

**COMMITTEE ON PUBLIC
UNDERTAKINGS
(1978-79)**

(SIXTH LOK SABHA)

FORTY-FIRST REPORT

Action taken by Government on the recommendations contained in the Twelfth Report of the Committee on Public Undertakings (Sixth Lok Sabha)

ON

JUTE CORPORATION OF INDIA LTD.—

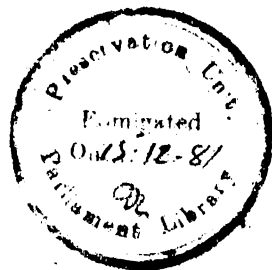
**BACK TO BACK ARRANGEMENT FOR SALE
OF JUTE TO JUTE MILLS**

MINISTRY OF INDUSTRY

(Department of Industrial Development)

Presented to Lok Sabha on the 6th April, 1979

Laid in Rajya Sabha on the 15th April, 1979



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NEW DELHI

April, 1979/Vaisakha, 1901 (S)

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41ST REPORT OF COMMITTEE ON PUBLIC
UNDERTAKINGS (1978-79)

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(i)

COMMITTEE ON PUBLIC UNDERTAKINGS

(1978-79)

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Shri Jyotirmoy Bosu

MEMBERS

2. Shri O. V. Alagesan
3. Shri Maganti Ankineedu
4. Shrimati Chandravati
5. Shri Tridib Chaudhuri
6. Shri Hitendra Desai
7. Shri Anant Ram Jaiswal
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18. Shri H. B. Mahida
19. Shri Murasoli Maran
20. Shri Era Sezhiyan
21. Shri Viren J. Shah
- *22. Shri Sultan Singh

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1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri T. R. Krishnamachari—*Chief Financial Committee Officer.*
3. Shri T. N. Khanna—*Senior Financial Committee Officer.*

*Elected w.e.f. 26-12-1978 vice Shri Deorao Patil died.

**SUB-COMMITTEE ON ACTION TAKEN OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS
(1978-79)**

1. Shri Jyotirmoy Bosu—*Chairman.*
2. Shri O. V. Alagesan—*Convener.*
3. Shri Tridib Chaudhuri
4. Shri L. L. Kapoor
5. Shri Hitendra Desai
6. Shri K. Lakkappa
7. Shri Bhanu Kumar Shastri
8. Shri K. N. Dhulap
9. Dr. Subramaniam Swamy
10. Shri Era Sezhiyan
11. Shri Viren J. Shah.

INTRODUCTION

1, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Forty-First Report on Action Taken by Government on the recommendations contained in the Twelfth Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Jute Corporation of India—Back to Back Arrangement for sale of jute to jute mills

2. The Twelfth Report of the Committee on public Undertakings was presented on 9th August, 1978. Replies of Government to all the recommendations contained in the Report were received on 15th March, 1979. The replies of Government were considered by the Action Taken Sub-Committee on April, 23, 1979. The Report was finally adopted by the Committee on April 24, 1979.

3. A thorough investigation to bring to light among other things the extent to which political considerations contributed to the formulation of the scheme of Back-to-Back Arrangement for the sale of jute by the Jute Corporation, which proved to be disastrous, was recommended by the Committee. The Ministry of Industry (Department of Industrial Development) have after eight long months replied evasively, "further reply will be sent shortly". The delay in implementation of the Committee's recommendations amounts to encouraging corruption and malpractices.

4. Analysis of action taken by Government on the recommendations contained in 12th Report of CPU (6th Lok Sabha) is given at Appendix.

NEW DELHI;
April 25, 1979

Vaisakha 5, 1901 (S).

JYOTIRMOY BOSU,
Chairman,
Committee on Public Undertakings.

(vi)

(vii)

CHAPTER I

REPORT

The Report of the Committee deals with the Action taken by Government on the recommendations contained in the Twelfth Report (Sixth Lok Sabha) of the Committee on Public Undertakings on Jute Corporation of India—Back to Back Arrangement for sale of Jute to Jute Mills, which was presented to Parliament on 9 August, 1978.

2. Action taken Notes have been received from Government in respect of 6 out of 13 recommendations contained in the Report.

3. The Action taken notes on the recommendations of the Committee have been categorised as under:—

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

Serial Nos. 5, 7, 8, 9, 10 and 11.

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

—NIL—

(iii) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee.

—NIL—

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

Sl. Nos. 1, 2, 3, 4, 6, 12 and 13.

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

DELAY IN IMPLEMENTATION OF RECOMMENDATIONS RELATING TO BACK-TO-BACK ARRANGEMENT FOR SALE OF JUTE TO JUTE MILLS

(A) Formulation of the Scheme of Back-to-Back Arrangements

Recommendations 1 and 12 (Paragraphs 39 and 50)

5. The Committee had stated that the proposal regarding back-to-back arrangements was discussed by the then Chairman and Managing Director of Jute Corporation of India with the then Commerce

Secretary on 18 July, 1973 at Calcutta and thereafter with the representatives of the Indian Jute Mills Association and finally approved on 21 July, 1973 by the Board of the Jute Corporation of India. The Committee had found that a cloak of secrecy was allowed to envelop the origin and the logic of the scheme of back-to-back arrangement obviously because it was known to the concerned persons that the system was designed to allow the jute industrialists to derive substantial benefits at the cost of the exchequer. The Committee failed to understand as to how such an important scheme could have been given a final shape within a short span of 4 days, without any proper and critical examination of the various pros and cons of the scheme at the level of the Jute Corporation of India and the Ministry, and also without leaving behind a proper record of the developments in this respect in utter disregard of established procedures prescribed for formulation, consideration and sanction of such important schemes. The Committee observed that the so-called approval of the Board to this scheme on 21st July, 1973 appears to be a mere farce and face-saving drill as it was rushed through without proper discussion and examination of the details of the scheme on merit. The Committee had, therefore, strongly recommended that the entire matter should be thoroughly investigated in order to bring to light the extent to which political decisions contributed to the formulation of the Scheme of Back-to-Back Arrangement. The Committee had also desired that the extent of involvement of the officials who acted in favour of the scheme should be established and suitable action taken against them.

6. The Committee had concluded that the entire scheme of back-to-back arrangement was not more than a device to serve the Jute Industry, engineered by a handful of crafty industrialists, to serve the selfish interests of a few individuals in the jute industry at the cost of poor Indian citizens.

7. In their interim reply to the aforesaid recommendation/conclusion, Ministry of Industry (Department of Industrial Development) have intimated (15 March, 1979):—

“This is being examined to see whether the extent of involvement of the officials, who acted in favour of the scheme can be established. It will also be examined as to whether it will be possible to determine the extent to which political decisions contributed to the formulation of the scheme of back-to-back arrangement. A further reply will be sent shortly”.

8. The Committee had pointed out that the Scheme of 'back-to-back' arrangement for sale of jute to jute mills was formulated in a cloak of strict secrecy within a short span of 4 days in July, 1973. The Committee had therefore strongly recommended that the entire matter may be thoroughly investigated to bring to light the extent to which political decisions contributed to the formulation of this disastrous scheme. The Committee had also desired that the extent of involvement of officials who acted in favour of the scheme should also be established and suitable action taken against them. It is a matter of grave concern to find from the reply of Government that this matter is still under examination. The Ministry of Industry (Department of Industrial Development) has furnished the reply after 8 long months. The reply is vague and evasive. The reply dated 15-3-1979 states "further reply will be sent shortly". Hardly realising that the term of this Committee will come to an end on 30 April, 1979. It is thus clear enough that there is lack of political will to weed out or even minimise corruption in high places. The delay in implementing the Committee's recommendations amounts to encouragement to corruption and malpractices.

B. Concessions to Jute Industry

Recommendations at Sl. Nos. 2 to 4, 6 (Paragraphs 40 to 42 & 44)

9. Having analysed the operation of entire scheme of Back-to-Back Arrangement from 1973-74 to 1975-76 for sale of jute to Jute Mills, the Committee had made the following observations/recommendations:—

- (i) Consequent on reduction in the element of cost on account of interest sale price for 1975-76 session was reduced from Rs. 193.23 per quintal to Rs. 188.2 per quintal. The Corporation suffered a loss of Rs. 86 lakhs on this account alone on a total sale of 6.86 lakhs bales of Jute during 1975-76 (Paragraph 40).
- (ii) In 1974-75 while the actual overheads were assessed at Rs. 3.50 per mound, the charges actually received from the Jute Industry were at the rate of Rs. 1.50 per mound. As a result there was an under recovery of Rs. 48 lakhs from the mills in 1974-75 and a loss of Rs. 65 lakhs in 1975-76 (Paragraph 41).
- (iii) While in 1973-74 a penal interest @ 2 per cent was agreed to be paid by the Jute Industry on payment made after 60 days from the date of bills, in 1975-76 JCI not only

increased the credit period from 60 to 120 days but also agreed that the penal interest be shared between the mills paying in time and JCI in the ratio of 90:10. Grant of this concession (i.e. liberalisation of credit term and sharing of penal interest) was something very unusual and reflects an utter disregard of the interests of the Corporation and as such should be probed further with a view to fixing the responsibility. (Paragraph 42).

- (iv) JCI by accepting changes in the terms of back-to-back agreement suggested by IJMA, completely surrendered to the Jute Industrialists and thereby not only failed to exercise the necessary commercial prudence and sound business principles but also crippled itself to near ruination by becoming a purchasing and subsidised financing agency thus subserving the individual interests of Jute-Mill owners (Paragraph 44).

10. The Government, in their replies to these recommendations/observations, have *inter alia*, stated that:

- (i) Government have desired the Corporation to determine whether at the time of quoting the price of raw jute earlier at Rs. 195.23 per quintal there was any formal written contract and if so, why the liabilities were initially fixed high and whether it was an omission or a conscious decision.
- (ii) There was no separate allotment of overheads for the export and import operations of JCI and the entire overhead was loaded on the internal procurement operations. During 1974-75 because of credit squeeze imposed by RBI the procurement made by JCI was lower resulting in higher overhead charges. In 1975-76 also Corporation's activities were restricted to price support operations only. The Government have called for information from the Corporation to determine whether responsibility can be fixed on some individuals or a group of individuals in this context.
- (iii) Government have sought clarifications from JCI so as to determine whether the apparent concession of redistributing the penal interest amount to industry was motivated and, if so, whether some responsibility on individuals or a group of individuals could be fixed

- (iv) Government have addressed the Corporation to Determine any malafide by any individual or group of individuals where apparently some concessions seem to have been given to the Industry.

The Committee are perturbed to note that even after lapse of a period of eight months, from the date of presentation of Twelfth Report (Sixth Lok Sabha) on Jute Corporation of India Back to Back Arrangements for sale of Jute to Jute Mills, Government have furnished final replies to only 6 out of the 13 recommendations of the Committee contained therein. In respect of 4 recommendations, all that the Ministry of Industry seem to have done so far is to refer these matters, in turn, to the Jute Corporation of India for further information/clarifications for fixation of responsibility on individuals for various concessions allowed by that Corporation to the Jute Mills. The Committee are positive that the recommendations of the Committee have, in this case, been handled by Government with utter disregard and without any appreciation whatsoever of the Committee's feelings of seriousness and urgency in economic interests of the country. The Committee attach great importance to these recommendations. The Committee require the Ministry to furnish their explanation for their lapse and callousness. Further more, the full details of the action taken on these recommendations should be furnished to the Committee and incorporated in the Annual Report of the Corporation.

C. Credit Facility by Banks to Jute Mills on Unpaid Stocks.

Recommendation 13 (Paragraph 13)

The Committee felt that looking at the practice strictly from legal angle, the hypothecation to the banks by the industry of goods for which final payments had not yet been made by the industry, constituted a fraud on the part of the industry which must be stopped forthwith for all times to come. The Committee desired that the banks that became the victims of this fraud should be advised to initiate action against the mills concerned.

In their interim reply, the Department of Industrial Development have intimated, *inter alia* that general instructions applicable to all cases have been issued to the banks, that when calculating the permissible bank finance, unpaid stocks should not be taken into account so that the element of double finance may be eliminated. The Ministry of Finance are stated to have been requested to examine again whether, as suggested by the Committee, any legal action can

be brought against mills who obtained credit from banks on unpaid stocks got from the Jute Corporation of India.

The Committee regret to note that the question whether any legal action can be taken against jute mills who had obtained credit from banks on unpaid stocks got from the Jute Corporation of India is still being examined by the Ministry of Finance. The Committee feel that this matter is one which could have been examined by now. The Committee desire that a final decision in this matter may be arrived at and intimated to the Committee without any further loss of time. The Committee are in no two minds that some of the legally constituted authorities of the country constantly encouraged corruption and malpractices in the administrative machinery and public life.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Serial No. 5 Para 43)

In regard to realisation of dues from the mills, the Committee note that three alternatives placed by JCI before the representatives of IJMA in 1974 were (i) bill market scheme, (ii) revolving letters of credit system and (iii) the bank guarantee method. None of the three alternatives was acceptable to Indian Jute, Mills' Association and the Jute Corporation of India tamely acquiesced in a procedure for payment which resulted into a huge amount of outstandings from the Mills (Rs. 16.34 crores and Rs. 22.66 crores respectively as on 31 May, 1976 and 30 June, 1977). The outstanding dues, which remained unrealised even on 28 February, 1978 amounted to Rs. 10.36 crores.

Reply of Government

All the three alternatives were considered by the Jute Corporation of India for the collection of dues. As far as bill market scheme was concerned, it was pointed out by the industry that as per the existing trade practices the mills were able to buy jute on credit terms from market and they could hypothecate the same to the bank and get bank's loans also. With the introduction of bill market scheme, the facility enjoyed by the industry would not be available and the state of jute industry did not warrant the mills to forego this facility.

About the revolving letter of credit, it was argued that under this scheme the mills, would not only have to go to their bankers for the minimum amount of credit to be extended for the revolving amount required for the individual purchases, but also the maximum limit of financial involvement for the entire period would have to be increased. This would not be possible, according to the industry.

The procedure of bank guarantee was also not acceptable to the mills because they were not in a position to commit the requisite financial limits to their bankers.

These aspects, according to the Corporation, were considered in detail in the Board meeting. The Corporation did not receive any assurance from the Reserve Bank of India, that even after it has set up a net work of purchase centres and they were about to begin large scale operations, adequate funds would be provided for the operations. Considering this and other related issues, and also the fact that the procurement in a short crop year would be small and in that situation it would be difficult to sell the jute procured at prices higher than the market rates, the Board, after considering all aspects, came to the conclusion that the balance of advantage lay in continuation of the 'back-to-back arrangement'.

According to JCI, it was finding it difficult to dispose of its stocks because the market prices were considerably lower than its costs and therefore, they could not compel the industry to accept rigorous terms which would have insulated the Corporation against the future losses. However, in the light of their experience they have discontinued making supplies to the mills on credit.

(Department of Industrial Development O.M. No. 20/16/78-Jute (III) dated 15-3-1979).

Recommendation (Serial No. 7 Para 45)

The Committee also note from the minutes of 46th meeting of the Board of Jute Corporation of India held on 19th December, 1975 that a decision was taken at that meeting for informing the Ministry about variations in terms of the "back-to-back arrangement" for 1975-76. In implementation of this decision, a letter was sent to the Ministry on 5th May, 1976 indicating the salient terms and conditions of the arrangement for 1975-76. The Committee cannot help expressing their disappointment over the fact that the decision of the Board in this regard could not be executed for more than 5 months and intimation to Government was sent barely a couple of weeks before the final abandonment of the 'back-to-back arrangement'. The Committee suspect that this delay of five months was deliberate one no doubt intended to exclude the possibility of any unfavourable reaction from the Government to the grant of unjustified concessions to the industry during 1975-76. The Committee cannot help expressing their deep anguish over this matter.

Reply of Government

The Corporation has pointed out that their management was aware of the various draw backs of the 'back-to-back arrangement'. In fact, the paper on Alternative to back-to-back arrangement was

prepared by the management and placed before the Board of JCI, at its 40th meeting held at Gauhati on 26-4-75. However, the Board, after considering all aspects came to the conclusion that the balance of advantage lay in continuation of the back-to-back arrangement. The decision was unanimous. The Corporation admits that there was some delay in sending the formal letter to the Ministry indicating the salient terms and conditions of the arrangement, for 1975-76. They point out that having taken the decision to supply jute on certain terms and conditions earlier and signed the agreement, there was no scope to vary the terms of the agreement letter.

[Department of Industrial Development, O.M. No. 20/16/78-Jute (III), dated 15-3-79]

Recommendation (Serial Nos. 8 & 9 Paras 46 and 47)

Certain other directions in which lack of any care and vigilance was exhibited by the authorities concerned in the working of the back-to-back arrangement relate to delay in finalisation of the terms and formal execution of agreements with the mills concerned from year to year, and the selection of mills to be covered under the 'back-to-back arrangements'.

It is a matter of extreme distress to the Committee to know that supplies of jute to the mills under the 'back-to-back' arrangements were made on the basis of individual consent letters obtained from the mills concerned and that the formal execution of written legal agreements with them was delayed for long periods. For instance, the agreements relating to the supplies during 1974-75 were formally signed by the parties during the period from 15th January, 1976 to 11th March, 1976 only. Notwithstanding the claim of the Jute Corporation of India that payments due to the Corporation were not held up on account of delay in signing of agreements, the Committee consider it as a serious lapse which contravenes established business principles. The Committee consider that there is an imperative need to impress upon the executives not only of the Jute Corporation of India but of all other public undertakings as well the imperative need to ensure that prescribed procedural rules and established business principles dealings, which is at present lacking in many transactions.

Reply of Government

The Corporation mentions that initially a letter agreement was signed with individual mills both in 1974-75 and 1975-76 and no supplies of jute were made to the mills who did not sign the agreement.

Bills for supply of jute were raised on the mills on the usual basis and the payments were also not held up due to delay in signing the formal agreements. The Corporation have indicated that they will take care to see that no such delay occurs in future.

[Department of Industrial Development, O.M. No. 20/16/78-Jute (III), dated 15-3-79].

Recommendation (Serial No. 10, Para 48)

As regards the selection of mills for inclusion in the 'back-to-back arrangements', the Committee are surprised to know that even the basic requirements of properly ascertaining the credit-worthiness of the mills before supplying jute on credit was ignored by the authorities concerned who, in their enthusiasm to push through the scheme, made supplies of jute to all the mills who asked for the same. As admitted by the Finance Director of the Jute Corporation of India during evidence, even the balance sheets of the mills concerned were not consulted. It is, therefore, no surprise that after working the 'back-to-back arrangement' for some time, the Jute Corporation of India was confronted with difficulties in realisation of huge amounts, running into crores of rupees of outstandings against the mills to whom the jute was supplied on credit. The position was made worse by the fact that no notice was taken of objections raised by certain Directors at the meeting of the Board held on the 7th and 8th May, 1974 to the effect that:—

“It was unsafe to extend credit to mills without limits, particularly, as they were insecured debts”.

The Committee consider the attitude of the Corporation as deplorable.

Reply of Government

The Corporation points out that the back-to-back arrangement was introduced in 1973-74. This was an industry-wise arrangement applicable to all the jute mills and it appears that there was no occasion or scope for any exercise to be done by the JCI to find out the credit worthiness of the jute mills to whom supplies were made under the arrangement. However, in 1974-75, it did exclude 4 mills and in 1975-76 also 6 mills were excluded. Some scrutiny seem to have been applied in the cases of Union, Kinnison, Auckland, National, Sri Ambika, Ludlow, Hurdutroy, Bajarang, Prabartak, and Katihar Jute mills on the basis of their failure to make timely pay-

ments during the year 1974-75. The matter seems to have been discussed thread-bare in the Board's meeting and Corporation has pointed out that the difficulties in obtaining the payment from the mills was considered fully along with the remark of the Director, Shri S. K. Gupta, referred to in the Committee's report, after which the decision to continue the arrangement was taken by the Board of Directors. However, in the light of their experience, the Jute Corporation of India have discontinued making supplies to the mills on credit.

[Department of Industrial Development, O.M. No. 20/16/78-Jute (III), dated 15-3-79]

Recommendation (Serial No. 11, Para 49)

Now that the Jute Corporation is confronted with the task of realisation of outstandings of the order of Rs. 10.37 crores as on 28-2-78, the Committee suggest that Government must stop payment of subsidy to the mills on their exports till such time as the defaulting mills clear their dues to the Jute Corporation of India together with interest.

Reply of Government

The old rules of the Cash Subsidy prevalent at the time when the sales were made by the Jute Corporation of India under the 'back-to-back' arrangements did not contain any provision by which Government could stop payments of subsidy to the mills on their exports till they cleared the dues of JCI. However, a clause has been inserted in the new simplified scheme under which the mills have to settle the dues of the JCI before the Cash Subsidy is released to them. This however would not apply to those who continue to operate under the old scheme. The matter is under examination in consultation with the Ministry of Commerce to plug this loophole also.

[Department of Industrial Development, O.M. No. 20/16/78-Jute (III), dated 15-3-79]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT REPLIES.

—N I L—

CHAPTER IV

**RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED
BY THE COMMITTEE.**

—N I L—

CHAPTER V

Recommendations in respect of which final replies of Government are still awaited.

Recommendation (Serial Nos. 1 & 12 Paras 39 and 50)

The Committee note that from 1973-74 to 1975-76 (May, 1976), the Jute Corporation of India supplied jute on credit to various Mills, the sale price of which was determined on a cost plus basis under arrangements known as back-to-back arrangements. From the written information furnished to the Committee and from the evidence of representatives both of the Jute Corporation and the Ministry of Industry, the Committee are astonished to find that it is not known as to who had initiated the proposal regarding 'back-to-back arrangements'. The developments in this regard indicate that the proposal regarding 'back-to-back arrangements' was discussed by the then Chairman and Managing Director of Jute Corporation of India with the then Minister of Commerce and the then Commerce Secretary on 18 July, 1973 at Calcutta. Thereafter, the proposal was discussed with representatives of the Indian Jute Mills Association in the Jute Corporation's office and was finally approved by the Jute Corporation of India Board at its meeting held on the 21 July, 1973. The Committee thus find that a cloak of secrecy was allowed to envelop the origin and the logic of the scheme of 'back-to-back arrangement' obviously because it was known to the persons that the system was designed to allow the jute industrialists to derive substantial benefits at the cost of the exchequer. The Committee fail to understand as to how such an important scheme could have been given a final shape within a short span of 4 days, without any proper and critical examination of the various pros and cons of the scheme at the level of Jute Corporation of India and the Ministry, and also without leaving behind a proper record of the developments in this respect in utter disregard of establishment procedures prescribed for formulation, consideration and sanction of such important schemes. The Committee are positive that the entire scheme of 'back-to-back arrangement' was conceived by the jute industry for their own benefit and was implemented in such a manner as ultimately benefited the industry at the cost of the Exchequer. The so-called approval of the Board to this scheme on 21st July, 1973 appears to be a mere farce and face-saving drill as it was rushed through without proper discussion and examination

of the detail of the scheme on merit. As regards formal approval of Government, the Committee cannot accept the plea put forward by the Corporation that such an approval was implied through presence of a representative of the Ministry of Commerce at the meeting of Board on the 21 July, 1973. The Committee, therefore strongly recommend that the entire matter should be thoroughly investigated in order to bring to light the extent to which political decisions contributed to the formulation of the scheme of Back-to-Back Arrangement.

The extent of involvement of the officials, who acted in favour of the scheme should also be established and suitable action taken against them.

To conclude, the Committee are positive that the entire scheme of back arrangement was not more than a device to serve the jute industry, engineered, by a handful of crafty jute industrialists, to serve the selfish interests of a few individuals in the jute industry at the cost of poor Indian citizens.

Reply of Government

This is being examined to see whether the extent of involvement of the officials, who acted in favour of the scheme can be established. It will also be examined as to whether it will be possible to determine the extent to which political decisions contributed to the formulation of the scheme of 'back-to-back' arrangement. A further reply will be sent shortly.

[Department of Industrial Development, O.M. No. 20/16/78-Jute (III), dated 15-3-79]

Recommendation (Serial No. 2 Para 40)

As regards fixation of prices to be charged from the mills for supplies of jute made to them by the Jute Corporation of India under the back-to-back arrangement, the Managing Director of the Corporation has stated during evidence:—

“The industrial members of the Joint Operation Committee appointed an Expert Committee to go into the costing, and they used to give their opinion whether any element has been over-charged. Then it was examined and, if necessary, revised on the basis of their observations and the Joint Operations Committee then fixed the Final price”.

In this connection, the Committee have also been informed that for arriving at the price of jute to be paid during 1975-76, the Joint Operations Committee at its meeting held on the 11th March, 1975 suggested, *inter alia*, that the Jute Corporation should send a statement showing the item-wise break-up of cost to the Indian Jute Mills Association for necessary examination and verification. While discussing the final price relating to 1975-76 supplies the industry's representatives on the Operations Committee objected to the high cost of interest as included by the Jute Corporation of India particularly with reference to an amount of Rs. 37 lakhs which was then due from the defaulting mills. The amount, for no valid reason whatsoever, was ultimately agreed to be reduced accordingly and fresh interest bills were raised on the respective mills. As a result of this exclusion and consequent reduction in the element of cost on account of interest, the sale price for 1975-76 season had to be reduced by Rs. 7.03 per quintal, *viz.* from Rs. 195.23 per quintal as worked out by the Corporation to Rs 188.2 per quintal. Thus, by allowing itself to be led into this trap by the industry, the Corporation suffered a loss of about Rs. 86 lakhs on this account above on a total sale of 6.86 lakh bales of jute during 1975-76. The rationale of this concession and the role played by the political as well as administrative authorities in this regard should be thoroughly probed with a view to fixing responsibility.

Reply of Government

Jute Corporation of India has informed that according to the policy decided by the Board, the JCI had made sales to the industry in the year 1975-76 under the 'back-to-back' arrangement on a cost plus basis. This arrangement provided for a Joint Operations Committee which was to be set up for control and supervision of the entire operations from purchase to delivery of raw jute by the Corporation. The Corporation further states in the reply that this Committee had equal representation from the Corporation and the industry. In 1975-76, Corporation sold their internally procured jute to the industry on a cost plus basis of which the final price of the jute to be charged to the mill would have to be fixed with the concurrence of the Joint Operations Committee. The Corporation worked out the details of their cost at the end of the season and this was forwarded to the Joint Operations Committee. According to this statement the price of raw jute was indicated as Rs. 195.23 per quintal. This cost included an amount of about Rs. 162 lakhs on account of interest regarding which a dispute arose. According to the Corporation, they had contract with the industry to charge them interest.

only on funds employed or invested for internal operations, but while working out the total figure of Rs. 162 lakhs, Corporation included the gross amount of funds available to them, but not necessarily employed for the procurement operations. This amount also included interest on outstanding value bills and interest bills in respect of 1973-74 crop as also interest of difference of value bills and an outstanding interest bills of 1974-75 crop, an amount of Rs. 37 lakhs being included in respect of these two items.

While discussing the final price, representative of the industry of the JOC objected especially to the amount of Rs. 37 lakhs which was due from the defaulting mills. It was agreed that this amount should be billed on the defaulting mills individually and the cost of interest to be loaded on the price should be reduced accordingly. The Corporation has pointed out that the industry, maintained that as for the original indication at the beginning of the season, the interest arrangement was only Rs. 48.37 lakhs which they later raised to Rs. 90 lakhs. The matter was discussed in various meetings of the Board. The matter was finally referred to the Advocate General of West Bengal as desired by the Board of Directors and based on his advice the calculation was accepted. This necessitated in the fixation of price of jute at Rs. 128.20 per quintal on the supplies made in 1975-76. The Corporation reports that there was no loss in the internal operations in 1975-76. However, Government have further desired the Corporation to determine whether at the time of quoting the price of raw jute earlier at Rs. 195.23 per quintal was there any formal written contract and if so, what was the wording of such contract, why the liabilities were initially fixed high—whether it was an omission or a conscious decision, also what were the exact issue on which reference was made to the Advocate General and what was his exact advice. On receipt of the further report from the Corporation, a further reply will be sent to the Committee.

[Department of Industrial Development, O.M. No. 20/16/78-
Jute (III), dated 15-3-79]

Recommendation (Serial No. 3 Para 41)

The Committee also find that during 1973-74 the overheads were charged by the Jute Corporation from the industry at the rate of Rs. 1.50 per maund which covered the expenses of the Corporation in this regard. However, in 1974-75, while the actual overheads were assessed by the Corporation at Rs. 3.50 per maund, the charges actually recovered from the industry surprisingly enough, on this account remained at the same level as during 1973-74, i.e., Rs. 1.50 per

maund. The reason for this has been stated to be that the additional overheads at the rate of Rs. 2 per maund were not acceptable to the industry during discussion at various Board meetings.

The Committee are unable to accept this explanation, which is childish. As a result, on a total procurement of 4.86 lakhs bales during 1974-75, the under recovery from the Mills on this account alone amounted to about Rs. 48 lakhs.

Similarly in 1975-76 also, the Corporation were able to get only Rs. 56 lakhs as overhead charges from the Industry as against their actual expenses of Rs. 122 lakhs on this account, thus sustaining a loss of Rs. 66 lakhs.

Reply of Government

The original scheme of 'back-to-back' arrangement, Corporation has pointed out, for sale of internally procured jute to the industry was first drawn up in 1973-74. Then it was estimated that for procurement of 60 lakhs mounds of jute, the overhead expenditure would be estimated as Rs. 60 lakhs. However, as the quantity of procurement was uncertain, a ceiling of Rs. 1.50 per mound was agreed to. The actual overheads of JCI for 1973-74 was fractionally above Rs. 1.50 per mound. It may be noted that there was no separate allotment of overhead for the export and import operations of the JCI and the entire overheads was loaded on the internal procurement operations. Regarding arrangement for 1974-75, there were discussions at various levels but representatives of industry refused to accept a higher amount on account of overhead charge. On the other hand, during the year 1974-75, Corporation prepared itself for higher procurement but could not do so because of credit squeeze made by the Reserve Bank of India resulting in lower procurement and higher overhead charges. In 1975-76 also the Corporation's activities continued to be restricted to price support operations only and the overhead were accordingly higher. The Corporation reports that there was however, no loss in the internal operations in 1975-76 even though a part of expenditure on account of overheads could not be recovered. Government have further asked for information from the Corporation in this regard to determine whether responsibility can be fixed on some individuals or group of individuals in this context.

[Department of Industrial Development, O.M. No. 20/16/78-
Jute (III), dated 15-3-79]

Recommendation (Serial No. 4 Para 42)

The Committee are further distressed to note that while in 1973-74 and 1974-75, a penal interest at the rate of 2 per cent was agreed to be paid by the industry on payments made after 60 days from the date of bills in 1975-76 the Jute Corporation of India not only agreed to increase the period of default commencement of the penal interest (2 per cent) from 60 to 120 days but also agreed that the amount realised as penal interest be shared between the mills paying in time and the JCI in the ratio of 90 : 10. In the opinion of the Committee, the grant of this concession to the industry was something very unusual and reflects an utter disregard of the interests of the Corporation and as such needs to be probed further with a view to fixing responsibility for the same.

Reply of Government

When the management of the JCI initiated discussion with the IJMA on 30-7-75 and 1-8-75 for the continuation of the 'back to back' arrangement during 75-76, one of the points which the industry raised was that the JCI should not charge penal interest for late payment as the mills are made to pay penal interest charged by the Corporation bankers on book-debts exceeding 120 days or alternatively penal-interest charged should be distributed to those mills who pay in time. It was further insisted by the industry that penal interest be charged at 2 per cent upto 120 days and that as an incentive for prompt payment, the amount realised by way of penal interest should be redistributed in graduated manner, among the mills paying within 30 days, 60 days, and 90 days. The argument Corporation points out, was that the bankers of JCI were charging at present, interest as penal for old dues beyond 120 days; even under the existing provision this would work out to be 5 per cent above the current market interest of 15 per cent which was quite heavy. The matter was discussed in the Board meeting and subsequently government was also kept informed. The Government have sought clarification from the Jute Corporation so as to determine whether the apparent concession of redistributing the penal interest among the Industries was motivated and if so whether some responsibility on an individual or group of individuals, could be fixed.

[Department of Industrial Development, O.M. No. 20/16/78-
Jute (III), dated 15-3-79]

Recommendation (Serial No. 6 Para 44)

The Committee regret to note that at no stage of the finalisation of the terms of back to back agreement the Jute Corporation of

India had any say in the matter. Whenever and whatever changes in the terms of the said agreement were suggested by the Indian Jute Mills' Association, the Board of Jute Corporation of India had to yield to them. It is thus abundantly clear that the representatives of Jute Corporation of India always allowed themselves to be pressurised by the representatives of the Indian Jute Mills' Association on the plea that in case the changes suggested by the latter in any of the terms of the "back-to-back agreement" were not accepted by the Jute Corporation of India, it would be difficult for the industry to continue the "back-to-back arrangement". The whole exercise is indicative of a latent fear in the mind of the Jute Corporation of India that the "back-to-back arrangement" was *sine-quantum* of its very existence. Had the Jute Corporation of India firmly told the representatives of the Industry at any stage that it was also not interested in continuation of the "back-to-back arrangement" on the industry's terms and conditions, the Committee have no doubt whatsoever that the industry would have accepted the proposals of the Jute Corporation of India particularly when it was for them a matter of getting jute supplies on credit. As a result of this complete surrender to the jute industrialists, the Jute Corporation of India not only failed to exercise the necessary commercial prudence and sound business principles but also crippled itself to near ruination by becoming a purchasing and subsidised financing agency thus subverting the individual interests of jute mill owners.

Reply of Government

According to the Corporation except for some items *viz.*, over heads, penal interest and operational charges, the industry was made to accept all other terms proposed by the Corporation. As has been pointed out in the preceeding paragraphs, Government have addressed separately the JCI to determine any malafide by any individual or group of individuals where apparently some concessions seem to have been given to the industry.

[Department of Industrial Development O.M. No. 20/16/78-
Jute (III) dated 15-3-79]

Recommendation (Serial No. 13, Para 51)

It is on record that at the 25th meeting of the Board, the representatives of the industry while objecting to the bill market scheme proposed by Jute Corporation of India in regard to payments to be made by the mills, stated that the mills were able to buy jute on credit terms and at the same time, hypothecate the same goods to

the banks and get bank loans also. It means hypothecation of goods which the mills did not own.

In the light of this clear admission by the industry, the Committee see no reason why the government machinery, including the Jute Corporation of India, should not have immediately taken necessary steps to do away with the existing system which gives double benefit to the jute industry, unless of course it served unseen interest of a few individuals in power at that time at the cost of the Exchequer. Looking at the practice strictly from a legal angle, the Committee feel that hypothecation to the banks by the industry of goods for which final payments had not yet been made by the industry, constitutes a fraud on the part of the industry which must be stopped forthwith for all times to come. The Commission desire that the banks that became the victims of this fraud should be advised to initiate action against the mills concerned.

Reply of Government

The recommendation has been brought to the notice of the Department of Banking in the Ministry of Finance. The Ministry of Finance have observed that the Reserve Bank of India have already advised the banks that the industry should, to the maximum extent possible, finance raw jute purchases by adopting the system of payment after a fixed period on the letter of credit on acceptable basis so that on one hand, banks would be able to have access to the Reserve Bank under the bill rediscounting scheme, if necessary, and on the other, the system will result in reduction in double finance availed of by the jute mills. General instructions applicable in all cases have also been issued to the banks, that when calculating the permissible bank finance, unpaid stocks should not be taken into account so that the element of double finance may be eliminated. Under the credit authorisation scheme which cover the larger borrowers, the provision was made in the forms prescribed for assessment of working capital requirement and computation of the permissible bank finance for excluding, from the total working capital required, both advance payments received and credit received on purchases.

The Reserve Bank of India have also advised banks to obtain from borrowers, in addition to the periodical stock statements, a monthly statement of select operational data which include data in respect of sundry creditors for purchases outstanding as at the end of month. This will enable the financing banks to exclude the amount of sundry creditors for purchase of raw jute from the value of total stocks

for the purpose of calculation of drawing power in the cash credit account.

The Ministry of Finance have also been requested to examine again whether as suggested by the Committee any legal action can be brought against mills who obtained credit from banks on unpaid stocks got from Jute Corporation of India.

[Department of Industrial Development O.M. No. 20/16/78-
Jute (III) dated 15-3-79]

APPENDIX

(Vide Para 4 of Introduction)

Analysis of the action taken by Government on recommendations contained in Twelfth Report of the Committee on Public Undertakings (Sixth Lok Sabha).

I. Total number of recommendations	13
II. Recommendations/observations that have been accepted by the Government (<i>vide</i> recommendations at Sl. Nos. 5, 7, 8, 9, 10 and 11)	6
Percentage to total	46·08%
II. Recommendations/observations which the Committee do not desire to pursue in view of Government replies	NIL
Percentage to total	NIL
III. Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee	NIL
Percentage to total	NIL
IV. Recommendations/Observations in respect of which final replies of Government are still awaited (<i>Vide</i> recommendations at Sl. Nos. 1, 2, 3, 4, 6, 12 and 13)	7
Percentage to total	53·76%