the interest of the cotton growers. We have the Maharashtra State Cooperative Marketing Federation which operates within Maharashtra under the monopoly cotton procurement scheme. We also have other State Cooperative marketing federations which have been operating and trying to procure raw cotton, particularly in the leading cotton-growing States like Punjab, Gujarat, Haryana

and Karnataka. Between the Cotton Corporation of India and all these cooperative marketing federations, they account for 40 to 45 per cent of the total production of cotton in the country and this gives them a very good position of advantage in trying to stabilise the prices of cotton."

1.14 The witness further stated:—

"The principal objective of Government in setting up the Cotton Corporation of India was laid down in the policy announcement made in 1978, and it was mainly to enable the Corporation along with other public sector and cooperative agencies in the field, to stabilise the raw cotton prices in the country both with a view to providing remunerative prices to the cotton growers and ensuring continued availability of raw cotton at reasonable prices to the textile industry. We feel that over the years, particularly over the last four years or so this objective has been met to a very large extent and the prices has been fairly stabilised."

1.15 The Committee pointed out that the National Commission on Agriculture had recommended that in order to be effective CCI should procure at least 25 to 30 per cent of the total production. The Secretary stated, "No such decision has been taken by the Government that CCI must buy 25 per cent of the entire cotton in the country." He added, "the policy of the Government is that wherever prices go down, the CCI must come to the rescue of the farmers. If it is a period of shortage and the prices shoot up, the CCI is not going to purchase in a liberal quantity, but if the prices fall, the CCI has the responsibility."

1.16 The Secretary further stated:

"What was of the utmost relevance in this field was not how much CCI could purchase in a year, but to what extent the prices (a) were remunerative to the farmer and (b) to what extent price differences were stabilised. These two, according to Government are more relevant criteria for the operation of CCI, than the quantities purchased."

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

tives would be better served if the company acquired sizeable weight in the indigenous cotton trade.

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

(ii) *Floor and Ceiling Limits*

1.19 The role assigned to CCI vide textile policy announced by Government on 7th August, 1978, *inter alia,* enjoins on the Corporation to carry on operations with a view to ensure that the cotton prices neither deep below nor go beyond, the prescribed limits. CCI has stated the Government have not clearly spelt out the floor and ceiling limits.

In the absence of any guidelines from Government as regards the desired level of prices, intervention by the Corporation in the market for ensuring price stabilisation would be difficult.

1.20 During evidence the Chairman, CCI stated:

> "In the policy it was laid down that the CCI should intervene when prices fall below a certain level and when they exceed a particular level. So, we have been asking the Ministry as to whether they have fixed such intervention points. We have taken up this point with the Ministry in the quarterly reviews."

1.21 The witness added:

> "Regarding the lower points the position is very clear. But when should we withdraw from the market, for that purpose we are using our own commercial judgement. Many times there is criticism stating that even at that level we should continue to buy. So, it is better if the upper intervention point is also fixed by Government."

1.22 Asked if any reply had been received from the Ministry, the witness stated: "They have not yet taken any decision."

1.23 During evidence of the representatives of Department of Textiles, the Committee enquired about the reasons for not defining the limits. The Joint Secretary stated:

> "As far as the floor limit is concerned, one definition obviously is the support price. The floor level to my mind needs really no definition. Regarding the ceiling limit it is really not the Government's concern to give a ceiling limit. When the cultivator is getting a remunerative price and if the CCI profits by purchasing it, and giving it to the mill industry, it is really a commercial judgement and it would be totally incorrect for Government to interfere in this judgement and to lay down any ceiling limit."

1.24 Asked if the matter had been taken up by the CCI with the Ministry, the witness stated that it had been discussed in the Cotton Coordination Committee hold on 26-8-1982. The general feeling was that this was matter best left to the commercial judgement of the CCI.

1.25 The Committee invited the attention of the witness to what Chairment, CCI had stated during evidence that the Corporation was hamstrung because there was no prescribed limit. The witness stated:

> "I can understand if he is hamstrung by a limit. If there is no limit I can understand that he will be hamstrung to accept a minimum ceiling which of course is the support price. I do not think how precisely this is hamstringing his operations."

1.26 The Committee note that one of the main ingredients of the role assigned to the Cotton Corporation under the Textile policy announced by Goverment is to purchase cotton on commercial basis so that cotton prices do not fall below a prescribed minimum and also to prevent cotton prices from going above a prescribed limit. The genuine handicap in implementing this policy as indicated by the company is that Government have not clearly spelt out the ceiling limit. According to the Ministry the support prices announced by the Agricultural Price Commission from year to year

are the minimum prices and in regard to the upper limit it is for the CCI to exercise its judgement.

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

(iii) *Remunerative Price to Growers*

1.28 In a note submitted to the Committee CCI stated that the National Commission on Agriculture had recommended that the Corporation should be enabled to purchase about 25 per cent to 30 per cent of total production in the country, with sizeable purchases of extralong staple cottons like Varalaxmi and Suvin. In furtherance of the recommendations, the Corporation, till 1978 had been extending its maximum support to the cotton growers of these varieties in various States by purchasing sizeable quantities within the limited role assigned to it. With the enlargement of its role in the Textile Policy announced in August, 1978, the Corporation increased its purchases considerably covering among other sizeable quantities of Varalaxmi and Suvin.

1.29 Though no support price was announced by Government during 1976-77 for Suvin cotton, the prices paid by the Corporation for its purchases of Suvin kapas ranged from Rs. 730 to Rs. 790 per quintal. As against the support price of Rs. 510 per quintal fixed for the years 1977-78 and 1978-79 the Corporation paid during these years Rs. 850 to Rs. 875 per quintal and Rs. 800 to Rs. 1036 per quintal respectively. During 1979-80 the prices ranged from Rs. 870 to Rs. 925 as against the minimum support price of Rs. 645 per quintal.

1.30 In regard to the difficulties faced by the growers in the disposal of these varieties of cotton and the purchase policy followed by the Company during 1980-81 onwards CCI has stated as follows:—

"Till 1978-79 season, no complaints from the cotton growers were received about the unsold stocks lying with them for want of buyrs. However, during 1979-80, cotton growers, both in Tamilnadu and Andhra Pradesh had experienced difficulties in disposal of their Suvin cotton. A number of representations were received not only from the respective State Governments requesting the Corporation to make purchases of the unsold stocks lying with the cotton growers. The Members of the Parliament from these States had also taken up the matter in the Parliament about the difficulties faced by the cotton growers.

* * *

Considerating the Corporation's experience of purchasing Varalaxmi and Suvin cotton in various States and the difficulties faced by it in disposal of its stocks of these varieties which had adversely affected the commercial viability of its operations during the last two seasons, and the upward price trend in the prices of cotton, it decided in the beginning of the season to purchase these varieties only at support prices as announced by Government of India. However, in the month of January, 1981, the Corporation reviewed its policy in respect of purchase of these varieties and allowed the Branch offices to purchase specified quantities of Varalaxmi within the overall limit as to the price to be paid. It was then thought that the Corporation would be able to dispose off the quantities so purcased and replenish the quantity sold, in view of the upward trend in the price of cotton during the current season. The Corporation, was, however, forced to reconsider its purchases of these varieties and revert back to its earlier decision of purchasing these varieties only at support prices.

The Branch Offices of the Corporation were, therefore, advised to continue purchases of these varieties only at support prices.

A number of representations were received from State Governments of Andhra Pradesh and Karanataka requesting the Corporation to purchase these varieities at ruling market prices since they felt that in the absence of CCI's support, growers would be explicited by the trade. In view of the constraints explained above in respect of purchasing these varieties ruling market rates, the Corporation much against its wishes was unable to reconsider its policy in this behalf unless it was assured of reimbursement of the losses suffered by it on account of purchase of these varieties at ruling market prices.

The Corporation from December, 1981 onwards started to give monetary ceilings of Varalaxmi in the context of market trend, removing the quantitative restrictions and decided to purchase Suvin at support price announced by Government for 1980-81."

1.31 It would be relevant to point out that the Committee on Public Undertakings (1974-75) in their 68th Report (Fifth Lok Sabha) on Cotton Corporation of India Ltd. recommended that the Government should give encouragement to the production of long staple cotton in the country and ensure that the growers get a remunerative price so that such growers do not switch to other cash crops. In reply (14-1-75), the Ministry stated:

"The Ministry is in agreement with the views of the Committee that Government should ensue remunerative prices to growers of cotton in order to sustain their interest in its cultivation and thereby obviate the necessity of importing long staple cotton."

1.32 Explaining the role of the Corporation in regard to the procurement of long staple cotton the Chairman CCI *inter alia* stated during evidence:

"It is only because of the CCI that long staple growers found a buyer. Otherwise the trade would not have purchased this as there was no demand from the industry and the trade naturally buys whatever can be sold. It is only the Cotton Corporation which helps the cotton growers for there is no demand for it immediately or even in the long run. Had we not been in the picture, the growers of long staple cotton would have found it very difficult to sell their cotton and the national objective of encouraging long staple cotton would have greatly suffered."

1.33 About the necessity to pay prices more than the support price, the witness said:

"The moment we withdraw price will crash. We should not withdraw. In Punjab the prices are above the support price. In Punjab even support prices are not adequate to sustain production."

1.34 He added "CCI has to see that growers get good remunerative price, not merely support price."

1.35 About switching back to support price during the last two years the witness stated that the change was necessitated because the Corporation was finding difficulty in disposing of extra long staple. The

Committee pointed out that the objective of the Company was to encourage production of Suvin variety. The witness stated:—

> "Because the Ministry said that no special consideration can be given for losses on this account. So we wanted to do as much as we can for paying this support price."

1.36 The Chairman, CCI informed the Committee that the production of Suvin Cotton during 1980-81 was 50,000 bales but the production this year would not exceed 15,000 bales. About the fall in production it was stated, "This is because during the last two years the Cotton Corporation did not undertake any purchases including those on support price. That is why the production went down."

1.37 During evidence of the Department of Textiles the Committee enquiring if any study had been made to find out that the prices paid to the cotton growers were really remunerative. The Secretary stated as follows:—

> "Every year this study is made by the Agricultural Prices Commission. Cotton is a very important commodity which is looked into by the Agricultural Prices Commission and every year they come forward with their recommendations about the minimum prices that should be ensured and it is generally assumed that the minimum prices that is recommended by the Agricultural Prices Commission is computed as remunerative price. Over the last three or four years the ruling market prices of different kinds of cotton except for the long staple varieties, have been at the level of 35 to 40 per cent above the minimum support price that has been recommended by the Agricultural Prices Commission. To that exent, during the last few years, except in the case of long staple varieties of cotton, particularly those which are grown in Andhra Pradesh and Tamil Nadu, in the case of other varieties of cotton, the cotton growers have not been in any noticeable hardship."

1.38 The Committee pointed out that the Chairman, CCI had stated during evidence that the support prices were not adequate to sustain production. The Secretary replied "I think if he holds such strong views as that, he must have expressed the same before the APC also."

1.39 The Committee enquired if according to the Ministry the support price was the remunerative price. The Joint Secretary replied in the negative.

1.40 The Committee pointed out that procurement of varieties of long staple cotton at support price would adversely affect the production of these varieties and the country might be forced to import cotton. The witness stated:—

> "Varalaxmi realises a price higher than the support price and at the beginning of the season it may touch the support price on some occasions. In the season Suvin has been ruling at the support price because the cost of production of Suvin cotton is very high and the buyers are very few. We are really concerned with the Suvin. What has been done is to compensate the farmer adequately for Suvin cotton. We have been thinking of increasing the support price substantially. This I would not be able to say because the file is under submission."

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

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

ensuring remunerative prices to the growers without being hampered unduly by financial constraints.

C. *Relationship between Cotton and Cloth Prices*

1.43 The Committee on Public Undertakings (1974-75) in their 68th Report (Fifth Lok Sabha) on Cotton Corporation of India noted with regret that there was no fixed relationship between the prices received by the cotton growers and the prices fetched by non-controlled yarn and cloth. The Government, however, recognised the logic and justification of the proposition that the margins of the trade and the mills 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. The Committee desired that Government should take concrete measures to evolve a policy by which cotton growers get a share of price realised for the end product.

In reply dated 3-1-76 the Ministry stated as follows:—

> "The Policy of the Government has been to ensure that cotton growers received a remunerative price for their production. The Government have assured the cotton growers that the prices will not be allowed to fall below the support levels and the Cotton Corporation of India has been asked to purchase all the cotton available at support prices. Government also keeps a constant watch over the prices of cloth. The availability of controlled cloth in sufficient quantity at prices which are lower than the cost of production tends to keep a check on the prices of other non-controlled varieties. However, it is not possible to establish a system by which the cotton growers are able to have a direct share in the price of cloth.'

1.44 In the course of supplementaries in Lok Sabha on Starred Question No. 162, when the question of co-relationship between the price of cotton and the price of cloth was raised in the House on 19th March, 1976 and when it was pointed out that the price of cotton had declined without corresponding effect on the cloth prices, the Minister of Commerce stated:—

> "Sir, to this question my response is that the Cloth Mill owners have not reduced the cotton cloth price proportionately to the reduction in cotton price. This point is valid....Now, to remedy the situation, we have appointed a very high level committee consisting of the Textile Commissioner, the Managing Director of the Cotton Corporation, as also some people from Nagpur, a particular research institute who are looking into this problem and who have highlighted these things,.....So, this high-power committee, which includes representative from the public sector undertaking and some research institutes who

are looking, into this problem, has brought to our notice these things. By the end of April, this Committee has been asked to submit the report. This is essential to bring about a sort of rational parity and linkage between the cotton price and the cloth price. That is what we are doing."

1.45 In view of the statement made by the Minister in Lok Sabha the Committee on Public Undertakings (1975-76) were not convinced by the reply earlier given by the Ministry in which they had stated that "it is not possible to establish a system by which the Cotton growers are able to have a direct share in the price of cloth." The Committee saw no reason why the yarn and cloth prices could not bear a reasonable relationship to prices of cotton fetched by the growers and why a system by which cotton growers could get a share of price realised for the end product could not be evolved. They recommended that the high level committee appointed by Government should look into the entire question of co-relationship of prices of cotton and cloth with expedition and the Government should evolve a suitable system to attain this objective without delay and make a report to Parliament.

1.46 During evidence the Committee enquired if it was a fact that during the last few years, the index of cotton prices was continuously coming down but the index of textile products was continuously going up. The Chairman, CCI stated that for the last 3 years the index of cotton prices was coming down. The index price of textiles was going up but not by the same proportion as that of cotton. About the relationship between the cotton prices and cloth prices the witness said: "Cotton forms only 35 per cent of the total process of the cloth. In respect of spinning mills its percentage is 55. There are many other factors which affect the cost of production of cloth besides cotton. So, we are not much aware of the other factors involved. But is is a fact that both do not go in the same proportion"

1.47 The Committee enquired if any suggestion had been made by the Corporation that when the prices of textile goods go up the prices of cotton should also comparatively go up. The Chairman, CCI stated as follows:—

"The relationship or the nexus between the Kapas prices and the cloth prices was gone into by a Committee which was appointed by the Government of India in 1977. I was the Chairman of that Committee and in that capacity we have submitted a report. The members of the Committee included the industrialists, technologists, persons from cooperatives, professors and all others. In that study, we have come to the conclusion that we can establish a relationship provided supplies of cotton are canalised at a given price. The basic point today is that cotton is sold in so many centres at so many different prices.

There are varieties and varieties of cotton and nobody knows at what price a particular variety of cotton is purchased. We must have one source of supply of cotton at a uniform rate. This is a basic recommendation of our Committee. Without that it will not be possible to control the mills' cost of production.

This subject is agitating the minds of many people. It involves a larger policy decision and unless cotton is released to the Industry at certain prices and conversion charges for the cotton are fixed, we cannot arrive at the cost of production of cloth. So, larger policy issues are involved in this. But we accept that it is possible to establish such a nexus provided certain steps are taken."

1.48 The Committee enquired if it was a fact that unless there was monopoly procurement there could not be parity between the prices given to the growers and the prices charged to the mill owners. The witness stated:—

"I do not exactly mean to say that. But if we want to maintain the prices within a range, then the prices of cotton of various varieties should be linked up by a method which we have demonstrated in our report so that it would be possible to arrive at the cost of production."

1.49 During the evidence of the representatives of Department of Textiles, the Committee pointed out that in the case of crops like sugarcane there was some link between the price of raw material and the price of final produce. They asked if any thought had been given to this factor as far as cotton was concerned. The Joint Secretary stated as follows:—

"In case of sugarcane, the final produce is the sugar which is a single commodity. In case of textiles, it is not possible to work out a remunerative price for Kapas based on the price of cloth. If the cotton is woven into pure cotton cloth, it will give one realisation. If it is mixed with rayon, it will give another realisation; if it is mixed with polyster, it will give a third realisation. Mills produce these things in a different proportion. There is no fixed proportion. They change it depending on market conditions. It is very difficult in a highly diversified product like cloth, the product which is changed every day to suit the international market demands, to arrive at a remunerative price, for raw cotton based on the price of cloth."

1.50 The Committee pointed out that the Chairman, CCI had stated that it was possible to establish a link between the prices of cotton and the prices of finished products. The Secretary stated "We think, the Chairman-cum-Managing Director, CCI has mentioned a position which seems to be logical but we do not think it is pragmatic."

1.51 The Committee enquired if it would be possible for different agencies to purchase cotton at a uniform price and supply to mills at a uniform price if coordination was ensured between various agencies, the Secretary stated:—

> "Even now, with all our efforts at coordination, I do not think it will be possible for us to give different varieties of raw cotton to mills at one uniform price. What is being attempted is that the mills get it within a certain narrow-range of prices. If we can achieve that which we have not yet been able to achieve, that will also be a big thing."

1.52 About the report of the Committee constituted by Government to go into the relationship between cotton prices and cloth prices the Ministry in a note submitted to the Committee have stated as follows:—

> "The Government of India constituted a Committee on the 16th February, 1976 under the Chairmanship of Shri N.S. Kulkarni, Managing Director, Cotton Corporation of India to go into the nexus between the price of kapas paid to the growers, the millgate prices of lint and the prices fixed for yarn/cloth and recommend whether any changes of rationalisation can be effected in the interests of maintaining stability of both cotton and yarn|cloth prices in the interests of growers on the one hand and the consumers on the other.
>
> The Committee submitted its report on the 25th November, 1976. The Committee came to the conclusion that it is possible to evolve a nexus between the prices of kapas, the mill-gate delivery prices of cotton and the prices of yarn and cloth, taking various assumptions into consideration. As the various factors are variable, the same could be modified on the basis of actual data where necessary for arriving at a realistic cost figure."

1.53 In regard to the action taken by Government on the Report of the Committee, it has been stated:—

> "The Report of the Committee was examined in the Ministry and it was felt that, in a free economy, where prices of cotton and yarn|cloth are subject to fluctuations on the basis of demand and supply positions, such a price linkage is not feasible. Moreover, as the conclusions arrived at by the Committee are based on a number of untested assumptions and further taking into account the efficiency and technological variations from mill to mill, it may not be possible to provide a definite basis

for nexus between kapas and yarn|cloth prices. Thus, too much hope cannot be placed on the implementation of the Report."

1.54 In a subsequent note furnished to the Committee, it has been stated:—

"The figures of price indices of raw cotton and cotton textiles for the last 5 years and the Price Parity between cotton textiles and raw cotton are as under:—

Cotton Year	Index Number of Wholesale Prices: Raw Cotton	Index Number of Wholesale Prices: Cotton Textiles	Prices Parity between cotton textiles and raw cotton
1977-78	178·3	178·1	99·9
1978-79	164·9	187·4	113·6
1979-80	165·1	205·5	124·5
1980-81	207·4	219·6	105·9
1981-82	215·8	230·2	106·7

It would be observed from the above figures that, during the cotton year 1977-78, the price parity between cotton textiles and raw cotton was 99.9 Then there was a fall in cotton prices, but it showed a steady trend during the cotton year 1978-79 and 1979-80 whereas cotton textile prices had registered a slight increase and the price parity during 1978-79 and 1979-80 had gone upto 113.6 and 124.5 respectively. But during the years 1980-81 and 1981-82 there was a rise in cotton prices as compared to earlier years but there was no such proportionate increase in the prices of cotton textiles with the result that the price parity between cotton textiles and raw cotton came down to 105.9 and 106.7 respectively in these years.

Thus, the present prices of raw cotton are quite reasonable when compared to the prices of cotton textiles."

1.55 A Committee (Kulkarni Committee) appointed by Government in February 1976 to go into the nexus between the prices of kapas paid to the growers and prices fixed for yarn cloth submitted its report in November, 1976. The Report was, however, shelved by Government as according to them it was not possible to establish any linkage between the prices of cotton and cloth in a free economy where prices were subject to fluctua-

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

D. *CCIs vis-a-vis role of State Federations/Cooperatives*

1.56 CCI has pleaded that a clear definition of CCI's role *vis-a-vis* the role of State Federations/Cooperatives is a must. In the absence of the same, it is likely that the operations of various public sector agencies may defeat the very purpose of stabilisation of prices, in case these agencies, in their eagerness to cover larger quantities, start competing with each other to the detriment of price stabilisation. This also assumes importance in the context of the increasing demand by leading cotton growing States for introduction of Cotton Monopoly Scheme in their respective States on the lines of the Monopoly Procurement Scheme operated in Maharashtra through the Maharashtra State Cooperative Marketing Federation. In the event, these demands are conceded, not only the viability of the operations of the Central Agency like the Cotton Corporation of India would be considerably affected, but also its very existence would be in doubt.

During evidence the Chairman, CCI stated:

> "If there is further erosion in the function of the Corporation by other State monopolies then the CCI's role is considerably reduced. So, if at all there is going to be a monopoly, it should be a national monopoly and not a State monopoly."

1.57 Regarding the monopoly procurement by a single agency the Secretary stated:

> "Although it would be ideal to have a single agency for buying all the cotton, it will be extremely impragmatic or impossible at present, with due regard to manpower and financial resources available with Government of India, to entrust the operations to one single agency."

1.58 The witness added:

> "I think the financial resources which will be required by any single monopoly organisation in the country to purchase all

the raw cotton produced in this country will be crores and crores of rupees. It will be just beyond the resources of our Government or all the financial institutions to enable any monopoly procurement agency to purchase for the country as a whole."

1.59 In regard to the desirability of coordination and cooperation between CCI and State Federations/Cooperatives the Secretary stated:

"What we are now trying to do, particularly from this year, is to arrive at a much more frequent and meaningful coordination of all these efforts both at the State levels and at the level of Centre. We have had one meeting at my level in August this year with all the State Government's concerned in the procurement of cotton to see that there is coordination and not competition between the CCI and the respective State cooperative agencies and other agencies operating in different States. At the same time, we have urged on all the State Governments also to set up such coordinating bodies at the State level where the Chairman and Managing Director of the Cotton Corporation of India would always be invited. That was the beginning of more effective coordination efforts between the CCI and all these agencies and we also decided that our next coordination meeting at this level would be held during the peak procurement season, *i.e.*, December-January. As a matter of fact, I am going to take the next meeting at Bombay on the 16th of this month. This is how we are trying to make all these agencies work in one common effort without overlapping, without coming in the way of one another so that they can follow a collective and complementary role in coming to the aid of the cotton growers."

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

The CCI has expressed the apprehension that if there is further erosion in the function of the Company by other State monopolies then the CCI's role will be considerably reduced. In the opinion of the Committee, multiple agencies having almost the same functions are bound to work at cross purposes and generate unhealthy competition. Therefore, the Committee would like Government to keep a constant watch on the

developments in the States and ensure that no more State agencies are set up which may dilute the functions of CCI.

E. *Constraints in Procurement of Cotton*

1.61 Village sales take place due to absence or non-functioning of Regulated markets as also due to non-availability of infrastructural facilities, many times the growers States. For want of transportation facilities, many times the growers are also reluctant to bring their *kapas* in regulated markets for sale and instead prefer to sell it in the villages, even on forward basis. This has been affecting CCI's purchase operations in most of the cotton growing States.

1.62 CCI is also facing difficulty in getting ginning and pressing factories for processing its stocks at some centres and has therefore to restrict the purchases.

1.63 In many States CCI has been facing power cut imposed by the respective State Governments. During evidence, the Chairman, CCI stated:

"In many States, we have the difficulty of lack of infrastructure. Gujarat, which produces almost one-third of India's cotton, there is no regulated market all over Gujarat and Saurashtra, Only merchants are allowed to buy it from villagers. So, that is the basic constraint for any public sector agency to operate."

1.64 The witness added:

"Then another thing is, there are power cuts. In Tamil Nadu there is almost 75 per cent power cut. Hence we cannot gin the *kapas* for months together. We must say that in Punjab they have given a blanket sanction. There are no power cuts for CCI in Punjab. No State Government has helped as much as Punjab has helped us. Haryana also used to do it. But this year Haryana also got an unsurmountable problem. We cannot process the *kapas* till the power situation eases. By the time the power situation eases the market may turn adverse. Power cut is a big problem in Andhra Pradesh, Rajasthan and Tamil Nadu also."

1.65 In regard to ginning, the Chairman, CCI stated:

"The State Government fixes the rate at which we pay them for the ginning. There are co-operative apex agencies. Many times the factory owners hold the Corporation to ransom. Even the orders of the State Government are flouted in some places. When the Chief Secretary directed them the factory owners stated that they would cooperate with the Corporation. But they go to the private people and the profit they get is shared by them. In many factories the ginning is done by the private people."

1.66 About the rates demanded by the factory owners and the action being taken the witness stated:

"They want an extra payment. Over and above the Government rate about Rs. 10 were demanded. These are some of the constraints and we are trying to overcome them by contacting the State Governments. But in times of any emergency we fix the price and negotiate with the factory owners. Sometimes this creates problems for the Corporation."

1.67 During evidence of the Department of Textiles the Committee enquired if the Department had taken up these issues at the highest level with the concerned State Governments. The Secretary stated:

"These are the problems plaguing CCI and responsible for not having allowed it as well as the cooperative agencies to make their operations more efficient. We have taken up all these matters not once, but repeatedly with the State Governments, with varying degrees of success. Every year we get some positive response from them, but the problem in many States will continue, and we are taking advantage of this coordination committee, both at the Central and State levels to pursue this."

1.68. About the village sale and lack of infrastructure in remote areas the Secretary stated:

"We have noticed that whereas in the States there is an understandable keenness on behalf of the CCI and other organisations to enter certain pockets; there are other pockets in the interior areas which are comparatively neglected. We cannot say that there is an evened coverage of all the areas."

1.69. The witness added:

"We have been finding it difficult in very remote areas and in those remote areas neither the CCI nor any cooperative agency could make a dent. This has been a subject of concern to us and we have been pointing out that where we know that there are remote areas, where also there are clusters of cotton growers, an understanding should be reached between CCI and the State agencies to earmark the areas so that no one organisation has to disperse its efforts over a wide area, but can concentrate its efforts in a limited area. This is not very satisfactory. I would immediately admit, until we have regulated the market all over, because in regulated market the authorities have a number of statutory devices by which they can control the malpractices. But until that is done by all the State Governments, this we thought was the best and the most practical thing that we could do in the circumstances."

1.70 The Committee pointed out that CCI purchases cotton from the regulated market or controlled markets not from the villages. At the village level, the middlemen purchase cotton from the growers at a very low price. Then they bring it to the regulated market. In this way the growers are not getting remunerative price. The Secretary stated as follows:—

"You are very right. It is a fact that in many States where regulated markets are not that effective, village sales take place and the growers are deprived of the help, for that matter, of the other cooperative agencies. This is a field in which we have been submitting to the State Government that it is not possible for the Cotton Corporation of India alone to come to the aid to the growers. The State Governments cannot certainly remain silent spectators. The implementation of the regulated markets programme is something which the State Governments can and should do. They must do it. Here there has been varying enthusiasm and varying success in the implementation of the programme in different States. Even in agriculturally developed State like Punjab, for instance, where we find that so far as the food crops are concerned, the regulated markets are effective but as far as cotton is concerned, even in Punjab, all the villagers, growers do not come to the regulated markets with their cotton. We have been constantly addressing all State Governments to strengthen their regulated markets. We have been pointing out to them again and again that the scheme of coming to the aid of cotton growers will never be completely successful and this is a responsibility the State Governments have to bear because they administer the Act."

1.71 The Committee pointed out that one of the aims of the public sector corporation is to eliminate the middlemen. In certain States like Punjab, Haryana and Rajasthan even though regulated markets are functioning, procurement is carried through Adtyas who work as agents of the cotton growers in disposing of their produce.

1.72 In this connection the Director (Purchase and Sales) CCI explained the position as follows:—

"The system of purchases is that in States of Punjab, Haryana and Rajasthan, we have to buy under the APM Act (Agricultural Produce Marketing Act). This Act provides for the institution of Adtyas. They are the people who make payment to the growers whenever they come and it is not necessary that the payment is to be made to them only when the cotton is sold. They in fact get the money even before the cotton is sold. Apart from the system, the cotton is heaped in front of the shop of Adtyas and then the cotton is sold to the buyers under open-auction from time to time and the payment is effected by the Adtyas. As per the provisions in the Act itself, they have a specific role to play.

But in some States like Madhya Pradesh, we have tried making payments directly to the growers where the market committees have themselves agreed to perform the functions of Adtyas and they are making payments directly by way of cheques."

1.73 The Committee enquired how the Corporation ensured that full payment of the kapas sold by the growers was made by the Adtyas. The Director CCI stated "In some places, we get certificates from the growers. But we make payment to the Adtyas who give a certificate that the payement has been made to the growers."

1.74 The Committee pointed out that certificates, in a trade of this type, were not free from doubt. They enquired if there was any other mechanism to ensure payment to the growers. The Director, CCI stated "in some places we do get certificates from the growers that the payment has been made to them. But it is not followed uniformally. Only in Madhya Pradesh, we are taking a receipt from the growers."

1.75 About procurement of cotton through middlemen Joint Secretary Deptt. of Textile stated during evidence:—

"The policy is not to purchase through the middlemen. But the CCI will not be in a position to distinguish between the middlemen and the co-operative. Now, in Maharashtra a card has been issued to the farmer. If you issue a card to all the farmers of India, then it is not unmanageable."

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

1.77 The State Governments should be asked to accord priority in supplying power to the ginning and pressing factories so that the CCI is

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

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

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

CHAPTER II

A. *Accumulation of Stocks and Marketing problem*

In a note submitted to the Committee, CCI has stated that the Corporation is saddled not only with sizeable stock of long staple cotton but is also left with a large quantities of undisposed cotton of other varieties at the end of the season. This has seriously affected its financial viability and hence financial losses to the Corporation.

2.2. Following statement gives the break-up of stock of domestic cotton held by CCI at the end of each year from 1978-79 to 1981-82 giving the component of the stock of previous years (year-wise):—

3606 LS—3.

Year	Below 1 year		below 2 years		Below 3 years		Above 3 years		Total	
	Value in lakh Rs.	Bales	Value in lakh Rs.	Bales	Value in lakh Rs.	Bales	B les	Value in lakh Rs.	Bales	Value in lakh Rs.
1978-79	669957	11382·39	61010	928·53	29298	420·75	..	..	780265	12731·67
1979-80	424562	7939·99	75728	1409·75	6428	154·33	6234	82·91 (77-78 Crop)	512952	9586·98
1980-81	289599	8739·95	12511	297·35	7547	179·82	1197	24·34 (77-78 crop)	312220	9268·93
							1366	28·47 (76-77) crop)		
							2563	52·81		
1981-82	546079	12325·77	79270	1825·80	2025	35·54	2251	48·47 (78-79 crop)	630558	14249·13
							534	7·32 (77-78 crop)		
							401	6·23 (76-77 crop)		
							3186	62·02		

NOTE : Value for below 1 year includes value of the kapas, lint' seed etc.

2.3. It has been stated that though it is difficult to apportion carrying charges on the basis of bales held in stock at the end of the year, approximately the same amounted to Rs. 15.68 crores, Rs. 10.65 crores, Rs. 8.24 crores and Rs. 29.70 crores during the years 1978-79, 1979-80, 1980-81 and 1981-82 respectively.

2.4 Explaining the huge procurement of cotton and accumulation of stocks during the year 1978-79 the Company has stated that according to the textile policy announced on 7 August, 1978 CCI was allowed to make commercial purchases in the market so that the cotton prices did not fall below the prescribed minimum. At the same time, CCI was requested to prevent cotton prices going above a prescribed limit and for this purpose it was to be enabled to operate a buffer stock and make sales in the market. A Technical Committee was appointed by Government of India, soon after the announcement of Textile Policy, for going into the various aspects of undertaking buffer stock operations in cotton. The Technical Committee submitted its report in September, 1980. The decision in this behalf is still awaited. Sizeable quantities of various varieties of cotton were purchased during 1978-79 in anticipation of Government's decision in buffer stock.

2.5. Asked if Government had been contemporaneouly kept informed about the purchase, it has been stated that the Ministry was kept informed by the Company through its weekly reports.

2.6. During evidence the Chairman, CCI stated that Government informed CCI in 1980 that they did not think it necessary to have buffer stock in 1978-79.

2.7 About the decision of the Government on the report of the Technical Committee that Department of Textile in a note submitted to the Committee have stated as follows:—

> "The Report of the Committee was considered in this Ministry. Subsequent to the submission of an Interim Report in November, 1978 and final Report in September, 1980, the supply position on cotton had become very comfortable in the country. After examining the pros and cons of the scheme it was felt that there was no need for creating a buffer stock of cotton. The Corporation was informed on 8.9.1980 that there appears to be no justification this year (1980-81) to constitute buffer stock of cotton of 1979-80 crop to be maintained by Cotton Corporation of India."

2.8 About the purchases by CCI for the purpose of maintaining buffer stock in anticipation of Government decision, the Ministry have stated as under:—

> "The Cotton Corporation of India makes purchases and sales of cotton in fulfilment of objectives assigned to them. Never

did the Government of India authorise Cotton Corporation of India to make purchases for the purpose of maintaining buffer stocks. As stated, the Cotton Corporation of India were making purchases of cotton for the purpose of maintaining buffer stock with the anticipation that the recommendations of Committee to go into the question of buffer stock would be accepted by the Government. It was not appropriate on the part of the Cotton Corporation of India to assume that the report submitted by the Committee would be accepted by the Government. Whatever the purchases were made by the Cotton Corporation of India were on the basis of their Commercial judgement and not in exercise of any authority given to them with regard to maintenance of buffer stock. On the other hand the Government of India categorically made it clear to the Corporation vide the letter dated 8.9.1980 that in view of the bright crop prospects and in the context of adequate carry over stocks of cotton and the prices ruling well above the support price level, there appeared to be no justification to constitute buffer stocks of cotton.

As a matter of routine, the Cotton Corporation had been sending periodical reports about cotton purchases made by them from various cotton growing states from time to time. But these purchases had no direct bearing on the creation of buffer stock."

2.9. The Committee enquired if the decision of CCI to make purchases in 1978-79 for the purpose of buffer stock was taken at the Board level. The Ministry have stated:

"No such decision was taken in the Board meeting for making purchases in 1978-79 for the purpose of maintaining a buffer stock of cotton by CCI."

2.10. The Committee enquired if the Ministry issued any instructions to CCI about the extent to which the Corporation should purchase cotton. They also asked how Government ensure that the purchases were within reasonable limits for the purpose of stabilising prices. The Ministry have stated as follows:—

"No specific instructions were issued by the Ministry to CCI about the extent of purchases that should be made by them during 1978-79 season. However, in pursuance of the Textile Policy statement of August, 1978, the role of CCI was enlarged. It was allowed to make commercial purchases not only for meeting the requirements of NTC Mills but also for the sale to non-NTC Mills. It is needless to menetion that to be effective in influencing cotton prices in desired direction, it is necessary that CCI should handle substantial quantity of cotton. Accordingly, tentative purchase target of 15 lakh bales of cotton was fixed for 1978-79 season in the Board metting. However, for the purpose of stabilising prices, it is for the CCI to exercise its commercial judgement about the time and the extent of making commercial purchases and also, withdrawing from the market whenever and wherever felt expedient."

2.11. During evidence the Committee asked why Government had not taken any decision on the Report of the Technical Committee. The Joint Secretary stated:—

"No doubt this Committee recommended that there should be a buffer stock. But Government have not accepted the recommendation for a buffer stock. In practice we find that at any given time, even during the lean season more than three months' stock is always available with the public sector agencies and with the trade put together. So, if so much stock is available always, the whole concept that there should be a buffer stock becomes somewhat unnecessary."

2.12. The Joint Secretary further stated:—

"The CCI was not communicated any Government decision to go ahead, the wherewithal to do so was not told to them and they have no basis at all to proceed on this. My understanding is that the statement made in the House is information to Parliament and Corporations cannot derive any authority for action on that."

The witness added—

"I do not think it is prudent on the part of any Corporation to act on the recommendation of any Committee no matter how high powered that Committee is."

2.13 The Committee pointed out that there were two Government Directors on the Board. They asked if it was not the responsibility of Government Directors to have pointed out to CCI that they were acting against the Government policy. The Secretary stated:—

"There is no question of CCI acting against Government policy because the policy statement requires CCI to go ahead with purchases and they were acting in pursuance of that policy, CMD appears to have made a further statement that he was making further purchases in anticipation of the buffer stock. That is not correct."

2.14. The witness added:

"I had some talks with the Chairman Managing Director. It was a wishful hope and not a confident anticipation."

2.15 About the loss suffered by CCI on account of carrying charges for the bales held in stock, the Joint Secretary stated:—

"There was no Government directive to carry the stock who asked them not to market it. They could have sold everything. If they say that they have ended up with a stock of 7.60 lakhs bales and so they have incurred a loss, that would not be correct interpretation. They were free to market it. There was no direction not to market it."

2.16 In this connection the Secretary stated:

"We would expect the CCI, knowing these circumstances.; to try to be a little more resourceful than possibly they have been all these years because this is an experience now to them to be able to sell their stock more and reduce their inventory level both by sales within the country and by exports."

2.17 The Committee enquired about the justification of huge purchased by CCI resulting in accumulation of stocks during 1979-80 and onwards when CCI was already burdened with unsold stock purchased during 1978-79. The Chairman, CCI, stated during evidence:—

"The stocks depend on the sales during the year. But sales during the year are again conditioned by the conditioning of the industry, their ability to pay and lift, the market condition, the production in all the States, strikes and so many other things. When we buy we have to buy looking to the cotton growers. Then we do not take into consideration the likely effect of strikes and like that because if we do that, we shall fail in our service to the cotton growers. So we must buy 11 or 12 lakh bales to protect the growers."

218 In this connection the Joint Secretary of the Ministry stated—

"The sale agency of CCI took sometime to stabilise. As they started purchasing from 1978-79 naturally stocks were built up. But stocks have not all these years shown any increasing tendency."

2.19 Asked if there was any directive from Government in regard to the purchases during 1979-80 and onwards. The witness stated: "there is no direction from the Government."

2.20 The Committee rate that at the end of the years 1978-79, 1979-80, 1980-81 and 1981-82 the CCI had stocks of undisposed cotton valued at Rs. 127.22 crores, Rs. 95.87 crores, Rs. 92.69 crores and Rs. 142.49 crores respectively. Stock at the end of 1981-82 included cotton worth Rs. 62 lakhs purchased during 1976-77 to 1978-79. The Company was carrying these stocks at huge carrying cost which amounted to more than Rs. 64 crores during these years. This alarming pic-

ture reveals that the affairs of the Company both in regard to procurement and marketing had not been conducted in a business like manner. According to its own version sizeable stock of cotton was purchased during 1978-79 in anticipation of Government's decision on buffer stock with the result that it was carrying a huge quantity of 7.60 lakh bales at the end of the year. The Ministry has categorically stated that it never authorised the Company to make purchases for the purpose of maintaining buffer stock. It has also been stated that no such decision was taken by the Board. As stated by the Secretary, who had talks with the Chairman-cum-Managing Director of the Company, it was only, "a wishful hope and not a confident anticipation." It is thus amazing that purchase operations on such a large scale were undertaken on the basis of merely a wishful hope.

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

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

B. *Problems of Marketing Varalaxmi and Suvin Cotton*

2.23 The production of long staple cotton in the country went up from 19.55 lakh bales in 1977-78 to 22.80 lakh bales in 1978-79 while the consumption declined from 18.35 lakh bales to 17.63 lakh bales during the same period. The demand being less than the supply, the Company had either to sell the cotton purchased at a loss or carry the stock for considerable period.

2.24 At the end of the year 1979-80, the closing stock included 31,994 bales of Varalaxmi and Suvin cotton of 1978-79 crop valued at Rs. 8.93 crores, and 70,757 bales of 1979-80 crop valued at Rs 18.95 crores out of 95,016 bales and 87,698 bales purchased during 1978-79 and 1979-80 respectively at a total of Rs. 52.57 crores.

2.25 The Committee were informed that the Corporation has at present 80,000 bales of long staple cotton in stock.

2.26 In a note submitted to the Committee, CCI has stated that the Corporation was assigned the special responsibility of protecting the interests of extra long staple cotton growers particularly as they are substitutes for extra long staple cotton grown in Egypt and Sudan, which our country traditionally imported upto 1977-78. The production of extra long staple cotton varieties became very popular with cotton growers in all the States because of the higher yield per acre realised in these extra long staple cotton varieties. The Company had no alternative, but to purchase and carry the stock of these extra long staple varieties till it was able to dispose of the same either in the domestic market at lower prices and in foreign markets after export quotas were announced.

2.27 During evidence, the Chairman, CCI stated:

> "We have recommended the creation of the buffer stock, that long staple should be given preference. Uptil now the growers have not been denied any remunerative prices. We have been bearing that burden and we are paying remunerative prices irrespective of demand for long staple cotton. But now the stage has come beyond which we cannot go on paying remunerative prices without demand."

2.28 The Chairman, CCI pleaded that the Government must help the Corporation in carrying over surplus cotton to relieve the strain on growers. He stated:

> "The textile policy gave us the role of stabilising but we take it as a whole. It consisted of buffer stock operations also. According to us these two are inter-linked stabilisation will get facilitated if buffer stock is also there."

2.29 The Committee enquired how the buffer stock would help CCI. The Chairman, CCI stated "the burden will be taken over by the Government. Four to five lakh bales will be carried on Government account. This carrying costs are killing us as also the interest and storage charges."

2.30 Asked about the reaction of Government to the proposal submitted by CCI, the Joint Secretary stated: "We have no such suggestion in writting after the decision of the Technical Committee." The Secretary, however, stated as follows:—

"I had the last performance review meeting of the CCI on 30th of November, 1982 and in the course of discussion the Chairman/Managing Director referred to it. I told him if he could make out a case in concrete terms, we can examine that. If they can make a case, we will see. So far we have not received any concrete proposal."

Subsidy on Export of Long Staple Cotton

2.31 In regard to export of extra long staple cotton the Chairman, CCI, stated during evidence:—

"The problem is that international prices are lower than the domestic prices. Generally we have to sell it about 10 to 15 per cent lower than the domestic prices."

He further stated:—

"The international position is that Egypt and Sudan are the major exporters of long and extra-long staple cotton. They have permanent customers and buyers are not willing to go in for new experiments, particularly the mills in Hong Kong or Japan are not willing to switch over to the new varieties. Although we have succeeded in making a break-through in Indonesia and to some extent in Hong Kong, we are still to do a lot of effort in this direction. Similarly, there are some buyers in Western Europe also. The scope is much limited mainly because our prices are high. So, we had separately submitted a paper saying that the price should be less and if we have to encourage our growers, we must export it even at a loss and that loss will have to be made good by giving subsidy as in other commodities. This was the proposal that we had submitted.

In the case of export of long staple cotton, we have to encourage our growers. We subsidise many commodities in national interest. Then why would the growers' produce not qualify for subsidy in exports? This should be done on a quarterly basis taking the difference in the international price and the Indian price into consideration. Whenever the realisation is less than the domestic price, we must make good the deficit in national interest. I would submit that as in several commodities, the export of cotton should be made eligible for subsidy whenever necessary, though not permanently."

2.32 About the proposal submitted by CCI for subsidy on exports, the Secretary stated, during evidence, as follows:—

"We have received a proposal recently from the Cotton Corporation of India that the export of cotton should be subsidised. This question is now being examined in the Ministry of Commerce as to whether the subsidised exports of primary commodities will attract any violation of GATT regulations. After examination, we shall decide whether we can make export of raw cotton also eligible for subsidies."

Excise duty on Extra Long Staple Cotton

2.33 The Committee were informed that the existing structure of excise duty discouraged the textile industry to use extra long staple cotton. About the revision and rationalisation of the excise duty structure the Joint Secretary, during evidence, stated:

"The problem is, there is a sharp increase in the excise duty structure for counts after 40. These are the counts which are spun from fine and superfine cotton. Since there is a sharp increase in the excise duty for counts after 40, the mill industry is inhibited from using the long staple cotton. If the duty structure is revised, the mill industry will use more long staple cotton to a greater extent. The demand-supply imbalance of long and extra long would also get corrected."

2.34 The witness added:

"This point has been before us for some time and we have been continuously in dialogue with the Ministry of Finance which ultimately decides the duty structure."

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

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

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

C. *Canalisation of Exports through CCI*

2.38 According to the policy for exports explained by the Ministry in March, 1981 Government permits exports of cotton from time to time on *ad hoc* basis after taking into account the supply and demand position, domestic and international prices etc. Only such quantity of cotton is permitted for export which is considered surplus to domestic requirements and for which there is no demand in the domestic market at reasonable rates....The export of staple cotton is confined to the Cotton Corporation of India and Cooperative marketing federation|societies of cotton growing states mainly on the ground that such agencies procure cotton directly from the growers. Private trade is not allowed to export staple cotton.

2.39 CCI has stated that Government gives export quotas to different agencies such as CCI, Federation and Cooperative Societies which leaves scope for the buyers to manoeuvre the rates and realisation in exports are at lower rates than perhaps available if the export is entrusted to the single agency like CCI.

2.40 During evidence the Committee enquired if CCI were able to export cotton at higher price than what other exporters could do, the Chairman, CCI, stated "the export realisation of the Cotton Corporation have always been better."

2.41. During evidence of the representatives of Department of Textiles, the Committee enquired if exports could not be canalised through CCI as in the case of imports. The Joint Secretary stated:

> "We are not in favour of canalisation, because we feel that marketing cotton abroad cannot be aggressively done if there is only one agency, and a monopoly. Today Federations like the Gujarat and Maharashtra Federations are showing equal

effort, if not more vigorous effort than the CCI, in marketing abroad. These are virtually public sector agencies. In the case of cotton there is hardly any danger of under-invoicing because the market is very common. So, if these are the parameters in which we are operating, it makes more sense when we allow more people to operate and export than to have only one agency."

2.42. The Secretary further clarified the position as follows:—

"So far as purchases are concerned, we are now reasonably satisfied that they have been able to build up a fair amount of infra-structure. So far as marketing is concerned, both inside the country and abroad, we are not yet happy that the Corporation has been able to evolve a satisfactory marketing structure. So far as exports are concerned, we have found over the years that, although we permit the CCI to export specified quantities, they have never been able export even that quantity. At present there are virtually three exporters in the country — CCI, Maharashtra Co-operating Marketing Federation and the Gujarat Marketing Federation. We feel that until such time as the marketing expertise of the CCI is developed, it will not be in the interest of the country to make CCI the canalising agency for exports."

Export of Bengal Deshi Cotton

2.43. In the case of export of Bengal Deshi Cotton, permission is also given to private traders to export besides the Cotton Corporation of India and Cooperative Marketing Federations particularly of Punjab, Haryana and Rajasthan where this variety of cotton is grown. In the export of Bengal Deshi cotton, the Private trade has been associated as the performance of Government agencies and Cooperatives has not been found upto the mark; perhaps, they do not have the desired expertise in this regard. However, to encourage and protect the interests of Cooperatives and the Cotton Corporation of India, who procure cotton directly from growers, Government reserves a specific quota of Bengal Deshi Cotton to be exported by them.

2.44. The Committee enquired if CCI had the expertise in regard to export of Bengal Deshi Cotton. The Chairman, CCI stated:

"We have the expertise. Earlier this Bengal Swadeshi was exported exclusively by the private traders. But in the past three years, we have started this Bengal Swadeshi exporting and every year we are increasing the quantum of export. This year a quota of about 5000 bales has been given to the CCI and this year we hope to export the entire quota."

2.45. The Committee enquired about the justification for associating private traders in the export of Bengal Deshi Cotton when the exports could be handled by CCI.

2.46 The Joint Secretary stated:

"The only justification is the quotas which have been given to the CCI, both in respect of staple cotton and Bengal Deshi, have not been fulfilled. If the CCI are not able to fulfil their quota, if they are not able to export to earn foreign exchange, there is no harm in giving quotas to the private sector. Last year, CCI were not able to fulfil the quota we gave them."

2.47. The Secretary further stated:

"Government is not happy about the marketing capacity of the CCI yet. So far as purchase operations are concerned, they are doing very well. We hope to give the CCI more time to improve upon their marketing structure. Until such time as they do so, it will be definitely against the national interest to entrust all export to CCI, because over the years we have seen that CCI is not able to fulfil the quota allotted to it."

2.48 For export of staple cotton Government give quotas to different agencies such as CCI, State federations and cooperative societies. In case of Bengal Deshi Cotton, however, the private traders are also given permission to export. According to the CCI, the existence of a number of competing export agencies gives scope to the foreign buyers to manoeuvre the rates, though the export realisation of CCI had always been better than the other agencies. .

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

D. Delay in grant of Export Quotas

2.50. About the problems of marketing the CCI has stated that large unsold stock coupled with sluggish demand and very high carrying costs were posing serious problem to the Company. The Company was, therefore, keen on finding outlet for such cotton. Thus the primary object in export of cotton was to dispose of old stocks which are not moving in the domestic market. On the other hand, the overseas buyers generally prefer to buy current crop cotton, unless old cotton was offered at cheaper rates. Thus there was inherent constraint in export of old cotton.

2.51. The Committee enquired if there was any delay on the part of the Government in granting export quota to CCI. In a note submitted to the Committee, CCI has stated:

> "A situation of this nature arose around the end of the year 1979 and the beginning of the year 1980 when the Corporation was receiving sizeable demand from International buyers. As the Corporation was nursing sizeable quantities of old crop cotton (during 1979-80) it was keen on disposing of the same either in exports where it was receiving good response in the domestic market. The Corporation had, therefore, requested Government to remove crop restrictions and release fresh quotas. However, since the Ministry had to review the overall cotton supply position, it could not immediately release export quotas."

2.52. Asked how the Corporation proposed to overcome the difficulty in the disposal of stocks, it was stated:

> "From the year 1981-82 the Ministry has been permitting exports of cotton without crop restriction. As a result of this policy, the Corporation is able to offer current crop cotton although it is also trying to dispose of old stocks which are not moving in the domestic markets in exports. The Corporation is thus in a position to offer new crop cotton in export and realise a better price."

2.53. During evidence of the representatives of Department of Textiles the Committee enquird about the reasons for delay on the part of Government in granting export quota to CCI. The Joint Secretary stated:—

> "There were no delay on the part of the Government in giving the quota."

2.54. The Committee pointed out that CCI had informed the Committee that earlier there were delays in getting export quota. The Secretary stated:

> "The Chairman and Managing Director, CCI is partially correct in the sense that earlier the Government had to make a very considered examination of the requirements within the country as to how much and what varieties should be given for exports. In the earlier years this might have caused some

delay. But from 1981-82 there has been no delay. As a matter of fact, we have been releasing the quotas fairly in advance of the season, but the performance of CCI has not been kept up to the mark."

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

E. *Purchase Tax*

2.56. The Committee were informed that levy of purchase tax on the cotton purchased by CCI for exports was a disincentive to exports. Purchase tax of 4 per cent was being imposed inspite of the central directive that there should be no tax on the commodity.

2.57. Asked about the amount being paid by the Company as tax, it was stated that depending upon the value of exports, it varied from Rs. 1 crores to Rs. 4 crores.

2.58. Regarding levy of purchase tax by State Governments, the Joint Secretary explained, the position as under:—

"Under the constitutional provisions exports cannot be subject to tax as far as sales tax is concerned. But most of the States from where the exports are taking place, *viz.*, Karnataka, Tamil Nadu and Andhra Pradesh which are long staple cotton growing States, in the interest of Government revenue classify the transactions in such a way that they become liable to 4 per cent purchase tax. This, in our view, is against the Constitution. It makes the cotton more expensive and less susceptible to export. We have been regularly writing to State Governments at all levels, but they have not agreed."

2.59. The witness added:

"We have been discussing and telling them that the international market is very competitive. We have been telling that even if we get a margin of profit on exports, it is not likely to be more than 4 or 5 per cent. But if their tax itself is 4 per cent, there is a disincentive to export."

2.60. In this connection the Secretary stated:—

"All the State Ministers were informed in writing that because of imposition of purchase tax, our exports are not becoming cost competitive."

2.61. The witness further stated:

> "We have taken up this matter at the Coordination Committee level. We have to adopt other methods which will have to be persuasive, not coersive. I am not aware of any provision under the Constitution through which we can do it."

2.62. He added "the only action we have not taken so far is to ask CCI to challenge it in a Court of Law."

2.63. Asked about the reaction of State Governments, the Joint Secretary stated "at all levels we have made this point that it is illegal and unconstitutional to impose purchase tax on the cotton to be exported. The stock reply is no reply."

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

F. Supply of Cotton to NTC Mills

2.65. The Minister for Foreign Trade, in his statement made in Lok Sabha on 31 July, 1970 regarding the establishment of the Corporation *inter-alia* stated that "in the process, will also be setting up an agency, with necessary expertise for procuring the cotton for the mills under the purview of the National Textile Corporation."

2.66. As a result of the recommendations of the Committee on Public Undertakings, *vide* their 68th Report (5th Lok Sabha) on the Cotton Corporation of India, the role of the Corporation was reviewed by Government pursuant to the guidelines issued by the Cabinet Committee on Economic Policy and Coordination in their meeting held on 23-10-75 and it was decided that in addition to the canalisation of the cotton imports and price support operations in the event of the cotton prices falling below the support prices, the Corporation should be used by National Textile Corporation for meeting its cotton requirements.

2.67. The Committee on Public Undertakings in their 68th Report recommended that adequate funds should be provided to CCI to make purchases for NTC. In their reply dated 12-12-1975, the Ministry stated:

> "the matter has been considered by the Government and it has been decided that Cotton Corporation of India should be used by National Textile Corporation as an agent for purchase of cotton. It has also been decided that necessary

credit facilities should be made available to the extent to which CCI will be making purchases for NTC."

2.68. Although the annual consumption of NTC is about 10 lakh bales excluding about 2 lakh bales of the varieties grown in Maharashtra where the Monopoly Procurement Scheme is in operation (and which CCI cannot, therefore, cover), the actual quantity indented by NTC from CCI was far less than their actual requirements. Details of the quantity supplied to NTC during the years 1975-76 to 1981-82 are given below:

Year	CCI.s sale to NTC (lakhs bales)
1975-76	1·44
1976-77	3·52
1977-78	4·95
1978-79	3·80
1979-80	5·15
1980-81	7·82
1981-82	4·92

2.69. The Committee enquired why CCI was not in a position to meet the entire requirement of NTC mills. The Chairman, CCI stated during evidence as follows:—

> "There is one difficulty. Maharashtra cotton is used by a large number of mills and particularly medium and long staple Maharashtra Cotton—L—147 is very much liked by mills located not only in Maharashtra but all over India. For example, Coimbatore mills want Maharashtra Laxmi cotton. this is going on for quite a few years. And therefore Maharashtra Federation will always continue to supply 3 to 3-1/2 lakh bales to NTC. But we cannot give the Maharashtra cotton. Another difficulty is that NTC is always short of funds. There is a limit to which we can give credit. In fact, the credit allowed by us was Rs. 25 crores with RBI permission. Today's outstanding credit is about Rs. 45 crores. If I have to give them more cotton, I must give them more credit also which I cannot do. So, they take Rs. 10 crores of cotton from Punjab, Rs. 10 crores worth from some other federation and all possible source of credit are used. They try to run the NTC mills with the cotton purchased on credit from various

institutions. Though as a Corporation we can supply cotton, we cannot extend credit for all the cotton that NTC want. The basic constraint is lack of purchasing power with the NTC."

2.70. The witness, however, stated that if NTC increased their purchases from CCI that would reduce the burden of losses of the Corporation.

2.71. Asked if the Reserve Bank had ever been approached to lift the limit of giving credit to NTC, the witness stated:—

> "Last week, we had a dialogue with the RBI people. We told them, the credit of Rs. 25 crores is insufficient looking to the requirements' of NTC. So, their view is that in that case the funds should be provided by the Government and not by the CCI from its credit limit."

2.72. During evidence of the Department of Textiles the Committee pointed out that Government had decided in October, 1975 that the Corporation should be used by NTC for purchase of cotton for its requirements. They asked if the Government had not issued instructions to NTC in this behalf. The Joint Secretary stated that NTC could also purchase from other federations—Maharashtra, Gujarat, Punjab and Haryana. He added that Government's dictate had been followed by NTC to purchase from CCI or other federations. About the manner of sale to NTC and coordination between CCI and NTC the witness further stated as follows:—

> "There is a cotton Committee in which both the CCI and the NTC are there. This Committee meets once in two months or once in every month. They plan for the next three months. Based on this, the CCI supplies us the cotton at the price arrived at by the Cotton Committee. So, to that extent, there is coordination and planning. There are two things. This does not preclude the CCI from selling their cotton to somebody else. Secondly, this does not also preclude the NTC from buying it from the other agency like the Maharashtra Federation. They are only bound by that."

2.73. The Committee pointed out that CCI had the social obligations to ensure remunerative price to the growers. If the Company could increase their sale to NTC it would be in a better position to discharge their functions. The witness stated:—

> "Government's policy is to ensure that NTC buys it from the public cooperatives. It does not ensure whether CCI is able to market its cotton or not."

2.74. He added—

"CCI is a commercial corporation. So they have to find their own market."

2.75. Asked if it was not obligatory on the part of NTC to purchase from CCI, the Joint Secretary stated "then CCI losses will be transferred to NTC—Public sector will be no better off. Only Government will lose."

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

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

CHAPTER III

IMPORTS

A. Import of Cotton

Starting with 27 per cent of the country's cotton imports during 1970-71, the Corporation's share in cotton imports increased to 100 per cent in 1973-74. Subsequent to that, all cotton imports, as and when directed by Government, are canalised only through the Corporation. The decision to import cotton during a particular period is taken with reference to the domestic availability and demand.

3.2 In the Cotton Advisory Board meeting held on 10th June, 1976 the estimate of cotton production in the country for the year 1975-76 was placed at 66.50 lakh bales and carryover stock as on 31st August 1976 at 13.50 lakh bales. The carryover being just sufficient to meet about 9 weeks requirement of the Industry, there was unanimity that some imports were inevitable to meet the requirement of lean months till the middle of November 1976.

3.3 In the context of anticipated shortage of cotton, Government with a view to stabilising the prices and also making available cotton to the mills in time, decided to import cotton and informed CCI on 29th June, 1976 that Government had approved import of cotton worth Rs. 35 crores for which foreign exchange had already been allocated and that the Corporation should complete all follow up action as expeditiously as possible by contacting various countries for such imports and ensure that the imported cotton arrived in the country in the quickest possible time. Government also informed Trade and Industry in July 1976 that 1,50,000 bales of cotton had been permitted for import from any country and the entire quantity would be contracted and imported by the Company and allocations would be made by the Textile Commissioner to the mills for their bonafide consumption. In reply to Government's earlier query regarding availability of cotton in international markets, the Company had from time to time between April 1976 and June 1976, furnished data of availability and prices of international cotton and had informed Government that the supply position in supplying countries was tight and the prices were generally high as compared to the Indian prices. The quantity to be imported was increased to 2 lakh bales in August 1976 and further import of 12 lakh bales was authorised between October 1976 and March 1977.

3.4 In October 1976, Government asked the Corporation to place orders in its own name for bringing the cotton already contracted but not booked by either NTC or other mills so that shipment may not be delayed. As against the total release of 14 lakh bales, the Company by June 1977 contracted for import of 9.69 lakh bales (equivalent to 11.61 lakh bales of 170 Kg. each) of various types, both through tenders and through direct negotiations with Government agencies of other foreign countries. Of these, 2,86,870 bales contracted between July 1976 and October 1976 were decided to be brought on Company's account without waiting for its allocation to user mills, as Government wanted the physical arrival of the bales in India by October/November 1976 in view of the anticipated shortage of the commodity in the country. A further quantity of 66,539 bales out of 6,82,760 bales contracted on forward delivery basis from April 1977 onwards were also brought on Company's account as this quantity could not be sold to any mill at the time of importing.

3.5 As per instructions issued by Government in August 1976, reserve prices for sale of the imported cotton were to be pre-determined by a Sub-Committee (to be constituted for this purpose) consisting of representatives of the Company and Textile Commissioner's organisation after taking into account prices of comparable Indian varieties of cotton and making allowance for the quality and cleanliness of the imported cotton. The selling prices would be the reserve prices determined by the aforesaid Committee or the landed cost reduced by 20 per cent, whichever was higher.

3.6 By January 1977, the Company had contracted for import of 5,98,130 bales of which 2,73,388 bales had been received in the country. Although this cotton was offered to the mills at rates equal to the prevailing market prices of similar indigenous variety, the response was not adequate and only about 12,019 bales could be sold. On 3rd February, 1977 government asked the Company to sell imported cotton prices somewhat marginally lower than the ruling prices of equivalent Indian variety subject to the overall loss on the sale of imported cotton not exceeding 20 per cent of the landed cost. Accordingly the prices notified in November 1976 were reduced by 7 to 9 per cent from February 1977. Thereafter, there were substantial sales resulting in the stock being reduced to 31,086 bales by June, 1977. Meanwhile, during the period from February 1977 to June 1977 the Company contracted for import of a further quantity of 3.71 lakh bales, thus bringing the total commitment to 9.69 lakh bales.

3.7 The Management reported to the Board of Directors in the meeting held on 15th October, 1977, that the question of further purchase of foreign cotton was discussed with the Ministry on 30th July 1977 and in view of the easy trend in indigenous cotton, it was decided not to contract for further foreign cotton until further orders of Government.

Sale of Cotton bought on Company's Account

3.8 The position of unsold stock from time to time was as follows:—

Date	Opening stock	In bales		Closing Stock	
		Arrival	Sale	Quantity (in bales)	Value (App.) (Rs. in lakhs)
1	2	3	4	5	6
1-10-1976 to 1-1-77 . . .	..	2,73,388	12,019	2,61,369	8.6173.4
1-2-1977 to 30-6-77 . . .	2,61,369	..	2,30,283	31,086	1,024·91
1-7-1977 to 31-1-1978 . .	31,086	41,258	15,412	56,932	1,877·05
1-2-1978 to 1-7-1978 . . .	56,932	464*	579	56,817	1,873·26
1-8-1978 to 1-9-1978 . . .	56,817	19,262*	18,728	57,351	1,890·86
1-10-1978 to 30-6-1979 . .	57,351	5,555*	15,959	46,947	1,547·84

*Relates to the contracts entered into during July, 1976 to June, 1977.

3.9 Reasons for the initial delay in the disposal of the cotton were stated to be due to the mills, accustomed to use indigenous varieties, not showing ready enthusiasm to buy foreign cotton and the general reluctance on the part of the mills to change the mixings unless there were overriding advantages.

3.10 In a note submitted to the Committee CCI has stated that the Company sold 46,947 bales before 31st August, 1981.

Sale of cotton imported on Mill's account

3.11 There had been problems even in the disposal of the cotton imported on mills' account. Normally, the Company arranges import of cotton against mills' subsidiary licences only after the requisite bank guarantee is furnished by the indenting mills. However, in view of the financial stringency faced by the Textile Industry in general and weak and marginal mills in particular and at the request of the ICMF, the Company did not insist on the execution of bank guarantee before advising the suppliers to ship the cotton in the name of the mills. When the cotton imported on mills' account arrived in India, a number of mills backed out of their commitment and did not clear the bales. 85,749 bales contracted by 92 mills had to be cleared by the Company and stored on mills' account, incurring in the meantime, interest on borrowed funds, insurance and storage charges. The reasons for not lifting the cotton were stated to be:

— fall in domestic prices to the extent of Rs. 1000 per candy (approx.)

— undue delay in clearance of cotton in Bombay due to port congestion.

— non-application for sub-import licence.

— fall in consumption of cotton consequent upon increased use of synthetic fibre.

3.12 Subsequently, as a result of the Company's persuation and issue of legal notices to the mills 9110 bales were lifted by the mills. Three more disputed cases covering 325 bales were settled by adjusting the amount that was lying with the Company to the mills' credit and 20,194 bales were resold to other parties, leaving an unlifted stock of 56,120 bales of the value of Rs. 1,850.27 lakhs as on 1st June, 1979. The disputed bales fall in the following four categories:—

	Actual No. of bales	Approx. Value (Rs. in lakhs)
(a) Contracts not confirmed bank guarantee not furnished, sub-licence not obtained	20,253	667·74
(b) Contracts not confirmed but either bank guarantee furnished or sub-licence obtained	9,161	302·04
(c) Contracts confirmed but either bank gurantee not furnished or sub-licence not obtained	7,281	240·05
(d) Contracts confirmed, bank guarantee furnished, sub-licence obtained	19,425	640·44
	56,120	1,850·27

3.13 In a note submitted to the Committee CCI has stated that all the disputed bales have since been resold and legal action taken against the defaulting mills. The Company, has filed 93 suits in Bombay Courts against defaulting mills including two mills in question, for recovery of Rs. 22.53 crores. However, no case has come up for hearing as the majority of the cases have been transferred to Long Cause List.

3.14 An amount of Rs. 29,42,575 had been spent till December, 1982 on suits filed against defaulting Mills. The Committee enquired if the Ministry expected to recover the amount from the Mills. The Department of Textiles have stated, "The matter is *sub-judice* but it is hoped that the cases will be decided in favour of the Government.

Storage of Unsold Cotton

3.15 Due to lack of response from the mills for the cotton imported on Company's account and due to the mills' failure to honour their commitments in respect of cotton imported on their account the Company had to make arrangements for storage of large unsold stock even by hiring private godowns. In the process, the Company had to pay storage charges amounting to Rs. 102.07 lakhs and insurance charges of Rs. 36.53 lakhs upto 31-8-1978.

Delay in clearance of imported cotton

3.16 There was also delay in clearance of imported cotton due to congestion at ports, bargemen's strike at Bombay and mixing up of bales with different lot numbers and marks due to discharge of cargo simultaneously by more than one ship. Consequently, the Company incurred demurrage charges amounting to Rs. 23.63 lakhs (Rs. 13.06 lakhs at the Bombay Port and Rs. 10.57 lakhs at Cochin Port).

3.17 A review of the expenditure incurred on demurrage revealed that an amount of Rs. 3.02 lakhs had to be paid because of avoidable delay on the part of a clearing agent. The last free date allowed for clearance of a consignment arrived at Cochin Port on 31 December, 1976 was 18th January 1977 but the clearance was completed only on 8th February 1977. In respect of another vessel, the clearance commenced six days after the last free date. A civil suit was filed by the Corporation against the clearing agent in June 1979 holding him responsible for the loss.

3.18 In a note submitted to the Committee CCI has stated that "the Corporation had to pay the amount of Rs. 3.02 lakh due to unavoidable circumstances, as otherwise clearance of consignment which arrived at Cochin Port would have been further delayed attracting more demurrages and would have led the goods to be auctioned by Cochin Port Trust Authorities. Notwithstanding a Notice was issued by our Advocate on 13-8-1977 to Chairman, Cochin Port Trust, not to handover the cheque for refund to clearing agents. The same, however, was not taken note of by the Port Trust Authorities."

3.19 It has further been stated that the suit filed by the agent against CCI for recovery of the Rs. 62,448.04 being balance amount lying with CCI, was decreed in favour of the agent and CCI had to pay Rs. 46,516.55 with interest thereon at the rate of 12 per cent from 24-9-1977 till the date of realisation with costs (Rs. 9,285.05).

3.20 Suit filed by CCI against the agent for recovery of Rs. 3,98,500.75 being the loss sustained by way of demurrage on account of the negligence by the defendant was dismissed with no order as to costs.

Loss on the sale of Cotton

3.21 A trading account of cotton imported during the years 1976-77 and 1977-78 compiled by CCI revealed a loss of Rs. 97.30 crores.

3.22 About the reasons given by the mills for not accepting the cotton the Director (Purchase & Sales) CCI stated:

> "The reason given was that the cotton contracted in April arrived late. It was found to be of inferior quality. That was also a reason according to their claim. This contracted quota of cotton arrived late and the Mills had changed the pattern of production and made the position of indigenous variety of cotton easier in the country."

3.23 Asked about the method adopted as far as quality was concerned, the Chairman, CCI stated:

> "A technical panel was constituted for that, which consisted of representatives of mills, who saw the cotton samples. After the contract was signed, only that cotton, which was approved by the mills' representatives, was imported. In that Committee the prices were discussed and they themselves were a party to the fixation of prices, the Committee consisted of representatives of Ahmedabad Association, Bombay Mill Owners Association, CEMA, NTC and the Cooperative Spinning Mills Federation. It was a comprehensive Committee and no decision was taken without consulting these persons."

3.24 The Committee enquired why specific indents from mills were not insisted upon before resorting to such huge purchase, the Chairman, CCI stated "we have a letter from the Ministry saying that we should not wait for indent from importer but we can start importing on mills account."

3.25 About obtaining bank guarantee from the mills, the witness stated:

> "There were some guarantees but in some cases because of the position of the mills which did not permit giving bank guarantee, the import programme could not be stopped."

3.26 The Committee enquired if in the case of specific indents there were any safeguards, the witness stated "where there is an indent, there is a safeguard. But where there is no indent, there is no safeguard."

3.27 The Committee enquired about the action taken to avoid recurrence of such cases in future. The witness stated:

> "We do not want to import any cotton unless a firm contract is being given by the mill. We tried this in Pakistan, and succeeded. We did this in 1981-82 on the basis of our experience,

and succeeded. Earlier we were doing the same thing. But Government said, 'Don't go through all this procedure which will delay the purpose of import. CCI should take some risk."

3.28 About the loss incurred on sale of imported cotton and the reimbursement of loss by Government, the Department of Textiles have stated as follows:

"Due to easy availability of cotton in the country, there was a fall in cotton prices during the 1978-79 season and CCI found it difficult to dispose of imported cotton without incurring loss. Government agreed to reimburse its losses to the extent of 20 per cent of the landed cost of imported cotton. The CCI claimed reimbursement of about Rs. 93.41 crores as on the 31st March, 1981. The loss on the basis of 20 per cent of the landed cost of imported cotton comes to about Rs. 69.07 crores as on the 31st March, 1981. Government have already reimbursed CCI a total amount of Rs. 69.07 crores as on 25-2-1982.

The CCI has again requested for reimbursement of the total loss suffered by them on this account, including the bank interest. The question of reimbursement of the balance amount to CCI is being examined in this Ministry in consultation with Finance Division."

3.29 Asked if any responsibility for the loss has been fixed, it has been stated:

"The decision to import cotton was taken with the approval of Committee of Secretaries and Cabinet Committee. As the loss suffered by the CCI is not due to the lapse on the part of any individual, the question of fixing responsibility does not arise."

3.30 The Committee note that in the year 1976-77 a massive import of coton was undertaken in view of the shortfall in cotton production in the country. By March 1977 Government had authorised an import of 14 lakh bales of cotton out of which CCI contracted for 9.69 lakh bales upto June, 1977. Therefater it was decided not to contract for further foreign cotton in view of the easy trend in indigenous cotton. As the supply position in the supplying countries was tight, cotton was purchased at prices higher than the ruling prices of equivalent varieties of indigenous cotton. The sale was allowed subject to the overall loss not exceeding 20 per cent of the landed cost. Subsequent to the import of cotton the prices of indigenous cotton started falling due to better crop during 1977-78. A number of mills backed out of their commitment and did not clear the bales. The CCI had to carry stocks for considerable period and had to sell cotton at low prices either in the domestic market or through ex-

ports, thereby incurring a total loss of Rs. 97.30 crores on the sale of imported cotton. In this connection, the following points deserve special attention:

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

(ii) 3.53.409 bales of cotton were bought on company's account. It has been stated that the Government directed the Company not to wait for indents from the mills. CCI was asked to proceed with the imports without confirming contracts, without obtaining bank guarantees, without the parties having sub-licences.

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

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

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

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

B. Import of Pakistani Cotton

3.33 In January 1975 CCI entered into a contract with the Pakistani suppliers for purchase of 2 lakh bales of cotton. Although it was initially decided to import the entire quantity on mills account, 121,061 bales were later decided (May 1975) to be imported on Government account as some of the mills to whom quotas were allotted or who were otherwise eligible for quota did not evince any interest in purchasing Pakistani cotton despite the fact that Government had reduced the import duty in this case from 40 per cent to 15 per cent *ad volorem* in order to make the price comparable to that of indigenous quality. As there was no possibility of disposing of the stock held on Government account at ruling market rate, Government issued a directive (October 1975) that the cotton be sold to the mills in the Public Sector at the average price obtaining in the preceding month for Digvijay and 320 F varieties (comparable indigenous cotton) as per East India Cotton Association (EICA) spot rates. In order to minmise the loss, Government also exempted (November 1975) from import duty altogether the cotton imported on Government account. The sale of cotton at a price lower than the purchase price resulted in a loss of Rs. 124.59 lakhs (including loss on exchange of Rs. 114 lakhs) which was reimbursed by Government in March, 1979. Besides the loss of Rs. 124.59 lakhs, the import duty foregone amounted to Rs. 201.77 lakhs (approx.)

3.34 The Committee enquired about the basis on which the quantity of as many as 2 lakh bales was decided to be imported from Pakistan when mills did not evince any interest in purchasing Pakistani cotton. In a note submitted to the Committee the Department of Textiles have stated as follows:—

> "After taking into account the likely production and consumption of cotton during 1974-75, it was projected that there was an urgent need for import of about 8 lakh bales of cotton to fill the gap so that not only the spurt in cotton prices could be avoided, but the cotton could also be made available to exporting mills and for production of controlled cloth. The

matter was considered by the then Joint Committee of the Cabinet for Political Affairs and Economic Policy in September, 1974 when, *inter-alia*, the import requirements of cotton were considered and a view was taken that about 2 lakh bales of medium staple cotton may have to be imported to meet the immediate needs of the industry. After exploring the possibility of import of cotton from various countries, it was decided to import two lakh bales of medium staple cotton from Pakistan."

3.35 At the time of entering into the contract in January 1975, the exchange rate was U.S. Dollar 11.07 per Rs. 100. The rate dropped to U.S. dollar 11.07 per Rs. 100 in September 1975 when payments for the bulk of the imports were made. The exchange loss suffered on the quantity imported on Government acount amounted to Rs. 114 lakhs which arose on account of delay in shipment attributed to delay on the part of Government in intimating the Corporation about the manner of allocation of cotton.

3.36 About the reasons for delay on the part of Government in intimating the Corporation about the manner of allocation of cotton the Department of Textiles have stated:—

"There was absolutely no delay on the part of the Government which led to an exchange loss of Rs. 114 lakhs on cotton imported from Pakistan.

As per the Export Sale Contract entered into between Cotton Export Corporation of Pakistan and the CCI, for import of two lakh bales of medium staple cotton from Pakistan, the shipment period was as under:—

First 1,00,000 bales to be shipped during March, 1975 to May 1975 equal quantities every month and second 1,00,000 bales to be shipped during June, 1975 to August, 1975 in equal instalments.

Thus, as per the contract, the shipment of the second lot of 1,00,000 bales was to be completed by August, 1975 and naturally the payments were to be made only thereafter *i.e.* in September, 1975. The contract was entered into in January, 1975 when the exchange rate was US dollar 12.45 per Rs. 100. The rate dropped to US dollar 11.07 per Rs. 100 in September, 1975 when payments for the bulk of the imports were made. Thus the question of allocation of imported cotton had nothing to do with the exchange loss."

3.37 In respect of 78,938 bales imported on behalf of user mills, the Corporation entered into contracts individually with user mills during the period March 1975 to August 1975. In the agreements, the price payable was fixed at Rs. 2,362 c.i.f. Bombay per candy based on the exchange rate of US dollar 12.45 Rs. 100 prevailing at the time of entering into contract with the Pakistani suppliers in January 1975. There was, however, no stipulation (Exchange Parity clause) in the contract with the mills that any variation in exchange rate would be to the account of the mills. Due to adverse fluctuation in the rate of exchange, the rupee value of purchases made on behalf of mills increased by Rs. 53.75 lakhs. The mills who were asked to pay the difference initially paid, but later disputed any liability on this account on the ground that the agreement did not stipulate any such payment. They however, subsequently agreed for a compromise settlement in which exchange difference was agreed to be shared by the Corporation and the mills in the ratio of 65:35. The Corporations' share of the loss amounted to Rs. 34.94 lakhs.

3.38 The Committee enquired why the exchange parity clause was not included in the contract with mills. The Director (finance) stated:

> "Exchange fluctuation can go up or go down. At that time we thought this clause is not needed thinking that the corporation may gain something also by exchange fluctuation. We did not anticipate the loss. So this was not incorporated in the contract."

3.39 The Committee enquired if it was the individual officer or Committee who decided it. The Chairman, CCI stated:

> "In 1976-77 we started working through committee. Earlier the Managers used to go through contracts they could consult solicitors etc. After this experience we made it obligatory that high level committee of senior officers should decide the contract. This case was unfortunately an omission. This was in 1974; this officer retired in 1975, if I am right. No enquiry was held; as he was an excellent officer."

3.40 The Committee understand that in order to meet the immediate needs of the textile industry a decision was taken in September, 1974 to import about 2 lakh bales of cotton from Pakistan. It has also been stated that 121,061 bales of cotton were imported on Government account as some of the mills to whom quotas were allotted or who were otherwise eligible for quota did not evince any interest in purchasing Pakistani cotton despite the fact that Government had reduced import duty from 40 per cent to 15 per cent ad valorem. The sale of cotton at a lower price resulted in a loss of Rs. 124.59 lakhs and Government had to forego import duty amounting to Rs. 201.77 lakhs. The Committee would like to know whether this loss was anticipated and whether the source of import was

determined after ascertaining the possibility of market acceptability in our country and if sufficient precaution was exercised at the time of taking a decision to import the Pakistani cotton; what went wrong subsequently and what action is proposed to be taken.

The Committee further note that in respect of 78,938 bales imported by CCI on behalf of user mills the agreements with the mills did not contain exchange parity clause and ultimately the company had to accept a major part of the loss on account of fluctuations in exchange rate. The loss borne by CCI was of the order of Rs. 34.94 lakhs. The Committee are surprised that no enquiry was ordered in spite of the fact that serious lacunae in the agreement was brought to light. It has been stated that the officer concerned retired in 1975. The Chairman, CCI has given him a clean chit by saying that he was an 'excellent officer'. The Committee desire that such cases of gross negligence should not have gone unpunished.

C. Import of Tanzanian cotton—Loss on sale

3.41 CCI purchased 31,000 bales of Tanzanian Cotton in May, 1977 from the Tanzanian Cotton Authority (TACTOA). According to the terms of the contract carrying charges were applicable from 1st December, 1977 at the rate of 1.05 per cent per month or part thereof. By October/November 1977 the prices of equivalent varieties of indigenous cotton had fallen steeply and the Corporation, to avoid further depression in prices, decided not to import the cotton and asked the TACTOA to carry the cotton on corporation's account. A request for waiver of carrying charges from 1st December, 1977 was also made and the Tanzanian Authorities agreed not to levy carrying charges till 28th February, 1978. The Company decided in January, 1978 not to bring the Tanzanian cotton in the country to avoid further depression in the prices of indigenous cotton which were already low. The economics of importing the cotton and selling it in India, vis-a-vis selling the same at ruling market price in Tanzania itself were, however, considered in April, 1978 and it was estimated that the loss would be Rs. 1.14 crores for sale in Tanzania as against Rs. 3.74 crores for sale in India after import. The Foreign Cotton Price Committee (consisting of Economic Adviser, Ministry of Commerce, Civil Supplies and Co-operation, Secretary, Ministry of Industry and the Managing Director of the Corporation) therefore, decided to resell the cotton in Tanzania itself.

3.42 During evidence, the Committee enquired why economics of importing the cotton and selling in India *vis-a-vis* selling in Tanszania were not examined in January, 1978 itself, which could have the effect of reducing the loss to the Corporation to some extent in the form of less carrying charges. The Director (Finance) stated as follows:—

> "As a part of the import programme in 1976-77 we were exploring possibility of importing cotton from different parts of the world

which included Tanzania, Egypt, Sudan etc. Later on when we found that the cotton imported is sufficient and the demand is declining we held back the actual shipment of this cotton thinking that we may import it as a later date. But with the bumper crop the prices went on declining in domestic market and, as such, it was decided that there was no point in importing this cotton. A high-powered committee consisting of officials of different Ministries alongwith our Managing Director went into this matter and they found that in case this cotton is imported into this country Government will suffer a loss of Rs. 3.74 crores and in case this cotton is re-sold from there itself to other countries or the contract is cancelled then the loss will get reduced from Rs. 3.74 crores to Rs. 1.44 crores. So, we cancelled the contract and paid the difference. Thus the net loss suffered on this account was only Rs. 1.44 crores."

3.43. In July 1978, the Corporation sold through TACOTA 796 bales in Tanzania incurring a loss of Rs. 2.53 lakhs. For the balance quantity TACOTA stated that their local mills were prepared to buy the cotton at US cents 70 per lb. With a view to obtaining higher prices, a two member delegation sponsored by the Ministry of Industry went to Tanzania in August 1978. The delegation was also required to impress upon TACOTA the waiver of the carrying charges after February 1978, fully or partially. TACOTA agreed to waive the carrying charges upto 31st March 1978 and the sale was finalised at US cents 70 per lb. on the understanding that the difference between purchase price and sale price would be borne by the Corporation. On checking the physical availability of the cotton it was noticed by the Corporation's representative that out of 30,204 unsold bales, 261 bales of Type II were not traceable and 17,624 bales of Type III out of 18,000 bales were not actually available. The Corporation, therefore, took the position that compensation was not payable for quantities not in stock. The dispute was thereupon referred to arbitration in terms of the contract. According to the arbitration award given in December 1980 the Corporation was to pay a compensation of Rs. 1.34 crores. The total compensation payable to TACOTA including the loss of Rs. 2.53 lakhs on the disposal of 796 bales, thus, amounted to Rs. 1.36 crores.

3.44. Audit pointed out that in April, 1979 the Corporation stated that the Tanzanian Cotton was contracted in May 1977 for shipment in October 1977 due to heavy demand for cotton from mills. In reply to a query by audit as to why the Corporation did not simultaneously enter into contracts with Indian mills for sale of this cotton if there was heavy demand from mills, the Corporation stated (July 1979) as follows:—

"Even the Tanzanian cotton though contracted in the month of May 1977, was for actual shipment in October, as the mills had already booked their forward requirements against CCI's releases for shipment till July. The reponse to CCI's releases for forward booking by mills had started thinning out. Therefore it was not considered appropriate time for release of Tanzanian cotton for booking by mills and entering into back-to-back contract. It was considered better to do so just a month before the scheduled period of shipment. However, as time passed, with heavy arrivals of imported cotton, and with an improvement in the use of cheaper synthetic fibres imported, as also a brighter outlook for 1977-78 crop, the prices kept on declining and the CCI did not wish to add to the depression by importing Tanzanian cotton on its own account."

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

CHAPTER IV

PURCHASE & SALES

A. *Puchase of Cotton from Gujarat State Cooperative Cotton Marketing Federation.*

4.1. In February, 1977, the Gujarat State Co-operative Cotton Marketing Federation offered to CCI for sale full pressed bales of various varieties of the crop year 1976-77, which had been lying with them unsold for sometime. The accumulation of the stock with the Federation was stated to be due to its holding back the stock from the market in anticipation of higher prices, which did not materialise due to large imports of cotton by CCI.

4.2. The Branch Manager, Ahmedabad, who was consulted on the proposal of the Federation, stated that the Federation's rates were higher than the ceiling rates fixed by the Head Office and that the requirement of NTC Mills (CCI was purchasing cotton only to meet requirement of NTC) had already been met by the CCI's own purchases of kapas. In view of this position, the Corporation referred (May 1977) the matter to Government for their decision, recommending that the request of the Federation for purchase of their full pressed bales at ruling market price, particularly when the Industry was not ready to buy it, deserved sympathetic consideration. On 3rd June 1977 Government sought from the Corporation clarification as to whether it would be possible to purchase the Federation's cotton as an advance purchase against NTC's next year's requirement and whether any outstanding foreign contracts could be stopped to accommodate the purchase of the Federation's cotton. The Corporation informed Government on 4th June 1977 that if Shankar-4 variety which accounted for the bulk of the cotton offered was purchased at ruling market price for sale to NTC in the following year, substantial funds of the Corporation would be blocked and the Corporation would have to charge 2 per cent carrying charges, in which case cotton would have to be sold at Rs. 7,000 per candy (approx.) whereas it might be available to NTC in the range of Rs. 5,000 to 5,600 per candy. It was also pointed out that NTC might not pay such high prices and, therefore, advance purchase for meeting NTC's future requirements was not advisable. Cancellation of foreign contracts or deferring the delivery schedules already fixed was also not favoured as this would have entailed payment or compensation and carrying charges in foreign exchange. Despite this position and in furtherance of Government's desire to help the Federation to liquidate the stock, the Corporation purchased 13,080 bales of Shankar-4 (besides 637 bales of other varieties) from the Federation in July/August 1977 at rates ranging from Rs. 5,020 to Rs. 5,750 per candy.

4.3. Even during July/August 1977 when the Federation's cotton was being purchased by the Corporation the price of cotton was falling. Out of 13,717 bales purchased, the Corporation sold 13,018 bales upto 30th June, 1981 at a loss of Rs. 200.79 lakhs. In respect of the unsold stock of 699 bales, the loss is estimated at Rs. 19.73 lakhs at the prices prevailing in June 1981.

4.4. The Committee enquired about the price at which cotton was purchased by the Federation from the cultivators. In a note submitted to the Committee, Department of Textiles have stated:—

"M/s. Gujarat State Cooperative Cotton Marketing Federation Ltd., Ahmedabad did not purchase cotton directly from growers. The Federation acted only as their agent and sold the cotton belonging to Cooperative Societies of Gujarat on their behalf to CCI after charging 1/4 per cent commission."

4.5. In regard to purchase of cotton from the Federation, CCI stated:—

"Due to imposition of credit control by the Reserve Bank of India, difficult financial liquidity of the Textile Mills on the one hand and the bearish market conditions on the other, Gujarat State Cotton Co-operative Marketing Federation found itself saddled with huge stock of long staple cotton.... Even at the time of purchase there was not enuogh demand for this cotton. The same was accentuated with the arrival of/improted cotton for which mills were already committed....Shanker-4 being a long staple variety is used only by restricted mills."

4.6. The Ministry have further stated that Government had taken a conscious decision to advice the Corporation to go to the rescue of the Cooperatives of Gujarat and that this was done as a matter of expendiency and also to help the Gujarat farmers.

4.7. The Corporation thus bought the cotton from the Federation as the latter could not find buyers in the open market. Audit has pointed out that the purchase was not in furtherance of any price support scheme as no such scheme was in operation at that time.

4.8. The Committee enquired if the Corporation had approached the Government to reimburse the loss suffered due to purchase of cotton from the Gujarat State Cooperative Cotton Marketing Federation at the instance of Government. The Director (Finance) stated during evidence "we have recently discussed it with them. We have requested them for the reimbursement of the losses. They have said that they will consider it."

4.9. During evidence of the representatives of Department of Textiles the Committee enquired about the reasons for Government directives to purchase cotton from the Gujarat Cooperative. The Secretary stated:

"The Gujarat State Cooperative Marketing Federation was facing a very serious problem. The Ministry got telegram in May 1977 that 60 thousand bales of long-staple cotton were lying unsold. There were no buyers. They appealed to Government to ask CCI to purchase this. This matter was considered in the interest of growers of long-staple cotton in Gujarat. Government came to the decision that CCI should come to the rescue of farmers. CCI purhcased 13,702 bales."

4.10. Asked why Government had not reimbursed the loss, the witness stated, "Government expects CCI to come to the rescue of the farmers. If they think they are making a sacrifice, that is not a correct interpretation of Government policy."

4.11. The witness further stated:

"In the case of purchase of raw cotton within the domestic market, in the interest of the farmers, we think it is the bounden duty of the Cotton Corporation of India, in terms of policy to look into this and for that for every such transaction, to expect that the Government will come to the aid of the CCI to reimburse the loss will be a tra-vesty of the functions and the role of the CCI. We do not share the view of the CCI."

4.12. The Committee pointed out that the social obligation of the CCI came into play only when the prices tended to fall below the basic minimum and if CCI did not buy at the support price, the Government was well within their rights otherwise not.

4.13. The Secretary replied, "that is implicit. Government do not have to issue any directive to CCI that they shall not purchase below the minimum price."

4.14. The Committee asked if it was not within the commercial judgement of the Corporation to say, "sorry we cannot buy it" in case Government directed the CCI to enter the market and purchase cotton at a price higher than the support price." The Secretary stated:—

"We do not agree with that interpretation. In that case, the private trade will start exploiting the cotton growers. The commercial judgement of the Corporation cannot be exercised at the expense of the cotton promotion."

4.15. The Committee pointed out if it would be correct to say that the basic minimum price in the eyes of the Government was 20 per cent or 30 per cent higher than the price fixed by the Agricultural Prices Commission, the witness stated, "For us, the minimum price, support price, is the price at which the CCI should buy".

4.16. The Committee pointed out that CCI was reluctant to purchase. They gave reason for that. The Government compelled them to purchase. It was at the instance of the Government that CCI had to do that. Left to them they might have used their commercial judgement.

4.17. The Secretary stated, "it was always in the CCI to exercise their judgement in the way what Government ultimately made them to do". He added:

> "Compelling CCI to do what it must do in any circumstances in terms of the Government's policy, we do not see why the Government should reimpurse the losses every time. But in the overall transactions if the Government is satisfied that there is reason for meeting the losses for the CCI, Government is doing so in various ways by augmenting their share capital, by trying to intercede with the Reserve Bank of India to reduce their interest charges."

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

4.19. The above case clearly demonstrates that in the absence or clear guidelines about the obligations of non-commercial nature and the social role of CCI there could be occasions when clash of opinion between the Ministry and the Company is inevitable. In order to obviate recurrence of such situations in future, the Committee reiterate that the Company on the strength of its marketing knowledge and experience of last 12 years

decide the price limit which it feels would be both remunerative to the farmers and financially beneficial to it. The Committee also recommend that the Government should find ways and means to compensate the Company for the losses incurred by it in the process of discharging its social functions, under the directive of Government.

B. *Ginning and Pressing of Kapas*

4.20. The Committee on Public Undertakings (1974-75) in their 68th Report (Fifth Lok Sabha) on Cotton Corporation of India Ltd. noted that the percentage of loss in ginning of kapas prescribed in the guidelines issued by the Corporation was 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 in fact ranged from 3 per cent to 5 per cent in certain cases). The Committee were informed by the Management that the 1|4 per cent of ginning loss laid down in guidelines was only a threat to CCI's people to keep it as low as possible. The Committee did not appreciate the advantage of laying down unrealistically low norms in such matters which were not possible to achievement. They were of the opinion that norms prescribed in such cases should be realistic and practical and once prescribed, these should be enforced strictly.

4.21. In their reply dated 14-1-76 the Ministry stated:

"The Corporation agree with the Committee that the practical and realistic norms be laid down and strictly adhered to. The Corporation has been collecting/processing results from each centre since inception and found the percentage of loss very considerably depending upon:

(i) the climate of month of purchase and processing;

(ii) whether cotton crop is irrigated or rainfed; and

(iii) whether processing is saw-ginned or roller-ginned.

As such it is not possible to adhere strictly to these norms. However, on the basis of the experience the Corporation has increased the permissible percentage Loss from 1/4 per cent to 1 per cent."

4.22. The loss suffered by the Company on account of the ginning loss exceeding 1 per cent during the years 1971-72 to 1977-78 was Rs. 279.25 lakhs, excluding centres in Tamil Nadu and certain other centres for which information was not available.

4.23. The range of lint outturn for different varieties of kapas is indicated in the Indian Cotton Annual published by EICA. A review of the yield from kapas processed at various centres revealed that in a number of centres lint outturn was less than the minimum outturn specified in the Indian Cotton Annual. The loss on account of shortfall in lint otturn during 1971-72 to 1977-78 was Rs. 347.03 lakhs.

4.24. The Ministry stated (October 1980) that the Company was conscious of the financial implication involved in lower outturn and had taken various measures such as hiring of exclusive Ginning and Pressing Factories, ascertaining heapwise processing results and regular review of purchases and processing (centrewise and varietywise) to safeguard its interests.

4.25. The Committee enquired if the Corporation investigated the cases where the ginning loss was higher than 3 per cent. The Director (Purchase and Sales) stated during evidence:

> "These shortages in fact cannot be fixed at 3 per cent or 1 per cent. They vary from State to State, season to season, depending upon the soil and moisture conditions. For instance at Tharis in Tamil Nadu the shortages come to 15 per cent. or 16 per cent. It is inherent in the quality produced there. Even in regard to other qualities, for instance in Punjab, if the cotton is processed under rolling process the shortages come to one per cent, in the case of saw gini ginning process it comes to 3 per cent. the same was investigated and action as required was taken by the Branch Manager concerned."

4.26. Asked about the nature of action taken, it was stated "if it was found that it was due to negligence of the field staff, suitable disciplinary action was taken."

4.27. The Committee enquired about the outcome of the measures taken by the Corporation to safeguard its interests in regard to low lint outturn. The Director (Purchase and Sales) stated:

> "As a result of the measures taken by us and the review conducted by various officers during their tour, we found that we have achieved good results both in terms of better outturn and less shortages and also reduction in the overheads. Recently we have also taken a decision that the norms for the outturn will be fixed thrice during the season. A team of officers will go and visit each centre and they fix the norm, one during the initial period of the season, one in between and the third at the fag end of the season, so that we keep a proper track and keep on checking on the results produced by the field staff."

4.28 The Committee note that the Company suffered a loss of Rs. 279.25 lakhs (excluding centres in Tamil Nadu and certain other centres for which information was not available) during the years 1971-72 to 1977-78 on account of the ginning loss exceeding norm of 1 per cent fixed by the Company. The loss on account of shortfall in lint out-turn during the period was stated to be Rs. 347.03 lakhs. The details of the loss suffered during 1978-79 and 1981-82 have, however, not been furnished. The Committee would like to be informed about the losses incurred during these years.

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

C. *Suspension of Sales and Consequential Loss*

4.30. In August, 1973 the Corporation drew up a programme for the purchase of 30.5 lakh bales of cotton from different States during the year 1973-74. These purchases were to be made on commercial basis at ruling market prices. The purchase programme of the Corporation was made known to Trade and Industry.

4.31 By 1st March 1974 the Corporation had purchased 95,097 bales of cotton, procurement cost of which in some cases was higher by about Rs. 400 per candy than the corresponding prices for 1972-73. At this stage the Corporation had an upsold stock of 2,01,296 bales (including 95,097 bales of 1973-74). Although the ruding selling prices at this time were very favourable and the stock could have been disposed of at a profit, the Board of Directors, on the basis of the recommendation of the Sub-Committee decided to suspend sales and hold in stock at least 5 lakh bales to influence the market later in the year when the prices would start moving upward. Accordingly, the sales were suspended from 3rd March, 1974. The purchases were, however, continued and by end of April 1974, the Corporation had procured 15,76,934 quintals of *kapas* (sufficient for pressing 3,15,386 bales) and had a stock of 2,71,722 bales (including 1,98,748 bales of 1973-74). As against its announced programme of purchasing 30.5 lakh bales, the Corporation purchased only about 3.10 lakh bales during 1973-74. On 30th April, 1974 the Corporation with a view to stabilising the prices in the coming months, decided to release in lots the existing stock of 1972-73 and 1973-74 crops every fortnight. Although normal sales were resumed from September 1974 the entire stock of 1972-73 and 1973-74 crops could not be disposed of as by August/September, 1974, the prices of cotton, and especially of long staple cotton grown in Southern States, had started falling steeply.

4.32 During the month of March 1974, the Branch Office at Bangalore have received offers for various varieties of cotton which were higher than the average purchase price of the Branch. These offers were, however, not considered as sales were suspended during this period. Subsequently the stocks were sold to private parties in 1974—76 at a loss of Rs. 203.31 lakhs.

4.33 In reply to the audit query, the Bangalore Branch stated (November, 1976) that had the sales been not suspended the Branch would have made a profit of about Rs. 50 lakhs instead of incurring loss of over Rs. 2.03 crores.

4.34 During the year 1975-76 Bhatinda and Sirsa Branches also sold 1972-73 crop at a loss of Rs. 13.29 lakhs.

4.35 The loss sustained by the Corporation on sale of cotton of 1973-74 crop in other regions as a result of suspension of sales, has not been worked out as the details in this behalf, though called for by Audit, has not been furnished by the Corporation.

4.36 Since the ruling prices at the commencement of the year 1973-74 were very high, the Corporation's entry in the market at this juncture was not perhaps desirable as the presence of a large scale buyer in the open market itself would act as a firming sentiment. It would appear that the initial spurt in prices was partly the result of the Corporation's announcement of its intention to undertake large-scale purchase. Having entered the market and made purchases on commercial basis at the ruling prices, commercial considerations also demanded that the stocks were sold when the market was most favourable instead of suspending sales at that very point of time and incurring loss.

4.37 During evidence the Committee enquired why the loss sustained by the Corporation on sale of cotton of 1973-74 crop in other regions was not worked out. The Director (Purchase & Sales) CCI stated:—

> "This loss was only a notional loss. There was no offer as such. When the sales were suspended, no offers were considered at all. So, the question of working out of loss on bales not being sold or otherwise does not arise."

4.38 Attention of the witness was invited to Audit Report wherein it has been stated that during the month of March, 1974 the Bangalore Branch had received offers for various varieties of cotton which were higher than the average purchase price of the Branch. The witness stated that "the branch office may have talked to some people. But they never communicated those offers to the head office." Asked if it was a policy decision that no offer should be entertained, the witness stated that "that is correct Sir."

4.39 Attention of the witness was again invited to the Audit Report wherein it had been further stated that "had the sales been not suspended the Branch would have made a profit of about 50 lakhs instead of incurring a loss of over 2.03 crores." The witness stated, "that it is again a matter of conjucture." It was pointed out that the Audit Report was sent to the Corporation for comments. At that time the Corporation did not give this reply. The Committee pointed out that the loss was due to a policy decision to suspend sales. They asked why such a decision was taken and why the loss was considered to be a notional loss. The Chairman, CCI stated, "I agree the word 'notional' is wrong. It was a loss resulting from the policy decision taken by the Board."

4.40. When asked whether the decision of the Board was based on any scientific study and facts, Chairman, CCI stated:

> "The prices were rising. They said that the role of the Corporation was not to make profit. They said, you are not a profit making body. You have to serve the consumers and the industry. The Managing Director should be stopped from selling cotton hereinafter."

4.41 The Committee enquired if any communication had been received from any of the Branch Members. The witness replied in the negative. Attention of the witness was invited to a letter dated 31-5-1974 addressed to the witness from the Area Branch Manager stating "As per policy decisions, sales have been suspended and it is my humble submission that it may adversely affect the position especially in case of higher counts."

4.42. The Chairman, CCI stated that this was considered by the Board. He added, "I put it to the Board because I was also inclined to hold the same view. Many times we have to act according to the directions of the Board and our views cannot prevail many times." The witness admitted that "it was a wrong decision on the part of the Board."

4.43 As against its announced programme of purchasing 30.5 lakh bales of cotton, the CCI purchased 3.10 lakh bales during 1973-74. When the ruling prices were very favourable and the stock could have been disposed of at a profit, the Board of Directors, on the basis of the recommendation of a Sub-Committee decided to suspend sales. Offers received by the Branch Offices which were higher than the average purchase prices were not considered and the stock was held till the prices fell steeply. Bangalore Branch reported a loss of over Rs. 2.03 crores instead of anti-

cipated profit of Rs. 50 lakhs had the sales not been suspended. Bhatinda and Sirsa Branches incurred a loss of Rs. 13.29 lakhs. The loss sustained in other regions had not been worked out. The details in this regard though called for by the Audit, were not furnished by the Company.

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

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

D. *Loss on the Sale of Cotton to NTC Mills*

4.46 The following table indicate quantity indented by NTC, purchased by CCI, lifted by NTC, not lifted by NTC and the estimated value of the unlifted quantity during 1975-76, 1976-77 and 1977-78:—

Year	Quantity indented by NTC (bales)	Quantity lifted by CCI (bales)	Quantity lifted by NTC (bales)	Quantity not lifted by NTC (bales)	Estimated value of the quantity not lifted by NTC (Rs. in lakhs)
1975-76 . . .	2,00,000	1,49,303	1,44,000	5,503	157·60
1976-77 . .	6,00,000	5,34,863	3,52,850	1,82,013	3,198.49
1977-78	7,35,000	6,67,189*	4,95,000	1,72,189	2,682.03

*This includes 1.13 lakh bales purchased in excess of the NTC indents for certain varieties to make up the shortfall in other varieties within the same count group.

4.47 It would be seen that the quantity lifted by NTC fell short of the quantity indented in all the years resulting in sizeable accumulation of stock with the Corporation at the end of 1977-78. Faced with this situation, the Corporation sought permission from Government to sell the unlifted quantity to other organisations and sold 23,931 bales in 1976-77 and 9,943 bales in 1977-78 to non-NTC mills thereby incurring a loss of Rs. 40.81 lakhs which was shared between NTC and CCI on 50 : 50 basis. The Corporation stated that while indents placed by NTC were not binding on NTC which had an option to buy from other sources, the Corporation had no choice but to sell to NTC mills only on account of the limited role assigned to it till 1977-78.

4.48 About the loss incurred by CCI as a result of non-lifting of the entire quantity indented by NTC, the Chairman, CCI, stated:

> "Till 1977-78, the NTC was giving us specific indents. After the announcement of new textile policy, we started selling cotton to them on the basis of negotiations conducted every fortnight between the CCI and the NTC. Hence, there was no loss on unlifted cotton after 1977-78."

4.49 Asked if the loss was due to NTC or CCI, the witness stated:

> "They had not lifted the quantity which they had indented. We forced them to lift it. They said that the prices had gone down and they admitted that they had not lifted. The question of loss is squarely on them. They always said in those days "You are a profit-making body—we did make profits in those years—and an elder-brotherly attitude should be taken". So, we yielded to their persuasion and agreed. Otherwise, it would have raised the book debt of the CCI only."

4.50 The Chairman, CCI, further stated:

> "Under the earlier systems, we were not allowed to sell to any one else. That was also a very peculiar directive from the Government. We had to sell to the NTC. But the NTC would not lift it. This was a very peculiar position. Now we can sell it to any one else. We buy and sell commercially to any one and to the NTC on a preferential basis."

4.51 The Committee enquired from the Department of Textiles if any directive had been issued by Government asking CCI not to sell cotton purchased for NTC to any one else. In a note submitted to the Committee the Department of Textiles have stated:

> "No such directive was issued to CCI by the Government asking them not to sell cotton purchased for NTC to any one else. On the other hand, Government permitted CCI on 23.8.1977 to sell unsold stocks of cotton lying with them to Mills other than NTC Mills."

4.52 It has been further stated that "the decision to share the loss and the method of sharing the loss was taken by the CCI and NTC by an amicable settlement between them. The Government was not brought in the picture."

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

E. Outstanding against NTC Mills

4.54 The Corporation has been giving the credit facility to NTC Mills in consultation with Reserve Bank of India and the Ministry of Commerce subject to a maximum of Rs. 30 crores, spread over to different subsidiaries on the basis of the limits sanctioned to each subsidiary by its Holding Company. As a result of NTC not being able to repay the amount outstanding against them fully, the outstandings against them have increased from the aforesaid credit limit of Rs. 30 crores to Rs. 44.90 crores at on 28th August, 1982.

4.55 It has been stated that the Corporation had no alternative but to supply cotton as the mills under the management of NTC would have closed but for supply of cotton by the CCI.

4.56 CCI has stated that the Corporation has taken up the matter with NTC as well as with the Ministry for early payment of outstanding dues.

4.57 In regard to the outstandings the Joint Secretary revealed the following facts:—

> "The outstanding according to CCI in their books is Rs. 15 crores against NTC while in NTC's books this figure is of Rs. 5 crores.
>
> There was difference of opinion to the tune of Rs. 10 crores. We appointed a Committee for reconsiliation of accounts. This will be completed in December 1982. After that this difference will not come.
>
> The reason for this difference is cotton is lifted from NTC. They immediately put a debit. When cotton is received in the Mill, the NTC gives a credit to CCI. Two sets of accounts are maintained."

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

F. *Crop estimation*

4.59 The Cotton Directorate of the Government of India collects data on cotton production through its own personnel and also from the State Governments. The Trade and the Industry also prepare estimate of cotton production. The Cotton Advisory Board of the Government of India which consists of representatives of Government, growers, industry and trade, generally meets twice or thrice in a year, considers these estimates and indicates its own estimates of production, consumption and carryover stocks. The Advisory Board makes recommendations for import and export of cotton based on such estimates. The Company has no machinery of its own to estimate production. It makes use of the estimates prepared by the Government and the Cotton Advisory Board for its procurement programme.

4.60 The estimates of production made from time to time, by Trade, Industry and Directorate of Cotton Development, estimates arrived at in the meetings of the Cotton Advisory Board and actual production for the years 1975-76 to 1978-79 are given below:—

(Figures in lakhs of bales)

	Date of meetings	Trade	Industry	Directeorate of Cotton Development	Cotton Advisory Board
Estimate for 1975-76 .	6-12-75 10-6-76	70·50 64·50	N.A.	70 66·70	69 66·50
Actual Production .		59·50			
Estimates for 1976-77 .	20-12-76	63/66	65	63/64	66/67 say 66·50
Actual Production . .	5-4-77	58/59 58·39	58/60	62·60	59/60
Estimates for 1977-78 . .	15-12-77 18-4-78	66·50 68·50	66 68	66/67 67·50	66 67/68 (67.50);
Actual production . . .		72·43			
Estimates for 1978-79 . .	6-10-78 16-1-79	73/75 76·50	71 72	N.A. 73·5	71/72·50 73 (Revised to 75 on 26-4-79)
Actual production . .		79·27			

4.61 It would be seen from the table that there were wide differences between original estimates and actual production.

4.62 The estimates of cotton production given by the Cotton Advisory Board and the actual production during the years 1979-80 to 1981-82 as furnished by CCI are as follows:—

(In lakh bales)

Year	Estimated production given by Cotton Advisory Board (CAB)	Actual production
1979-80	89·20	76·98
1980-81	79·50	78·00
1981-82	84·00	N.A.

4.63 In a note submitted to the Committee the Department of Textiles have stated that the final estimates of cotton production by the Directorate of Economics and Statistics are released when the season is almost over. Therefore, till the final estimates became available by the Directorate, the Government rely on the estimates of Cotton Advisory Board on which the representatives of Government, traders, industry, and growers etc. are included.

4.64 About the estimates of production given by the trade CCI has stated that the estimates given by the trade are perhaps motivated and are generally on the higher side. By giving higher estimates of production, the traders try to impress upon growers that production being higher the prices this season would come down and that they should part with their produce as quickly as possible; and in the process the traders are able to produce cotton at comparatively lower rates at the cost of growers.

4.65 During evidence, the Chairman, CCI stated:

> "In the whole country there is no reliable estimate of crop. Government have a Committee in the Statistical Section, which is doing something. They will come out with some project shortly. It is under the Ministry of Agriculture and it publishes the data. But that comes very late. So, we want some agency to do it."

4.66 The Committee enquired if the Corporation at any time suggested to the Ministry of Agriculture to have some machinery for crop estimation which might be helpful to it. The Chairman, CCI stated:—

> "A Sub-Committee was constituted, in which we sent our representatives. In that Committee everyone was clamouring for it. But if we take up an expensive project, nobody is willing to share the cost. So while everybody would benefit by the estimate, CCI alone has to spend for it."

The Director (Purchase & Sales), CCI added:

> "The Committee gave the various methods in which forecasting can be done. When this was being discussed in the Cotton Advisory Board, the representative of the Ministry of Agriculture felt otherwise. He said that it should be left to the Ministry of Agriculture to do it, because they are competent to do it."

4.67 Asked if the CCI was satisfied with this explanation, the Director replied in the negative.

4.68 To have a reliable estimate of Cotton Crop, the CCI entrusted in August, 1975 the work of estimation of cotton production for the season 1975-76 to Operations Research Group (ORG) Baroda, who had been estimating the production of oil seeds during several years with only 1 per cent variation from the actuals. The ORG who were paid a fee of Rs. 2 lakhs for the work, submitted its report in respect of six States in November 1975 and the final estimates for all the States in February 1976. As against the estimate of 68-69 lakh bales of cotton by the ORG, the actual production of coton turned out to 59.50 lakh bales, the lower, production being attributed to the prolonged monsoons and late rains in certain States.

4.69 For the next cotton season 1976-77, the Board of Directors decided not to spend a large amount for estimating cotton production because of its limited role of supply of cotton to the NTC but attempt the crop estimates with the help of its cotton selectors. In August 1978, the Board decided to entrust the cotton crop estimation work to the Indian School of Political Economy, Lonawala, and bear the expenses upto one lakh rupees per annum. For the first year, i.e. 1978-79, a consultancy fee of Rs. 25,000 and out of pocket expenses of Rs. 17,160 were paid to the Institute. Although training programmes of crop forecasting were held for the field staff no forecast of crop for the year 1978-79 was possible except for a few districts of Karnataka, Tamil Nadu and Andhra Pradesh since the survey was started late coinciding with the purchase season of the branches. The Ministry stated (February 1980) that the intention behind entrusting the crop estimation work to the Institute was primarily to train the personnel of the Company in crop estimation work and the collection of the survey data was incidental to the training.

4.70 During 1979-80, 1980-81 and 1981-82 the Corporation paid to the institute Rs. 75,000 as fees and Rs. 108, 992 as out of pocket expenses.

4.71 It has been stated that the Corporation was operating about 200 centres manning about 300 field staff. All these persons were trained for crop estimation work under the above scheme.

4.72 About the training in crop estimation work the Chairman CCI stated as follows:—

> "The Corporation undertook this exercise under the guidance of Prof. Dandekar and the training comprised of lectures by him. The computation of the data was done at Pune. But we found that the computation was not accurate as the data which we were receiving from the field staff was not very adequate. That is why we thought to give it up."

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

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

CHAPTER V

WORKING RESULTS

5.1 During 1977-78, 1978-79 and 1979-80 CCI incurred loss of Rs. 5.35 crores, Rs. 6.96 crores and Rs. 13.65 crores respectively. During 1980-81, however, the Corporation made a profit of Rs. 1.04 crores.

5.2 In regard to the huge losses suffered by CCI it has been stated that CCI has been paying interest at the maximum rate of 19.5 per cent as against 13.5 per cent paid by other State Marketing Federations which results in exhorbitant burden of interest on the Corporation as given below:—

Year	Turnover	Profit before interest	Interest paid
	(Figures in Rs. crores)		
1977-78	180·56	17·42	22·77
1978-79 . .	139·51	17·20	24·16
1979-80 . .	297·52	23·71	37·36
1980-81 . .	362·22	41·68	40·64

5.3 During evidence the Committee were informed that in 1981-82 CCI paid an interest of Rs. 43 crores to the banking system on a borrowing of Rs. 275 crores and it could recover only Rs. 15 crores. Thus there was a loss of Rs. 28 crores during this year.

5.4 In order to reduce the losses the Corporation has suggested reduction in rate of interest.

5.5 During evidence the Chairman, CCI informed the Committee that there was no distinction between the interest paid by the traders and the CCI to the Bank. He stated that CCI's losses would be reduced if the interest rate was brought down to the level of rate charged from the Co-operative Federation particularly in view of the social role being performed by CCI.

5.6 The Secretary, Department of Textile, also stated that the principal reason for the CCI having incurred losses during 1977-78 to 1981-82 was the huge interest charge they had to bear. He added:

"We have taken it up with the Reserve Bank of India that the CCI is in a different position from other purchasing agencies which look to the interest only of the grower. The CCI has added object of stabilising the prices and carrying stock of long staple varieties of cotton, and so it should be treated on a different footing."

5.7 The witness further stated:

"Now the Reserve Bank have asked for particular about the quantity which the CCI buys at commercial price and the volume of cotton which they have to buy under social commitment. So, we have given them the figures through the CCI, and they are considering this question.

If we can get some concession in the rate of interest, then the CCI will be in a position to conduct its operations without any loss."

5.8 The Committee enquired how Government proposed to compensate CCI for the losses incurred in discharge of their obligations in the event of RBI not agreeing to reduce the rate of interest. The witness stated:

"We expect that the Reserve Bank will see reason and accept our contention, because they have modified their position somewhat; they have asked for a break-up of the figures, how much the CCI has to buy because of the social obligation and not under commercial transactions. So, we believe they will possibly take some favourable decision. In order to enable the CCI to go in less for loans, we have to augment their share capital. But we cannot go on over-capitalising the CCI."

5.9 About augmentation of the share capital of CCI, the Secretary stated as follows:—

At present their paid up capital is Rs. 8 crores. The CCI has made a proposal, and we are considering it, for augmentation of the share capital by another Rs. 7 crores. May be we will be in a position to give them Rs. 4 crores this year and Rs. 3 crores next year, which will make their position better in the sense they will have to go to the banks for a lesser amount of loan capital. This dialogue is going on, and we expect that some favourable decision will be taken by the Reserve Bank."

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

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

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

NEW DELHI;
April 6, 1983
Chaitra 16, 1905 (*Saka*)

MADHUSUDAN VAIRALE,
Chairman,
Committee on Public Undertakings.

APPENDIX

Summary of Conclusions|Recommendations

S. No.	Reference to Para No.	Summary of Conclusions/Recommendations
(1)	(2)	(3)
1.	1.17	Cotton Corporation of India was set up as an instrument for ensuring healthy growth of the Cotton economy of the country by adequately protecting the interests of growers and making available cotton to the textile industry at reasonable prices and without wide fluctuations through out the year. The National Commission on Agriculture recommended in 1975 that the company should be suitably strengthened so as to be in a position to buy 25 to 30 per cent of the indigenous crop. Again in its Report on the Price Policy of Raw Cotton for 1977-78 season, the Commission stressed the need for great effort at disciplining cotton prices and felt that these objectives would be better served if the company acquired sizeable weight in the indigenous cotton trade.
	1.18	The Committee, however, find that during the period 1970-71 to 1977-78 company's share of the cotton market ranged from 0.2 per cent to 11.2 per cent. Defending the low percentage of procurement the Ministry stated that it was only in the textile policy statement of August, 1978, that the role of CCI in disciplining the prices of cotton within reasonable limits was given concrete delineation. Even after the policy statement of August 1978 the company's share in the cotton market ranged from 12 to 15 per cent of total production in the country and annual target of 15 lakh bales fixed by the Ministry, keeping in view the enlarged role entrusted to the company in the textile policy, was never achieved during the years 1978-79 to 1981-82. The Committee were informed by CCI that so long as the

(1)	(2)	(3)
		company did not procure 20 to 25 per cent of the cotton produced in the country it would not be possible for it to dictate the market. Whereas, the Ministry were of the opinion that the Company should not fix any quantitative target for the procurement of cotton. The Ministry's view is somewhat narrow and is relevant only in the context of the role of the CCI to undertake price support operation in the interest of the growers. As the CCI has also to look after the needs of the textile industry including NTC and save them from exploitation by private traders (middlemen) it is necessary that the CCI should have a decisive say in the market and this is possible only if it steps up its procurement at least to the level recommended by the National Commission on Agriculture. The Committee, therefore, desire that in future targets in this regard should be fixed and the performance of the CCI watched.
2.	1.26 and 1.27	The Committe note that one of the main ingredients of the role assigned to the Cotton Corporation under the Textile policy announced by Government is to purchase cotton on commerical basis so that cotton prices do not fall below a prescribed minimum and also to prevent cotton prices from going above a prescribed limit. The genuine handicap in implementing this policy as indicated by the company is that Government have not clearly spelt out the ceiling limit. According the support prices announced by the Agricultural Price Commission from year to year are the minimum prices and in regard to the upper limit it is for the CCI to exercise its judgement.
		The Committee feel that the floor and ceiling limits have to be defined keeping in view the twin objective of the Company which are payment of remunerative prices to farmers and stabilisation of prices of cotton for the benefit of the consumers. The question of remunerative prices have been discussed in detail in the following section of this Report. It

(1)	(2)	(3)
		would be seen that both the Company and the Ministry have admitted that the support prices are not remunerative to the farmers as they do not cover even the cost of production. It would, therefore, be essential for the Ministry to prescribe the lower limit so as to ensure that the corron growers get adequate return for their produce. For the upper limit the Committee are of the opinion that on the basis of the experience gained so far the Ministry in consultation with the CCI and the Textile Commissioner undertake an exercise to lay down broad guidelines which would also be the basis for determining the quantum of purhcases by the Company as recommended by the Committee earlier. The Committee further wish to stress that CCI should exercise prudent commercial judgement in its trading activities while following the broad guidelines.
3.	1.41	The Committee note that CCI had been extending support to the growers of extra long staple cotton like Varalaxmi and Suvin consistent with the national objective of encouraging these varieties of cotton. The Committee regret that in view of adverse financial position the Company had to limit it purchases particularly of Suvin only at the minimum support price which according to its own and the Ministry's admission is not at all the remunerative prices. This has resulted in fall in production of these varieties. Production of Suvin was not expected to go beyond 15,000 bales during 1981-82 as against 50,000 bales during 1980-81. The Ministry has stated that increasing the support price substantially was under consideration. It is not clear to the Committee why such a step had not been taken so far in spite of the fact that the Company had taken up the matter with the Ministry two years back. Equally disurbing is the fact that the Ministry did not extend any financial support to the CCI when specifically it was brought to its notice that it would not be possible for the company to carry on with its operations without reimbursement of the losses likely to be suffered on this account.

(1)	(2)	(3)
4.	1.42	The Committee strongly recommend that the question of fixing support prices for all varieties of cotton on the basis of actual cost of production and at the same time assuring reasonable return to the growers should be urgently taken up with the Agricultural Prices Commission. The Committee would expect the Commission to go into this aspect afresh and ensure that the support prices announced by them are really the remunerative prices. They also suggest that the issue of increasing the support prices specially for the Suvin variety should be decided without any further delay. The Committee also recommend that some system could be devised for the Ministry and the State Governments concerned to extend necessary financial support to the CCI so that its operations could be directed effectively towards the fulfilment of the objective of ensuring remunerative prices to the growers without being hampered unduly by financial constraints.
5.	1.55	A Committee (Kulkarni Committee) appointed by Government in February 1976 to go into the nexus between the prices of kapas paid to the growers and prices fixed for yarn/cloth submitted its report in November, 1976. The Report was, however, shelved by Government as according to them it was not possible to establish any linkage between the prices of cotton and cloth in a free economy where prices were subject to fluctuations on the basis of demand and supply position. It was further stated that the conclusions arrived at by the Committee were based on untested assumptions. The Committee on Public Undertkings are unable to appreciate why the Ministry did not take appropriate action to verify the assumptions on the basis of facts. There is a general feeling that the cotton growers are not getting remunerative price for their produce, whereas a large number of textiles mill owners were making substantial profits. The Committee, therefore, suggest that the Ministry should examine the whole question afresh so as to find out the exact relationship between the

(1)	(2)	(3)
		Prices of cotton and cloth. Wherever textile prices go up substantially the cotton growers also ought to get a share and the prices of cotton paid to them should be raised accordingly. This would need *inter alia* adjusting the floor and ceiling prices indicated to the CCI from time to time.
6.	1.60	The Committee share the concern of the CCI that lack of coordination between it and the State Agencies can defeat the objective of price stabilisation. They hope that the setting up of coordination committees in the States where they have not been set up so far will be expedited, and the Ministry will be able to ensure that the coordination is purposeful and meaningful.
		The CCI has expressed the apprehension that if there is further erosion in the function of the Company by other State monopolies then the CCI's role will be considerably reduced. In the opinion of the Committee, multiple agencies having almost the same functions are bound to work at cross purposes and generate unhealthy competition. Therefore, the Committee would like Government to keep a constant watch on the developments in the States and ensure that no more State agencies are set up which may dilute the functions of CCI.
7.	1.76	The Committee note that village sales take place due to absence or non-functioning of regulated markets as also due to non-availability of infrastructural facilities in various cotton growing States. For want of transportation facilities the growers are unable to bring their kapas to the regulated markets and are compelled to sell it in villages, even on forward basis. The implementation of regulated market programme and provision of necessary infra-structural facilities are the concern of the State Governments. The Committee need hardly stress that the Ministry should monitor and coordinate the efforts in the regard to ensure that the growers are not deprived of the support being extended by the central agency.

(1)	(2)	(3)
8.	1.77	The State Governments should be asked to accord priority in supplying power to the ginning and pressing factories so that the CCI is not compelled to restrict its operation due to power cuts. The question of ginning and pressing factory owners charging rates higher than the rated fixed by the State Governments is another serious matter. The concerned State Governments should b asked to take appropriate action in the matter. The Committee hope that the State Governments will adequately respond to the suggestions made by the Committee. The Ministry should take up these issues with the State Governments at the highest level. The Committee would like to be informed about the results achieved.
9.	1.78	The Committee are concerned to note that there are certain areas in the cotton growing states where neither the CCI nor the State Cooperative Marketing Federations operate. The Committee recommend that the matter should be urgently taken up by the Coordination Committees so as to arrive at an understanding between CCI and State agencies to earmark the areas where they have to concentrate their efforts. It should be ensured that the cotton growers even in remote/interior areas, are not denied the benefit of getting adequate return for their labour.
10.	1.79	The Committee are also concerned to note that in certain States like Punjab, Haryana and Rajasthan even though regulated markets are functioning, procurement is carried through Adtyas who work as agents of the cotton growers in disposing of their produce. It has been stated that the Agricultural Produce Marketing Act in these States provide for the institution of Adtyas. The Company has no means to ascertain whether the payment has been actually made by the Adtyas to the growers. In Madhya Pradesh, however, the marketing Committees perform the functions of Adtyas and make payments to growers directly by means of cheques. The Committee would like to stress that the CCI should aim at eliminating

(1)	(2)	(3)
		the institution of middlemen. The question of issuing cards to the farmers should be seriously considered and taken up with the State Governments. It should be ensured that the growers get the right price.
11.	2.20.	The Committee note that at the end of the years 1978-79, 1979-80, 1980-81 and 1981-82 the CCI had stocks of undisposed cotton valued at Rs. 127.22 crores, Rs. 95.87 crores, Rs. 92.69 crores and Rs. 142.49 crores respectively. Stock at the end of 1981-82 included cotton worth Rs. 62 lakhs purchased during 1976-77 to 1978-79. The Company was carrying these stocks at huge carrying cost which amounted to more than Rs. 64 crores during these years. This alarming picture reveals that the affairs of the Company both in regard to procurement and marketing had not been conducted in a business like manner. According to its own version sizeable stock of cotton was purchased during 1978-79 in anticipation of Government's decision on buffer stock with the result that it was carrying a huge quantity of 7.60 lakh bales at the end of the year. The Ministry has categorically stated that it never authorised the Company to make purchases for the purpose of maintaining buffer stock. It has also been stated that no such decision was taken by the Board. As stated by the Secretary, who had talks with the Chairman-cum-Managing Director of the Company, it was only "a wishful hope and not a confident anticipation." It is thus amazing that purchase operations on such a large scale were undertaken on the basis of merely a wishful hope.
12.	2.21	In spite of the fact that CCI was burdened with unsold stock at the end of the year 1978-79 it continued to pile up stocks during the subsequent years on the plea that the Company had to protect the interests of the growers. There canot be two opinions that the growers must get remunerative price for their produce but the Company has to satisfy that its purchase operations during all these years were carried on only as a price support measure. The Commit-

(1)	(2)	(3)
		teee recommend that Government should thoroughly investigate the causes leading to huge accumulation of stocks resulting in financial loss to the Company.
13.	2.22	About the disposal of stocks the Secretary stated "we would expect the CCI, knowing their circumstances, to try to be a little more resourceful than possibly they have been all those years because this is an experience now to them to be able to sell their stock and reduce their inventory level both by sales within the country and by exports." That after more than 10 years of experience the company has not been able to evolve a satisfactory marketing ability indicates that there is something inherently wrong with its organisation. The Committee, therefore, recommend that Government should examine this aspect in depth and take appropriate action to reorganise and strengthen the marketing structure of the Company. Performance of the Company both in regard to procurement and marketing should be carefully watched by Government periodically so as to give proper guideance and avoid serious lapses of the type described above.
14.	2.35	In order to discharge its social responsibility CCI had no option but to procure varalaxmi and suvin varieties of extra long staple cotton although there was lack of demand for the same. Carrying of large quantities of these varieties of cotton for relieving the distress of cotton growers put a heavy financial burden on the Company which affected its financial results. The Committee were informed in November, 1982 that the Company had 80,000 bales of these varieties of cotton in stock. CCI has suggested that buffer stock of 4 to 5 lakh bales of cotton should be created on Government account particularly to help the ompany to pay remunerative prices to the growers. The Committee recommend thai the Company should immediately work out details and submit its proposal to the Ministry in concrete terms. They would expect the Government to examine the same urgently, Government should ensure that at no

(1)	(2)	(3)
		stage the CCI is forced to withdraw their support to the farmers due to lack of financial resources.
15.	2.36	Since the international prices of long staple cotton are lower than the domestic prices, the CCI has suggested that Government should subsidise exports in order to enable the Company to dispose of the stocks withut incurring further losses. The Committee are informed that the suggestion is being examined by Government. They recommend that an early decision should be taken on the proposal submitted by CCI.
16.	2.37	The existing excise duty structure inhibits the textile industry from using long staple cotton. The matter has been taken up with the Ministry of Finance who has to take a decision in the matter. The Committee hope that the matter would be examined by the Ministry of Finance urgently and steps will be taken soon to rationalise the duty structure so as to encourage the use of extra long staple cotton by the textile industry in the country.
17.	2.48 and 2.49	For export of staple cotton Government give quotas to different agencies such as CCI, State federations and cooperative societies. In case of Bengal Deshi cotton, however, the private traders are also given permission to export. According to the CCI, the existence of a number of competing export agencies gives scope to the foreign buyers to manoeuvre the rates, though the export realisation of CCI had always been better than the other agencies. The Committee feel that the multiplicity of export agencies all of which are keen to unload their unsold stocks in the international market result in low unit value realisation on exports in the absence of bargaining strength. The ommittee therefore recommend that Government should examine feasibility of canalising export of cotton including Bengal Deshi through a single agency i.e. CCI. In case Government

(1)	(2)	(3)
		feel that it is not possible for the time being due to the limited marketing capacity of CCI, then the exports should be entrusted only to CCI and other State Government agencies/cooperatives.
18.	2.55	The Committee regret to note that when the CCI was burdened with huge stocks of undisposed cotton during the years 1979-80 and 1980-81 and it was receving sizeable demands from the international buyers, sanction of export quotas was delayed by Government. The Committee hope that there would be no such delays in future as earlier delays had proved very costly.
19.	2.64	The Committee note that most of the State Governments imposed 4 per cent purchase tax on the cotton purchased by CCI for exports which made them uncompetitive. According to the Ministry purchase tax on the cotton to be exported is both illegal and unconstitutional. The Committee would like the matter to be taken up at the highest level with State Governments so as to stop this levy which is also detrimental to the interests of cotton growers and the country as a whole.
20.	2.76	The Committee note that one of the main functions of CCI is to supply cotton to NTC mills. Although the annual consumption of cotton by NTC mills is about 12 lakh bales the actual sale of cotton by CCI to NTC varied between 1.44 lakh bales to 7.82 lakh bales during 1975-76 to 1981-82. About 2 lakh bales are purchased by them from Maharashtra where Monopoly Procurement Scheme is in operation. The rest of the purchases are made by NTC from other State Cooperative federations and private traders. The Chairman, CCI stated in evidence that if NTC increased their purchases from CCI that would reduce the losses of the Company. However, there is no central directive to NTC in this regard. Sales take place strictly on commercial basis. According to the Ministry it is not its function to en-

(1)	(2)	(3)
		sure whether CCI is able to market the cotton or not. The Committee, however, do not appreciate the stand taken by the Ministry in view of the huge stocks of cotton held by CCI and its inability to dispose of the same in the domestic and international market on a commercial basis.
21.	2.77	One of the main difficulties faced by CCI in increasing its sales to NTC mills is the credit limitation imposed by the Reserve Bank of India. Against the credit of Rs. 25 crores allowed to CCI an amount of Rs. 45 crores is outstanding against NTC mills. The NTC and the CCI should evolve an agreed arrangement under which NTC makes maximum of its purchases from CCI and the latter provides all necessary facilities for timely supply of cotton. As the Ministry of Commerce has administrative control over both these companies, the Committee would expect the Ministry to ensure this as early as possible.
22.	3.30 & 5.31	The Committee not that in the year 1976-77 a massive import of cotton was undertaken in view of the shortfall in cotton production in the country. By March 1977 Government had authorised an import of 14 lakh bales of cotton out of which CCI contracted for 9.69 lakh bales upto June, 1977. Thereafter it was decided not to contract for further foreign cotton in view of the easy trend in indigenout cotton. As the supply position in the supplying countries was tight, cotton was purchased at prices higher than the ruling prices of equivalent varieties of indigenous cotton. The sale was allowed subject to the overall loss not exceeding 20 per cent of the landed cost. Subsequent to the import of cotton the prices of indigenous cotton started falling due to better crop during 1977-78. A number of mills backed out of their commitment and did not clear the bales. The CCI had to carry stocks for considerable period and had to sell cotton at low prices either in the domestic market or through exports, thereby incurring a total loss of Rs. 97.30 crores on the sale

(1)	(2)	(3)
		of imported cotton. In this connection, the following points deserve special attention:
		(i) The import of as many as 14 lakh bales was decided on the basis of shortfall in the production of cotton during 1975-76 and expected low production during 1976-77. During the period from February, 1977 to June 1977 the Company contracted for import of 3.71 lakh bales. Upto January 1977 only 2,73,383 bales had been received in the country. Although the prospects of production during 1977-78 had considerably improved, it appears that no action was taken by the Ministry|Company to review the position in early 1977 to ascertain the future requirement and to take appropriate action to stop further contracts and to avoid the import of cotton already contracted. It would have been perhaps beneficial to sell the cotton already purchased in the same country rather than importing it and then selling it in the country at considerably loss or exporting it to other foreign countries at throw away prices.
		(ii) 3,53,409 bales of cotton were bought on company's account. It has been stated that the Government directed the Company not to wait for indents from the mills. CCI was asked to proceed with the imports without confirming contracts, without obtaining bank guarantees, without the parties having sub-licences.
		(iii) One of the reasons advanced by the mills for not lifting the cotton was late arrival of cotton in the country when the mills had already changed the pattern of production. It was also claimed that the cotton was found to be of inferior quality, although a technical panel was constituted consisting of representative of the mills who saw the cotton samples.
		(iv) There was delay in clearance of imported cotton due to congestion at ports, bargemen's strike and mixing up of bales with different lot numbers etc. The Company had to incur demurrage charges

(1)	(2)	(3)
		amounting to Rs. 34.20 lakhs. An amount of Rs. 3.02 lakh had to be paid because of avoidable delay on the part of a clearing agent. Although notice was stated to have been issued to the Chairman, Cochin Port Trust, not to handover the cheque for refund to the clearing agent the same was not taken note of by Port Trust authorities.
		The Committee regret that a huge quantity of cotton was imported not only in haste but without proper consideration and foresight which resulted in a total loss of Rs. 97.30 crores to the Company. The entire matter should have been investigated thoroughly and responsibility for various lapses should have been fixed. Both the Ministry and the Company appear to have remained unconcerned. The Committee are unable to agree with the Ministry that there is no scope for fixing responsibility. They strongly feel that though the decision to import cotton may have been justified, the manner in which the decision has been implemented without necessary correctives warranted by subsequent developments cannot be condoned. They would therefore recommend that there should be an enquiry to ascertain the extent of lack of care and prudence in the implementation and the responsibility therefor and to derive lessons for the future to avoid such costly lapses.
23	3.32	Out of the total loss of Rs. 97.30 crores Government have already reimbursed to the Company an amount of Rs. 69.07 crores. The Committee desire that an early decision should be taken on the reimbursement of the remaining amount.
24	3.40	The Committee understand that in order to meet the immediate needs of the textile industry a decision was taken in September, 1974 to import about 2 lakh bales of cotton from Pakistan. It has also been stated that 121,061 bales of cotton were imported on Government account as some of the

(1)	(2)	(3)
		mills to whom quotas were allotted or who were otherwise eligible for quota did not evince any interest in purchasing Pakistani cotton despite the fact that Government had reduced import duty from 40 per cent to 15 per cent ad valorem. The sale of cotton at a lower price resulted in a loss of Rs. 124.50 lakhs and Government had to forego import duty amounting to Rs. 201.77 lakhs. The Committee would like to know whether this loss was anticipated and whether the source of import was determined after ascertaining the possiblity of market acceptability in our country and if sufficient precaution was exercised at the time of taking a decision to import the Pakistani cotton; what went wrong subsequently and what action is proposed to be taken.
		The Committee further note that in respect of 78,938 bales imported by CCI on behalf of user mills the agreements with the mills did not contain exchange parity clause and ultimately the company had to accept a major part of the loss on account of fluctuations in exchange rate. The loss borne by CCI was of the order of Rs. 34.94 lakhs. The Committee are surprised that no enquiry was ordered in spite of the fact that serious lacunae in the agreement was brought to light. It has been stated that the officer concerned retired in 1975. The Chairman, CCI has given him a clean chit by saying that he was an 'excellent officer'. The Committee desire that such cases of gross negligence should not have gone unpunished.
25	3.45	The Committee note that in May, 1977 CCI purchased 31,000 bales of Tanzanian cotton. According to the terms of the contract carrying charges in the exporting country were applicable from 1st December, 1977 at the rate of 1.05 per cent per month. By October/November 1977 the prices of equivalent varieties of indigenous cotton had fallen steeply. In January 1978 the Corporation decided not to bring the Tanzanian cotton into the country to avoid further depression in prices of indigenous

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		cotton but to sell the same in Tanzania itself. A request for a waiver of carrying charges was made and the Tanzanian authorities agreed not to levy carrying charges till 31st March, 1978. The economics of importing the cotton and selling the same in Tenzania were, however, worked out only in April, 1978. The Company has not given any reason for the delay in taking the final decision. The Committee cannot but deprecate the laxity and negligence on the part of the Company. The loss of 17,885 bales of cotton in Tanzania has also not been explained. The Committee would like to be informed about the total loss suffered by the Corporation on this transaction. The Committee would like that action be taken against the persons found responsible for the lapses, if not already taken, under advice to them.
26	4.18 & 4.19	The Committee note that in 1977 the CCI purchased 13,717 bales of cotton from the Gujarat State Cooperative Marketing Federation at the instance of Government when the prices of cotton were falling thereby incurring a loss of over Rs. 220 lakhs on the sale of cotton. Anticipating loss the Company was reluctant to buy this cotton as even at the time of purchase there was not enough demand for this cotton. The problem was accentuated with the arrival of imported cotton. The Government, however, advised the Company to go to the rescue of the Cooperatives of Gujarat. The Company has requested the Ministry to reimburse the loss incurred by it as a result of Government directives. The Ministry, however, feels that as per role assigned to the CCI it was its bounden duty to help the cotton growers. It is, therefore, of the opinion that the Company should not expect that each and every time Government would reimburse the loss incurred by it in the discharge of its basic function. The above case clearly demonstrates that in the absence of clear guidelines about the obligations of

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		non-commercial nature and the social role of CCI there could be occasions when clash of opinion between the Ministry and the Company is inevitable. In order to obviate recurrence of such situations in future, the Committee reiterate that the Company on the strength of its marketing knowledge and experience of last 12 years decide the price limit which it feels would be both remunerative to the farmers and financially beneficial to it. The Committee also recommend that the Government should find ways and means to compensate the Company for the losses incurred by it in the process of discharging its social functions, under the directive of Government.
27	4.28	The Committee note that the Company suffered a loss of Rs. 297.25 lakhs (excluding centres in Tamil Nadu and certain other centres for which information was not available) during the years 1971-72 to 1977-78 on account of the ginning loss exceeding norm of 1 per cent fixed by the Company. The loss on account of shortfall in lint out-turn during the period was stated to be Rs. 347.03 lakhs. The details of the loss suffered during 1978-79 and 1981-82 have, however, not been furnished The Committee would like to be informed about the losses incurred during these years.
28	4.29	No uniform norms about the ginning loss have been fixed as the losses vary from State to State, season to season, depending upon the soil and moisture condition. The Committee would like the Company to go into the reasons for ginning losses and take suitable remedial measures. Human factors responsible for losses should be looked into more seriously and necessary action taken.
29	4.43	As against its announced programme of purchasing 30.5 lakh bales of cotton, the CCI purchased 3.10 lakh bales during 1973-74. When the

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		ruling prices were very favourable and the stock could have been disposed of at a profit, the Board of Directors, on the basis of the recommendation of a Sub-Committee decided to suspend sales. Offers received by the Branch Offices which were higher than the average purchase prices were not considered and the stock was held till the prices fell steeply. Bangalore Branch reported a loss of over Rs. 2.03 crores instead of anticipated profit of Rs. 50 lakhs and the sales not been suspended. Bhatinda and Sirsa Branches incurred a loss of Rs. 13.29 lakhs. The loss sustained in other regions had not been worked out. The details in this regard, though called for by the Audit, were not furnished by the Company.
30	4.44 & 4.45	Since the ruling prices at the commencement of year 1973-74 were very high, the Company's entry in the market at this juncture was not perhaps desirable as the presence of a large scale buyer in the open market itself could act as a firming sentiment. The initial spurt in prices was partly the result of the Company's announcement of its intention to undertake large scale purchases. Having entered the market and made purchases on commercial basis at ruling prices, commercial consideration also demanded that the stocks were sold when the market was most favourable instead of suspending sales at that very point and incurring loss. The Committee have already pointed out that the affairs of the Company at least at times were not being managed in a business like fashion. It is all the more surprising that the Company has not even cared to work out the total loss suffered by it as a result of a faulty decision by the Board of Directors. The matter has been taken so lightly that the loss has been termed by the Director, Purchase & Sales as only a 'notional loss'. The Chairman, CCI, however, admitted that it was a loss resulting from the wrong decision on the part of the Board.

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		The Committee would like to stress that the Board of Directors should draw lessons from the past experience and ensure that decisions are not taken and imposed in utter disregard to the financial and commercial interests of the Company.
31.	4.53	The Committee note that the quantity of cotton lifted from the CCI by NTC fell short of the quantity indented during the years 1975-76 to 1977-78 which resulted in sizeable accumulation of stock with the CCI. The CCI sold the stock to non-NTC mills incurring a loss of Rs. 40.81 lakhs which was shared between NTC and CCI on 50:50 basis. The CCI has stated that Government had issued a "peculiar directive" forbidding CCI to sell the cotton to non-NTC mills which led to the accumulation of stocks. This has, however, been denied by the Ministry. The Committee would like this to be sorted out between the Ministry and the CCI and the Committee informed how the stocks were allowed to be accumulated.
32.	4.58	The Committee note that CCI claims that an amount of Rs. 15 crores is outstanding whereas according to NTC account books only Rs. 5 crores are payable. They also note that a reconciliation Committee has been appointed. The Committee hope that the accounts would be reconciled and that the outstanding dues would be cleared by NTC without delay.
33.	4.73	The Committee find that for obvious reasons the crop estimates given by the private trade and industry are not reliable and the Cotton Corporation has to rely on the estimates given by the Cotton Advisory Board of the Government. But these estimates are again based on the assessment made by the trade. Estimates of cotton production by the Directorate of Economic and Statistics are released when the season is almost over. The Committee are informed that in the whole country reliable estimates

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		of the crop are not available. This appears to the Committee to be a very sorry state of affairs. Not only the procurement strategy but also the programme for import and export of cotton as well as the extent of buffer stock to ensure stabilisation of prices, has to be chalked out on the basis of the crop estimates. As the work of crop estimation is being looked after by the Ministry of Agriculture the Committee recommend that the Ministry should set up a proper machinery for estimating cotton production on a scientific basis and ensure that accurate and objective estimates of cotton production are made available to CCI in time to enable the Company to plan its operations as realistically as possible.
34.	4.74	The Committee note that the Company in its anxiety to have reliable data paid fees of Rs. 2 lakhs to Operations Research Group in 1975-76 and spent Rs. 2,26,152 during 1978-79 to 1981-82 on the training programme of the staff for the crop estimation work. But all these efforts proved futile and the estimates prepared by the Operations' Research Group and by the staff trained for the purpose were far from satisfactory. The Committee hope the Company would learn from its past experience and will refrain from such ventures which result in a wastage of financial resources. The estimates should be prepared on a national basis by the concerned Ministry and the data should be made available to all the parties concerned including the CCI well in time.
35.	5.10	The CCI has incurred heavy losses of the order of Rs. 25.96 crores during 1977—80 though there was some profit during 1980-81. Heavy interest rate on bank borrowings is stated to be one of the reasons for the losses. In this connection, the Committee have been informed that whereas the State Marketing Federations pay interest @ 13.5 per cent the CCI has to pay 19.5 per cent like private traders. Thus no special consideration is given to CCI despite its social obligations. The Committee recommend that

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		the Reserve Bank of India should urgently examine the proposal submitted by the Department of Textiles and reduce the rate of interest so as to help the Company to discharge its social responsibility without much of financial constraint.
36.	5.11	The Committee appreciate that the Ministry are considering to enhance the share capital of the Company from Rs. 8 crores to Rs. 15 crores. This will help the Company reduce its borrowings which will lighten the burden of interest. The Committee recommend that an early action should be taken in the matter.
37.	5.12	The Committee would also like to observe here that the Company's losses are not only due to heavy interest liability but are also on account of its inefficient functioning and injudicious decisions as revealed in the earlier chapters of this Report. There have been complaints from different quarters including the employees' associations in which a number of allegations have been made about wasteful expenditure and malpractices prevailing in different branches of the Company. The Committee are therefore of the view that there should be more meaningful performance reviews of the Company by the Ministry to locate weaknesses and take necessary measures to plug the loopholes. The Committee would await the action proposed to be taken in this regard.