

COMMITTEE ON PUBLIC UNDERTAKINGS

(1980-81)

(SEVENTH LOK SABHA)

SIXTH REPORT

Action Taken by Government on the recommendations contained in the
Thirty-fourth Report of the Committee on Public Undertakings
(Sixth Lok Sabha)

On

Purchase of Tobacco by the State Trading Corporation of India Limited.

(MINISTRY OF COMMERCE)

(DEPARTMENT OF COMMERCE)

Presented to Lok Sabha and laid in Rajya Sabha on 19 December, 1980



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1980-81 (SEVENTH LOK SABHA).

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(1980-81)

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*Elected w. e.f. 28-11-1980 in the vacancy caused by appointment of Shri P. A. Sangma as Deputy Minister.

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(1980-81)**

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7. Shri B. K. Nair

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Sixth Report on Action Taken by Government on the recommendations contained in the 34th Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Purchase of Tobacco by the State Trading Corporation of India Ltd.

2. The 34th Report of the Committee on Public Undertakings was presented to Lok Sabha on 17 April, 1979. Replies of Government to all the recommendations contained in the Report were received on 28 January, 1980. Further information called for in respect of 5 recommendations was furnished by the Ministry on 16 August, 1980. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 12 December, 1980. The Report was finally adopted by the Committee on Public Undertakings on 16 December, 1980.

3. Analysis of Action Taken by Government on recommendations contained in the 34th Report of Committee is given at Appendix.

NEW DELHI;
17 December, 1980
Agrahayana 26, 1902 (Saka)

BANSI LAL,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

This Report of the Committee deals with the Action Taken by Government on the recommendations contained in the Thirty-fourth Report of the Committee on Public Undertakings on Purchase of Tobacco by the State Trading Corporation of India Ltd., which was presented to Lok Sabha on the 17th April, 1979.

2. Action Taken notes have been received from Government in respect of all the 15 recommendations contained in the said Report. These have been categorised as follows :—

- (i) Recommendations/observations that have been accepted by Government :
S. Nos. 1, 3, 5, 6, 8, 11, 13 and 14.
- (ii) Recommendations/observations which the Committee do not desire to pursue in view of Government's replies :
S. Nos. 4, 7, 12 and 15.
- (iii) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee :
S. Nos. 9 and 10.
- (iv) Recommendation/observation in respect of which final replies of Government is awaited :
S. No. 2.

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

A. Support Purchase Operation of 1972

Recommendation Sl. No. 1 (Paragraph 2·21)

4. The Committee had *inter alia* pointed out that as against the targetted purchase of 10,000 tonnes of surplus tobacco, the STC made purchase of only 7476 tonnes under support purchase operation of 1972. In reply, the Government have pointed out that the net dry weight equivalent of the targetted purchase would be 7500 to 8000 tonnes in agmarked condition and that considering that the STC made an actual purchase of packed tobacco of 7476 tonnes, the objectives might be considered very nearly achieved.

5. The Committee are surprised that the Government should come up with the argument that the targetted purchase of tobacco of 1972 by STC was nearly achieved on the basis of an incorrect comparison of the target for the purchase of redried tobacco with the actual purchase of Kutchha tobacco. In this connection they would like to invite the attention of the Government to para 2.11 and footnote thereunder of the 34th Report. According to the STC themselves as against the targetted purchase of 10,000 tonnes of kutchha tobacco

equivalent to 8000 tonnes of redried tobacco, the purchase was only 7476 tonnes of kutchha tobacco equivalent to 5981 tonnes of redried tobacco. Thus, the shortfall was quite considerable. It is, therefore, unfortunate that far from giving an explanation for the shortfall, Government have not been careful even in varifying the actual position. The Committee trust that such lack of care would not be displayed in future.

B. Purchases during 1978

I. Support purchase on Government Account

Recommendation No. 2 (Paragraph 2.658)

6. Commenting on support purchase operation undertaken by STC in 1978 the Committee had observed that STC had not purchased the targetted quantity of 10000 tonnes of tobacco and that the quantity of 6250 tonnes purchased upto October 1978 had not been purchased directly from the growers and that no export market had been located by the STC for disposal of the quantity. The Committee desired to have a report on the total quantity of tobacco purchased and disposed of together with its impact and economics of the operation. In their reply the Government had given reasons for not being able to buy directly from growers and explained the failure to export any quantity of tobacco of 1978 crop on Government account. It has also been stated that a total quantity of 8480 tonnes had been purchased upto January 1980 and that the purchase of 1104 tonnes of tobacco from growers syndicates and cooperatives has not been effected as genuineness of some syndicates and tobacco offered by them is under investigation. The economics of the operation can, it has been stated, be given only after the tobacco purchased is disposed of.

7. The Committee had noted that only 6250 tonnes of tobacco was purchased upto October 1978 against the target of 10,000 tonnes relating to the 1978 crop. They have now been informed that an additional quantity of 2230 tonnes had been purchased between November 1978 and 21 January 1980. A further quantity of 1104 tonnes, which was to be purchased from growers syndicates and cooperatives, has not yet been purchased as genuineness of some syndicates and tobacco offered by them is under investigation. Further, out of the purchases made already, nothing has been disposed off by the STC. All this goes to show that the performance of the STC in relation to the support purchase operation of 1978 was even worse than what it was in 1972 as already observed by the Committee. However, they would await further report on the result of the investigation of genuineness or otherwise of the syndicates and the economics of the support purchase operation as a whole.

II. Purchase on Commercial Account

Recommendation No. 3 (Paragraph 2.59)

8. The Committee had *inter-alia* pointed out that out of 44 associate firms selected by the STC for purchase of tobacco in 1978 on commercial account, 18 were themselves exporters. According to the Committee, the STC was helping them to find additional market abroad. In this connection the Committee pointed out that in one case one of such exporter namely, Nava Bharat Enterprises Ltd. grew in size and became a competitor of STC. The Government, in reply, have stated that the quantity purchased by the

STC from each of the packers has not been large and as such it may not be correct to say that the packers have benefited at the expense of the STC and that the observations of the Committee that M/s. Nava Bharat Enterprises Ltd. has grown big enough through the STC's patronage cannot be verified.

9. The Committee would like to invite Government's attention to the evidence tendered before the Committee by the representatives of the STC on 3 March 1978 that earlier one of the associate firms, who were themselves exporters, namely, M/s. Nava Bharat Enterprises Ltd. grew in size and became a competitor of STC. It is astounding that Government have stated in their reply that the observations of the Committee in this regard could not be verified. However, the Committee would not like to pursue this point further except to caution the STC to be more careful in future in dealing with associate firms in order that undue benefits are not passed on to them.

C. Export of Tobacco

Recommendations S. Nos. 4 and 12 (Paragraphs 2·61 and 4·40)

10. While commenting on the poor unit value realisation and malpractices in export trade, the Committee had recommended that the tobacco export must be canalised through the STC. The Government, in reply, have stated that there are strong relations between foreign buyers and domestic exporters and that the foreign Government monopolies are also generally purchasing tobacco from private exporters in India instead of through the STC. Though recently various measures have been taken to check the malpractices, the Government have pointed out that as the export of tobacco is not canalised through the STC or any other public sector undertaking, the foreign buyers are free to purchase tobacco from an exporter of their choice. They have further pointed out that the unit value realisation in respect of exports to U.K. in 1977 compared favourably with that of Thailand and Brazil. As regards canalisation of exports of tobacco the Government have argued that it may not be desirable at this stage.

11. To the Committee, the satisfaction derived by Government about the unit value realisation of Indian exports of tobacco going only by the exports to U.K., in 1977 by two countries, Thailand and Brazil, appears to display a complacent attitude. If one goes through the table of comparative prices given in para 4·36 of the 34th Report, it will be clear that there is a lot of scope for improving the unit value realisation. The Committee note the measures taken recently to check malpractices in export trade and appreciate the arguments advanced by Government how canalisation of export of tobacco may not be desirable at this stage. Nevertheless, the Committee trust that Government would keep a constant watch on the export trade with a view to considering canalisation at the appropriate stage, if it becomes necessary.

D. Tobacco Board

Recommendation S. No. 9 (Paragraph 3·16)

12. Pointing out that in terms of Section 8(2)(g) of the Tobacco Board Act, 1975, the Parliament's intention was to vest the Board with the responsibility of undertaking support purchase operation, the Committee observed

that this cannot be delegated to the State Trading Corporation under an executive fiat as has been done. The Committee strongly felt that especially in view of the poor performance of the STC in support purchase operation the Tobacco Board should undertake the purchase.

13. The Government in their reply have *inter alia* stated that it would not be desirable for Tobacco Board still in its infancy to handle purchase of tobacco under price-support operations, which is an intricate operation. The Government are of the view that at the present moment, till the Tobacco Board gains more experience in the diverse fields of tobacco marketing, it would be more appropriate to entrust price-support operations to the STC, which has experience in the purchase and export of tobacco and other products as well as requisite financial means to undertake such operations without much of initial financial outlay from Government budget.

14. At statutorily it is the responsibility of the Tobacco Board to undertake support price purchase operations, it can not be delegated to the State Trading Corporation under an executive fiat. The Committee would therefore reiterate that the Tobacco Board should take up this responsibility as the earliest.

E. Measures to protect the growers

Recommendations at S. Nos. 10 and 13, (Paragraphs 4·37, 4·38, 4·41 and 4·42.)

15. The Committee had observed that although India was one of the main producers and exporters of virginia flue cured tobacco and nearly a lakh growers depend upon cultivation of tobacco for their livelihood, until quite recently virtually no step was taken to either protect the interests of the growers or to improve the export earnings.

16. The Government in their reply have detailed the steps taken after the year 1976 and have pointed out that "it may not be correct to say that no steps have been taken to protect the interests of the growers or to increase export earnings", and requested the Committee to reconsider their conclusion in this regard.

17. The Committee see no reason to reconsider their conclusion that until quite recently virtually no step was taken to either protect the interest of the growers or to improve the export earnings. The Government have merely detailed the steps initiated as late as 1976-77 which the Committee were well aware of and had also taken note of it in their 34th Report.

18. The Committee had further pointed out that even with a low realisation for the Indian tobacco in the export market the middlemen, especially the rich, get an enormous margin and in this context they had highlighted the fact that the Indian growers get only 17% of what their counter-part get in Japan for similar tobacco. The Committee desired to know whether Agriculture Prices Commission took note of the prices obtained by the growers in other tobacco producing countries.

19. The Government have stated that the prices are very high in Japan due to a very high cost of production and that prices payable to growers in India and Japan, have, to be viewed in the context of the *per capita* income in the respective countries. In view of this Government feel that it may not be

entirely appropriate to compare the prices received by the growers of VFC tobacco in India with the prices received by the growers of VFC tobacco in Japan.

20. The Committee's reference to the price obtained by the Japanese growers for their tobacco has to be dealt with in the context of the middlemen in India getting an enormous margin even with a low realisation for the Indian tobacco in the export market. The Committee, therefore, can not appreciate the explanation of the Government how the prices in Japan and India could not be compared. It will be clear from the tables of growers prices and export realisation by different countries *vide* paragraphs 4·35 and 4·36 of the 34th Report that the ratio of the growers price to the export realisation is the least in our country which proves the Committee's point that the middlemen in export trade in our country make enormous margin. This situation has to be corrected, both by increasing the price paid to the growers and by checking the malpractices in export trade. The Committee trust that the Government will address themselves to this task in all earnestness.

CHAPTER II

RECOMMENDATION THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 1 (Paragraph 2·21)

The performance of the State Trading Corporation in regard to purchase and disposal of targetted 10,000 tonnes of surplus tobacco as decided by Government in 1972 in the wake of a bumper crop commented upon by the Comptroller & Auditor General of India reflects very badly on the ability of the Corporation to undertake such a responsibility. The actual purchase was only 7476 tonnes. The plea of lack of experience for the shortfall cannot be accepted by the Committee as the State Trading Corporation has been in this field since 1957. The purchase was made through selected packers and the price paid to them was not related to the price paid by them to the growers. No effective programme for the prompt disposal of the tobacco was drawn up and there was deterioration of stock resulting in a loss of Rs. 7·13 lakhs. The Corporation incurred a loss of Rs. 49·82 lakhs on the whole. It is no wonder therefore that no purchase was made by the STC thereafter until 1977 except undertaking some exports. The Committee would like to know specifically why the STC miserably failed all these years.

Reply of the Government

It is true that the STC has been buying tobacco from 1957 onwards. However, these purchases were made only in the form of graded Agmark tobacco from packers and the final purchase was always subject to approval by foreign buyers. As the objective of buying tobacco under the price support operation in 1972 was to export it, STC could not purchase tobacco directly from the growers as the tobacco graded by the growers was not in conformity with the export grades.

2. The objective of the STC's operation was to mop up 10,000 tonnes of tobacco from the growers. After redrying and processing the net dry weight equivalent would be 7500—8000 tonnes in agmarked condition. Considering that the STC made an actual purchase of packed tobacco of 7476 tonnes, the objective may be considered very nearly achieved.

3. It may be mentioned that the packers for the purchases were selected in pursuance of a scheme prepared to purchase tobacco quickly in consultation with the District Authorities. It was not possible to undertake massive buying directly from the growers on account of the fact that the farmers were grading tobacco into kutchra grades which did not correspond to Agmark grades. The packers were selected by the District Collectors of Ongole and Guntur for supply of tobacco within a stipulated period. This resulted in achieving the twin objective of procuring excess tobacco and stabilising the prices at the level notified by the District Collectors for Kutchra graded tobacco.

4. The District Collectors had notified the prices to be paid by the packers to the growers and the growers had the right to approach the District Collector in case the stipulated price was not paid to them.

5. It may not be correct to say that no effective programme for the prompt disposal of the tobacco was drawn up by the STC. Immediately after the purchase operation, steps were taken by the STC for exporting the tobacco that had been bought. In a situation of glut and in view of the fact that much of the tobacco purchased was of low grade it was not easy to find an export outlet. Therefore, there was deterioration in quality of tobacco due to prolonged storage resulting in financial loss in the whole transaction.

6. As regards the Committee's observation that no purchases were made by the STC from 1972 until 1977 except undertaking some exports, it may be stated that the primary role of the STC is export marketing like any other export organisation. Purchases by the STC as an exporter were, therefore, restricted to the extent of fulfilling export commitments. Question of purchases on a large scale would arise only when the Government ordered price support operations.

[Ministry of Commerce & Civil Supplies (Department of Commerce)
O.M. No. 4/38/79-EP(Agri-vi) dated the 23rd January 1980].

Comments of the Committee

Please see paragraphs 4 and 5 of Chapter I.

Recommendation Serial No. 3 (Paragraphs 2.59 and 2.60)

The commercial purchase of 5,000 tonnes was to be from 44 Associate firms and some growers cooperatives/syndicates. The term Associates amounts to needless lending of prestige by STC for what consideration the Committee are unable to understand. 18 of the so called Associate firms patronised by the STC were themselves exporters whom the STC was helping to find additional market abroad with the result one of them namely Nav Bharat Enterprises Ltd. has grown big enough to have entirely direct dealings with the exporters. The General Secretary of the Indian Tobacco Growers Association told the Committee that when the STC entered the market in a big way the existing concerns floated new ones in the name of their relatives and the latter were given business by the STC. According to a representative of the STC the malady of benami firms was there in tobacco trade in large measure. The extent to which manipulation could be made taking advantage of the lacuna in the STC's operation could be seen from the fact that one of the so called growers syndicates turned out to be no more than a partnership firm of few large scale tenant growers. According to the Chairman Tobacco Board, there are cases that came to his notice where the grower's organisations were headed by men who not being genuine growers, had an axe to grind in trading. Such people undoubtedly derived substantial benefit through dubious means from the STC's buying.

2.60. It is obvious that in the existing scheme of things the benefit of even the STC's support purchase operation does not accrue to the growers while the traders acting under the cover of the syndicates make profit. A representative of the STC agreed with this inference. The Commerce Secretary also readily conceded in his evidence that the contacts between the growers and the STC needed to be considerably improved upon. The Chairman, Tobacco Board, made it clear that the STC would not be able to take farm grade tobacco on the platform like a

private trader. A representative of the STC also further confirmed this and told the Committee that the STC did not have the infrastructure to buy from growers if graded tobacco is not offered individually by them. All this at once indicates the serious weakness of the Government buying agency as well as the strength of the private monopolists. It is therefore not surprising that a third of the total purchase of Virginia flue cured tobacco is made by a single firm viz., India Tobacco Company Ltd. a multinational Company which enjoys a big monopoly over tobacco trading, export and tobacco based industry, which is highly undesirable and should be curbed forthwith. In such a situation as prevails now protection of growers' interest is almost an impossibility. Government should therefore lose no time in taking steps to eliminate middlemen and monopolists thriving on the inadequacies of the Government Buying Agency.

Reply of Government

The STC has been exporting packed tobacco to USSR since 1957. Such packed tobacco has been obtained from packers who have been supplying the required quality and quantity for export. STC has, therefore, list of firms who have been supplying export quality tobacco right from 1957. Since the commercial purchase of 5,000 tonnes was intended for export, STC decided to purchase the quantity from the 44 associates with whom it had long association and from six cooperative societies. These firms also satisfied the buyers' desire; (a) to see the tobacco in physical possession of STC before placing orders and (b) to have uniformity in grade.

2. The quantity of tobacco exported by STC has always been limited in relation to total exports from India as will be seen from the following table :

Quantity/In metric tonnes

Exports of tobacco

Year	India's		STC's	
	Direct	Indirect	Direct	Indirect
1973-74	78,215	6,315	4,261	10,576
1974-75	75,980	893	—	893
1975-76	74,280	1,060	3,994	5,054
1976-77	80,100	1,250	8,327	9,577
1977-78	89,430	2,579	4,918	7,497
1978-79	68,770	1,772	663	2,435

(Provisional)

The packers naturally have to and do export on their own also. To the extent STC wanted tobacco to fulfil the orders booked by it, the packers supplied tobacco to STC. The quantity purchased by the STC from each of the packers, has not been large and as such it may not be correct to say that the packers have benefited at the expense of the STC. The observation of the Committee that M/s Nava Bharat Enterprises Ltd. has grown

big enough through the STC's patronage cannot be verified. According to Tobacco Board, M/s. Nava Bharat Enterprises Ltd. have been one of the established exporters of tobacco and tobacco products for a long time. The STC has stated that Nava Bharat Enterprises were not associated with STC either during 1978 or during 1979.

3. Due to the reasons explained in reply to recommendation No. 2 contained in para 2.58 of the Report of the Committee, the STC could not purchase tobacco from the growers direct and had to purchase the agmarked packed tobacco through the growers' syndicates/cooperatives. It has come to the notice of the Government that some traders had surreptitiously joined some of the syndicates and offered traders' tobacco to the STC in the guise of growers' tobacco. Realising this, the purchase of balance quantity of 1104 metric tonnes of 1978 crop tobacco from growers syndicates/cooperatives has been suspended and the STC has been asked to make sample verification of syndicates to ensure that the tobacco offered by them is genuine tobacco of growers, before purchasing tobacco from them. During 1979 price support operations, the STC was not asked to purchase any tobacco from the syndicates.

4. The intention of the Government and also of the Tobacco Board is to increase progressively purchases on Government account directly from the the growers. There is no standardised grading at growers level and of the growers VFC tobacco sell the same in kutchra grades. As the STC generally purchases tobacco for exports, it purchases agmarked packed tobacco and the tobacco is normally purchased by it from its associates as the growers cannot readily offer agmarked tobacco of export grades. Purchase of tobacco by the STC on Government account is not a regular feature as price support operations have so far been undertaken on very few occasions when there was surplus of production over demand. Due to these reasons, the STC has not been able to develop infrastructure for purchase of tobacco direct from the growers and continues to purchase agmarked packed tobacco from their associates and traders. However, in 1979, the STC purchased 3,000 tonnes of VFC tobacco in new farm grades on Government account directly from the growers at the grading and buying platforms set up by the Tobacco Board. It is understood that so far out of a total of about 70,000 growers about 15,000 have been educated on the new farm grades. It is hoped that in the next two to three years the new farm grades will be adequately popularised and most of the purchases by the STC could be made directly from the growers. It is certainly not the intention of the Government to encourage middlemen and make purchases on Government account from them.

5. The Tobacco Board has already introduced 8 new farm grades for black soil tobacco and plant position grading for light soil tobacco at growers level and is making efforts to popularise the same at the earliest. The Tobacco Board has also introduced Tobacco Leaf Purchase Voucher Scheme in Andhra Pradesh and Karnataka to enable the growers to receive timely payment for their tobaccos. The Tobacco Board Act, 1975, has already been amended to provide *inter-alia* for establishment of auction platforms by the Tobacco Board. A system has also been worked out by the Tobacco Board for introduction of auction system for sale of VFC tobacco, which is under examination by the Government.

[Ministry of Commerce and Civil Supplies (Department of Commerce)
(O. M. No. 4/38/79-(Agri, vi) dated the 23rd January 1980].

Further information asked for

(a) In 1979, STC purchased 3,000 tonnes of VFC tobacco on Government Account directly from growers. Please state the quantity of agmarked packed tobacco purchased by STC from growers' associates and traders in 1979?

(b) Please indicate the progress made so far in,

(i) the development of infrastructure for purchase of tobacco direct from the growers; (ii) establishment of auction platforms by Tobacco Board; and (iii) introduction of auction system for sale of VFC tobacco.

(L. S.S. O. M. No. 169/ii-PU/79 dt. 1-5-80)

Further reply of the Government

(a) The STC purchased 3854.7 M. Tonnes agmarked packed FCV tobacco of 1979 crop from cooperative societies through Andhra Pradesh MARKFED on Government account. No purchases of 1979 crop tobacco were made by STC from traders on Government account. However, the STC purchased about 203 M. Tonnes and 27.5 M. Tonnes agmarked packed FCV tobacco of 1979 crop from the small packers and traders, respectively, on its commercial account.

(b) The STC purchased on Government account virginia tobacco of 1979 crop in new farm grades from the growers direct at the grading and purchasing centres set up by the Tobacco Board for the first time. STC can undertake similar operations in future also in cooperation with the Tobacco Board.

The development of infrastructure and establishment of auction platforms by the Tobacco Board will depend upon the final decision on the introduction of auction system.

A scheme has been proposed by Tobacco Board for introducing the auction scheme, which is being examined in respect of all its modalities including *inter-alia*, the study of the auction system for sale of virginia tobacco in other countries. Further processing of the auction scheme will be undertaken after the completion of the study and then steps will be taken to introduce the scheme.

[Ministry of Commerce OM No. 4/38/79-EP (Agri. vi) dated 16-8-1980]

Comments of the Committee

Please see paragraphs 8 and 9 of Chapter I.

Recommendation (Serial No. 5, Paragraph 2.62)

The Committee gather an impression that the local pressures and pulls in tobacco trade in Andhra Pradesh and elsewhere are such that a government regulatory and marketing agency would be greatly handicapped, if executives are unduly familiar with local traders and are susceptible to their pernicious influence. Realising the imperative need to ensure a detached and impartial functioning of the agency for effectively safeguarding the interest of the genuine growers as well as the larger economic interest of the country the Committee are constrained to suggest that such executives either in the

STC or in the Tobacco Board should not be entrusted with such a responsibility or posted to such a place as would run counter to these objectives.

Reply of Government

The Government has not come across any instance of executive of STC or the Tobacco Board having developed undue familiarity with the local traders to the detriment of the interests of the growers or of the country. Appropriate action will however be taken wherever lapses of this kind come to the notice of Government. Ministry of Commerce and Civil Supplies Department of Commerce.

[O. M. No. 4/38/79 EPC (Agri-vi) dated the 23rd January, 1980]

Recommendation Serial No. 6 (Paragraph 3.13)

A long felt need to have a separate Statutory Commodity Board for tobacco basically to protect the interests of the growers was fulfilled only in 1976 with the setting up of the Tobacco Boards. The Board as it is constituted today is weighted heavily in favour of the manufacturers and dealers. This ought to be ended forthwith ensuring a dominant voice for the growers. Though manufacturers are represented on the Board surprisingly they are not brought within the discipline of any regulatory mechanism of the Board. In the absence of a minimum support price based on true cost plus a reasonable return and an effective purchase of the surplus they are fleecing the growers. Therefore there ought to be registration of the manufacturers also to regulate and control their activities by the Tobacco Board.

Reply of Government

The composition of the present Tobacco Board in terms of non-official representatives is as follows:—

- (1) Two Members elected by Lok Sabha
- (2) One Member elected by Rajya Sabha
- (3) Four Members representing interests of growers
- (4) Three members representing the interest of dealers/exporters/packers in tobacco and tobacco products/expert in tobacco marketing.
- (5) One member representing manufacturers of tobacco products.

The Government is of the view, that even under the existing constitution growers are adequately represented on the Tobacco Board and it may, therefore, not be correct to say that the Tobacco Board, as it is constituted at present, is weighted heavily in favour of the manufacturers and dealers.

2. As regards bringing the manufacturers under the control of the Tobacco Board it may be stated that the Central Government had set up an Expert Group on Tobacco in July, 1978, *inter-alia*, to recommend amendments which in its opinion should be made in the Tobacco Board Act, 1975 so as to enable the Tobacco Board to play a decisive role in respect of production, research and development, marketing and export of all types of tobacco produced in the country. The Expert Group has submitted an

Interim Report very recently *inter-alia* recommending for bringing manufacturers and processors of tobacco under the purview of the Tobacco Board. The final report of the Expert Group is also likely to be received shortly. Recommendations of the Expert Group on Tobacco will be considered in consultation with concerned Ministries/Departments, State Governments and other interests.

[Ministry of Commerce & Civil Supplies (Deptt. of Commerce)
O. M. No. 4/38/79-EP. (Agri. vi) dated 23rd January 1980]

Further information asked for

Has the final Report of the Expert Group on Tobacco been received? If so, please indicate the action taken by Government in relation to the points raised by the Committee on Public Undertakings.

(L.S.S. O.M. No. 169/ii-PU/79 dt. 1-5-80)

Further reply of the Government

Please see below recommendation at S. No. 8.

Recommendation (Serial No. 8, Paragraph No. 3-15)

At present the Tobacco Board is mainly concentrating on the virginia flue cured tobacco. As the growers of other varieties of tobacco are also in serious distress due to non-marketability of their product the Board should cover all varieties of tobacco. They should open full-fledged Branch Offices in all tobacco growing areas.

Reply of the Government

The Central Government had set up an Expert Group on Tobacco in July, 1978 *inter alia* to examine the need for amending the Tobacco Board Act, 1975 and to recommend amendments which in its opinion should be made in the Act so as to enable the Tobacco Board to play a decisive role in respect of production, research & development, marketing and export of all types of tobaccos produced in the country. The Expert Group has submitted an interim report recently, *inter-alia*, recommending that all types of tobaccos should be brought under the purview of the Tobacco Board. The final Report of the Expert Group is expected shortly. Recommendations of the Expert Group will be considered in consultation with all concerned.

[Ministry of Commerce & Civil Supplies (Department of Commerce)
O.M. No. 4/38/79-EP. (Agri-vi) dated 23rd January, 1980]

Further information asked for

Has the final Report of the Expert Group on Tobacco been received? If so, please indicate the action taken by Government in relation to the points raised by the Committee on Public Undertakings.

(L.S.S. O.M. No. 169/ii-PU/79 dt. 1-5-80)

Further reply of the Government

The Expert Group on Tobacco has submitted its Report. It has made comprehensive recommendations relating to regulation of production and marketing of various types of tobaccos, amendments which have to be made

in the Tobacco Board Act, 1975 and on various fiscal and miscellaneous aspects of tobacco. The Report also includes recommendations about bringing manufacturers of tobacco and all types of tobaccos under the purview of the Tobacco Board, referred to in reply to recommendations No. 6 & 8 of the Committee on Public Undertakings. All the recommendations of the Expert Group on Tobacco are to be considered by the Central Government in consultation with all concerned interests and agencies including State Governments and these two recommendations will also be considered along with other recommendations of the Group, as it would not be desirable to consider these recommendations in isolation.

[Ministry of Commerce O.M. No. 4/38/79-EP. (Agri-vi) dated 16-8-80]

Recommendation (Serial No. 11, Paragraph 4.39)

In view of the foregoing the Committee emphasise that compulsory grading at the growers' level and statutory minimum support price together with introduction of auction system and effective buying of surplus by a Government agency are a must to ensure adequate return to the growers. The Tobacco Board should ensure creation of necessary infrastructure facilities including warehousing and processing centres without loss of time. Auction platforms must be ready before the next sowing season in Karnataka and Andhra Pradesh. There should be a Commercial Intelligence Cell in the Tobacco Board as well in the Ministry of Commerce to watch the activities of middlemen in tobacco trading and it should be set up forthwith.

Reply to the Government

Intelligence
cell

According to section 8 of the Tobacco Board Act, 1975, functions of the Tobacco Board, *inter alia*, include promotion of grading at the growers' level and ensuring them a fair and remunerative price. The Act does not provide for fixing of statutory minimum support prices and compulsory grading at the growers level. The Tobacco Board has introduced eight new farm grades for black soil areas and plant position grading for light soil areas for grading at growers' level to eliminate malpractices in grading. The Tobacco Board has already initiated steps and is making all out efforts to popularise the new farm grades at the earliest. The adoption of new farm grades cannot be achieved in a single year and has to be done in a phase manner over a period of years. It may be mentioned here that during 1979 marketing season the STC purchased on Government account about 3,000 tonnes of VFC tobacco in new farm grades directly from the growers at the grading and buying platforms set up by the Tobacco Board.

2. Regarding statutory minimum support prices at growers' level, it may be stated that the Central Government undertakes price support operations as and when there is excess production of virginia tobacco as compared to the demand to prevent distress sales by the farmers. The prices paid in the support operations to the growers are reasonable. During 1979 marketing season the prices paid by the STC for VFC tobacco purchased directly from the growers in new farm grades were at the prices recommended by the APC. If the Tobacco Board is able to regulate production of virginia tobacco as per the demand therefor, occasions for support operations may arise only rarely. This could not be done by Tobacco Board due to some legal difficulties. Action is being taken to remove the legal difficulties to enable the Tobacco Board to regulate production of virginia tobacco.

3. It may, however, be stated that compulsory grading at the growers' level and statutory minimum support price are closely linked with the auction system and these will be taken into consideration at the time of finalisation of the auction system proposed to be introduced by the Tobacco Board.

4. Introduction of auction system for virginia tobacco will minimise and ventually eliminate the various malpractices prevalent in tobacco marketing and it will go a long way to ensure fair and remunerative price to the growers. However, before the auction system for virginia tobacco is introduced, lot of preparatory work viz. building up of infrastructure, training of personnel in the auction system in foreign countries following auction system etc. is required.

5. The Tobacco Board has recently sent the auction scheme to the Government. The scheme formulated by the Tobacco Board will need thorough examination in consultation with the concerned Ministries/Departments, State Government and various other interests, viz. growers, traders, exporters, etc. After that other preparatory work as mentioned in para 4 will have to be done. All this is likely to take quite some time, and therefore, it may not be possible to introduce the auction system before 1980-81 marketing season even in some of the tobacco growing areas.

6. Creation of necessary infrastructure like warehousing and processing centres is mainly connected with auctions. These infrastructural facilities are the pre-requisites for introduction of auction system. These will naturally be provided by the Tobacco Board when the auction system is introduced.

7. The Tobacco Board is considering setting up of a Commercial Intelligence Cell. It is felt that it may not be necessary to set up such a Cell in the Ministry as setting up of such a cell in the Ministry, in addition to the Cell being set up in the Tobacco Board may lead to avoidable duplication of work.

[Ministry of Commerce & Civil Supplies (Department of Commerce)
O.M. No. 4/38/79-EP. (Agri. vi) dated the 23rd January, 1980]

Recommendation Serial No. 13, (Paragraphs 4.41 and 4.42)

4.41. Indicative prices for various grades of tobacco announced by the Tobacco Board to regulate payments to the growers were not enforceable and hence obviously did not have much effect. It was therefore absolutely necessary to have minimum statutory floor price for the growers. An exercise in this regard however, started for the first time only last year after this Committee took up examination of Purchase of Tobacco.

4.42. The minimum price recommended by the Agricultural Prices Commission in December 1978 is as low as Rs. 7.50 per Kg. for farm grade F. 2 as against indicative price of Rs. 9.70 fixed by the Tobacco Board. The Agricultural Prices Commission has recommended the price on the basis of

cost of cultivation of Virginia flue cured tobacco in Andhra Pradesh during 1975-76 which was estimated to be Rs. 4774 whereas the Tobacco Board had worked out the present cost as Rs. 5300 per hectare. The Committee's examination revealed that certain elements of cost of production like cost of curing operation, interest on fixed assets and working capital, depreciation etc. as well as the cost of transport till the tobacco reached the primary market were not taken into account. The Committee regret that the Agricultural Prices Commission which has been entrusted with the onerous task of safeguarding the interest of the agriculturists in the country, at times functions to the detriment of their financial interests. The Committee would like to know whether the Commission took note of the prices obtained by the growers in other tobacco producing countries and why our growers today should get as low as 17 per cent of what Japanese growers receive.

Reply to the Government

Minimum support price of Rs. 7.50 per Kg. for farm grade F. 2 of VFC tobacco for 1978-79 crop, recommended by the Agricultural Prices Commission, and the indicative price of Rs. 9.70 per Kg. for the corresponding grade fixed by the Tobacco Board are conceptually different and are not comparable. Indicative prices of VFC tobacco were fixed by the Tobacco Board keeping in view the size of the crop, carry over stocks, cost of production, minimum export prices, etc. and represent the level of prices which the growers may legitimately hope to get in the market. Minimum support price recommended by the Commission on the other hand sets a floor price below which, in the event of a glut in the market, prices of the crop should not be allowed to fall. The minimum support price is thus in the nature of an insurance cover and the grower is absolutely free to realise a higher market price. It must also be borne in mind that the price support operation is on Government account and the higher the support price the greater will be the amount of loss to be subsidised by the Government at the expense of the tax-payer.

2. The Department of Agriculture have stated that while formulating views on level of administered prices for any crop—VFC tobacco in the present case—the Agricultural Prices Commission takes into consideration estimates of cost of production as made available by Directorate of Economics and Statistics, Ministry of Agriculture & Irrigation, on the basis of comprehensive Scheme for studying cost of cultivation of Principal Crops and also those supplied by State Governments and other agencies. The Comprehensive Scheme generates estimates based on scientifically designed survey involving representative sampling and accounting method for collection of data in respect of inputs and outputs. Under this Scheme, total cost relates to all expenses incurred by selective cultivators, whether these are in the nature of actual expenses in cash or kind (on fertilisers, insecticides, seed, hired labour, etc.) or imputed costs (on family labour, rental value of owned land, interest on owned fixed capital). In case of VFC tobacco, the estimates of cost of production of VFC tobacco for State of Andhra Pradesh for 1975-76, generated under the Scheme by the Directorate of Tobacco Development Madras, were made available to the Commission by the Directorate of Economics and Statistics for the first time, for the 1978-79 crop. The total cost of cultivation per hectare for VFC tobacco of Andhra Pradesh estimated under this Scheme at Rs. 4774.86 during 1975-76 includes cost of curing operations also. The estimates made available by the Directorate of Economics and Statistics are at Appendix-I.

3. The estimate of cost of cultivation per hectare of VFC tobacco worked out by Tobacco Board at Rs. 5300 is based on the average figure of cost of cultivation as indicated by different agencies and adding normal rate of interest charged by banks as at Appendix-II.

4. In the above recommendation of the Committee, it has been observed that "certain elements of cost of production like cost of curing operations, interest on fixed aspects of working capital, depreciation, etc., as well as cost of transport till the tobacco reaches the primary market" were not taken into account. It will be seen from the statement appended to Annexure-I that the cost representing the total cost includes all the cost items mentioned as omissions in the above recommendation by the Committee, except one relating to cost of transport to the primary market. The cost estimates under the Comprehensive Scheme are confined to the farm only. If the objective is to go further, then perhaps transport cost as also some other costs too may have to be included. An Export Committee on cost of production of Principal Crops is already examining the scope and coverage of the cost concepts and the recommendations of this Committee will be duly examined by the Government.

5. The Agricultural Prices Commission takes into consideration, inter-alia, the cost concept of the cost of production while formulating its views on the level of minimum support prices. 'Cost C' is the most Comprehensive cost, covering all items of expenses of cultivation as also the imputed value of inputs owned by the farmers such as the rental value of owned land and interest on owned fixed capital. In assessing the margin between the administered prices and the total cost (Cost C) it is, important to note that the latter already contains a return on the investments in fixed capital on land and any attempt to build this return again in the margin of administered price, over and above the total cost, would amount to double counting.

6. In deciding upon price policy for any crop, the Commission takes a comprehensive look at the entire crop economy, and considers inter-alia, the available estimates of average cost of production, possible changes in the input prices, international aspects, and changes effected in the administered prices for competing crops, crop prospects in the particular year and expected trend in market prices. Thus while due regard is paid to all relevant factors in arriving at its recommendations, the Commission does not and cannot adopt any mechanical formula in this connection.

7. The APC has stated that realisation of low prices by the Indian tobacco growers is largely on account of various imperfections in the tobacco grading at growers level and in tobacco marketing structure of VFC tobacco. As regards low prices obtained by tobacco growers in India vis-a-vis tobacco growers of Japan position has been explained in reply to recommendation No. 10 (Paras 4.37 and 4.38) of the Committee. It is hoped that the measures introduced/contemplated by the Tobacco Board e.g., standardisation of grades at growers level, tobacco leaf purchase voucher scheme for ensuring timely payment to growers, proposed introduction of auction system for VFC tobacco, etc. will go a long way in minimising the existing malpractices in tobacco grading and marketing and ensuring a fair and remunerative price to the tobacco growers.

[Ministry of Commerce & Civil Supplies (Deptt. of Commerce)
O.M. No. 4/38/79-EP. (Agri.-vi) dated the 23rd January, 1980]

Further information asked for

Please indicate the action taken by the Govt. on the recommendations (if received) of the Expert Committee on cost of production of principal crops in relation to fixation of minimum support price for Tobacco.

(L.S.S. O.M. No. 169/ii-PU/79 dt. 1-5-1980)

Further reply of the Government

Please *see* below recommendation at S. No. 14.

Comments of the Committee

Please *see* paragraphs 15 to 20 of chapter I.

Recommendation Serial No. 14 (Paragraph 4.43)

The Committee learnt that the recommendation of the Agricultural Prices Commission is under consideration of the Government. They suggest that the calculations of the cost of cultivation of tobacco which formed the basis for the recommendation of the Commission should be thoroughly checked in the light of what the Committee had pointed out in their 8th Report (1977-78) presented to Lok Sabha on 25-4-1978 in the case of Jute. In doing so they further suggest that the State Governments concerned and the Indian Council of Agricultural Research should be actively associated. The Committee would expect a report in this regard within three months.

Reply of the Government

In accordance with the above recommendation of the Committee, the Ministry of Agriculture & Irrigation (Deptt. of Agriculture) has constituted a Technical Expert Committee, inter-alia consisting of Members of the Indian Council of Agricultural Research and State Governments of Andhra Pradesh and Karnataka, to check the cost of cultivation of VFC tobacco which formed the basis for recommendation of minimum support price for VFC tobacco for 1978-79 by the Agricultural Prices Commission.

2. The Committee has recently submitted its report, which is being examined.

[Ministry of Commerce & Civil Supplies (Deptt. of Commerce)
O. M. No. 4/38/79-EP. (Agri.-vi), dated the 23rd January, 1980].

Further information asked for

Please indicate the result of the examination conducted by the Technical Expert Committee and the action taken thereon by the Govt.

(L. S. S. O. M. No. 169/ii-PU/79 dt. 1-5-80).

Further reply of the Government

A copy of the Report of the Technical Expert Committee on cost estimates of Flue-Cured Virginia tobacco is enclosed.* Summary of the conclusions and recommendations are given in Section VIII of the Report. The Technical Expert Committee has come to the conclusion that the estimates obtained by the Directorate of Economics and Statistics are based on a study conducted on well-defined concepts and definitions whereas Tobacco Board's estimates are not based on any systematic study. Moreover, the Directorate

*Placed in Parliament Library. See Index No. 338.17371 R 26
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of Economics and Statistics scheme have a sound field staff base and their arrangements for scrutiny and processing of the data are quite satisfactory. The Technical Expert Committee has made a number of recommendations for further action. These recommendations are contained in paragraphs 8·4 to 8·7 and 8·12 to 8·15. The Tobacco Board has been asked to consider recommendations contained in paragraphs 8·12 and 8·14, which relate to standardisation of grades of tobacco and bringing the virginia tobacco crop under regulated market act, etc. Recommendations contained in paragraphs 8·4 to 8·7, 8·13 and 8·15 relate to different cost/return concepts.

2. The Department of Agriculture and Cooperation has stated that under the Comprehensive Scheme for Studying the cost of Cultivation of Principal Crops, one of the crops is VFC tobacco and it is taken up as a special study on a continuing basis. The Government had also appointed a Special Expert Committee on Cost of Cultivation Estimates generated by the Directorate of Economics and Statistics under their Comprehensive Scheme, under the Chairmanship of Dr. S. R. Sen, Chairman, International Food Policy Research Institute. This Committee has also submitted its report. The recommendations of the Technical Expert Committee on VFC tobacco and those of the Special Expert Committee on cost of production estimates cover a wide range of issues relating to concepts and methodology of generating estimates of cost. The Government intends to take a total view on the present scheme of cost of production estimates operated by the Directorate of Economics and Statistics through Agricultural Universities in different States. This view would cover not only tobacco crop but all the important crops in the country for which cost estimates are generated. The Government have also revised the terms of reference of the Agricultural Prices Commission recommending a coverage of a larger number of crops for recommending procurement/support prices.

3. The recommendations of the Report of the Special Expert Committee on Cost of Production Estimates (Dr. S. R. Sen's Committee) have not yet been examined in all their implications. Comments on both these Reports are yet to be received from various Departments. On receipt of these comments, the recommendations would be examined for taking suitable action covering all the major crops of the country. The process would require examination of the recommendations of the 2 Committees by experts of the Planning Commission, CSO, Department of Agriculture etc., preparing the implementing agencies (Agriculture Universities of the States which collect cost of production data by cost accounting methods) for changing the methodology etc. The action on these recommendations would, therefore, necessarily take some time.

[Ministry of Commerce O. M. No. 4/38/79-EP(Agri-vi)
dated 16-8-1980].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES.

Recommendation Sl. No. 4 (Paragraph 2-61)

The Committee were informed during evidence that the STC had great difficulty in entering the export market because of the strong relations between the foreign buyers and the domestic monopolies as well as the multinational Company who take advantage of uncontrolled production and enormous scope for manipulation in grading. There being no state monopoly in tobacco business this situation is bound to prevail. Recently there was a possibility of STC entering the Chinese market but a private exporter got the better of the Corporation and obtained an export order directly from China for 2200 tonnes valued at 4.2 million U. S. dollars. It is distressing that the STC remained unconcerned when it held enormous stock without being able to locate export market. The Committee apprehend that by this behaviour the Government buying agency runs the risk of being discredited which will act as a damper for future entry into the export market. Government must therefore take a serious note of this.

Reply of the Government

There are strong relations between foreign buyers and domestic exporters. The Government monopolies abroad are also generally purchasing tobacco from private exporters in India instead of through STC. It has, therefore, indeed become very difficult for a public sector undertaking like the STC to secure export orders for VFC tobacco. It may, however, be mentioned here that STC has been able to secure orders from USSR, U. K. and Italy. As export of tobacco is not canalised through the State Trading Corporation of India or any other public sector undertaking, the foreign buyers are free to purchase tobacco from exporters of their choice. It may not be possible and desirable to pressurise the foreign importers to purchase tobacco from the STC only.

2. As regards STC's not getting the Chinese order for tobacco, it was not due to any lack of pursuing the matter vigorously with the Chinese by the STC. The main reason was that the Chinese insisted that they would buy tobacco from STC only after the latter agreed to import raw silk from them. As the STC could not agree to this proposal, the Chinese preferred to purchase tobacco from a private exporter in India.

3. The STC is making vigorous efforts to find an export outlet not only in the traditional importing countries but also in new markets.

[Ministry of Commerce & Civil Supplies (Department of Commerce)
O. M No. 4/38/79-EP(Agri-vi) dated the 23rd January 1980]

Comments of the Committee

Please see paragraphs 10 and 11 of Chapter 1.

Recommendation Serial No. 7 (Paragraph 3-14)

The tobacco Board has been constituted primarily to safeguard the interests of growers. Taking on the Board members having diverse interest in Tobacco business would result in the Board working at cross purposes and it is bound to fail in discharging its primary responsibility. It is therefore necessary to restructure the Board so as to function as effectively as the Coffee Board and free it from those who have financial interest in tobacco except that of genuine growers. The Committee accordingly recommend that the Board should have six Members of Parliament—four from Lok Sabha and two from Rajya Sabha, four genuine representatives of growers, one representative of agricultural tobacco growing labour and another labour representative in non-agricultural tobacco operations, besides official Members. This would mean election of three more Members of Parliament—two from Lok Sabha and one from Rajya Sabha for associating with the Board in addition to such further number of officials/growers' and labour representatives as may be required. The size of the Board, should not be unwieldy as it is now. The Board should be headed by a non-official, preferably a Member of Parliament. An advisory Committee should however be constituted with representations to various interests, such as growers, consumers and others connected with Tobacco trade and industry and this Committee could meet at least twice a year.

Reply of the Government

Section 8(1) of the Tobacco Board Act, 1975 provides that it shall be the duty of the Tobacco Board to promote, by such measures as it thinks fit, the development under the control of the Central Government of the tobacco industry. Since the Tobacco Board is to promote development of tobacco industry in its entirety. Government is of the view that all interests in the Tobacco industry, namely growers of tobacco, dealers and exporters (including packers) of tobacco and tobacco products, and manufacturers of tobacco products should be represented on the Tobacco Board. It may be mentioned that even in the Coffee Board, which has been cited by the Committee, the representation for coffee trade, curing establishments, coffee consumers and other interests has been provided. Out of the total membership of 22, including the Chairman, the composition of the present Tobacco Board in terms of non-official representatives is as follows:—

- (i) Two Members elected by Lok Sabha
- (ii) One Member elected from Rajya Sabha
- (iii) Four members representing interests of growers.
- (iv) Three members representing interests of dealers/exporters/packers in tobacco and tobacco products/export in tobacco marketing.
- (v) One member representing manufacturers of tobacco products.

In addition, the present Chairman of the Tobacco Board is also a non-official. It is therefore respectfully submitted that the representation of growers is adequate *vis-a-vis* representation of other interests.

2. Regarding the recommendation of the Committee that the Board should have six members from Parliament (four from Lok Sabha and two from Rajya Sabha) against the existing three members (two from Lok Sabha and one from Rajya Sabha), it may be mentioned that even in the Coffee

Board, whose membership is more than 30, representation is provided to only three Members of Parliament (two from Lok Sabha and one from Rajya Sabha). Government is of the view that provision for three Members of Parliament on the Tobacco Board, whose total membership is 22, is adequate.

3. It is felt that it may not be essential to have labour representatives, both agricultural and non-agricultural, on the Tobacco Board. However, Section 4(8) of the Tobacco Board Act, 1975 provides for associating any person by the Board and under this provision the labour representatives can always be associated by the Tobacco Board whenever a specific problem relating to labour is brought before the Board. It may be mentioned that the initially constituted Tobacco Board had invited a representative of labour to attend three meetings of the Board. As and when problem related to labour comes up before the Board for consideration, representatives of labour will be associated as was done in earlier three Board meetings.

4. The Committee are respectfully requested to reconsider their recommendations in the light of what has been submitted above.

5. Regarding recommendation for constituting an Advisory Committee representing various interests connected with tobacco trade and industry, it may be stated that the Ministry of Agriculture & Irrigation (Deptt. of Agriculture) have already set up Indian Tobacco Development Council, having representatives of State Governments, Central Government, growers, trade and industry, Members of Parliament and workers. In addition there are also observers from some Public Sector Undertakings and Government Departments. The Government can also nominate additional members on the Indian Tobacco Development Council. In view of this, the Committee are requested to consider whether it is necessary to constitute another Advisory Committee as recommended.

[Ministry of Commerce & Civil Supplies (Department of Commerce)
(O. M. No. 4/38/79-EP (Agri.-vi) dated the 23rd January 1980)]

Recommendation Serial No. 12 (Paragraph 4.40).

Export of tobacco has to be handled by a single agency to prevent malpractices and to improve the unit value realisations which is about a half of what it ought to be. It is only the grip of the monopolists and intermediaries, particularly the multinational, ITC in the absence of proper institutional arrangements that stands in the way of realising the legitimate, price in the international market and the buyers cash on this. In this connection it is worth mentioning that there is greater governmental involvement even in free economy countries like USA, Canada and Rhodesia. The Committee therefore recommend that the export must be canalised through the STC.

Reply of the Government

During 1977, the unit value realisation on Indian VFC tobacco in U.K. market one of the biggest markets for VFC tobacco from India was about \$2.88/Kg. During the same period realisation on Thailand VFC tobacco was \$2.56/Kg. and \$2.92 on Braxilian tobacco. It would thus appear that unit value realised from Indian tobacco compares well with the unit value realisation of tobacco by some of our competitors. Thus it may not be correct to say that the unit value realisation of Indian tobacco, given its

quality, is about half of what it ought to be. It is respectfully submitted that it would not be appropriate to compare the unit value realisation of Indian Tobacco with USA or Malawi because the latter produce a much superior quality of tobacco.

2. The international market for tobacco at present is unfortunately a buyers' market. Some strong linkages have developed between certain foreign importers and Indian exporters over the years. It may be stated that even Government monopolies in foreign countries like USSR, Bulgaria, Iraq, Italy, China etc. prefer placing orders on private Indian exporters rather than on STC. Further we are facing stiff competition from our competitors like Brazil, South Korea, Thailand, Philipines, etc., who have already intruded into our traditional markets, especially U.K. which is our major importer, and have increased their share considerably. On the other hand, exports of our tobacco are stagnant quantitywise, and in fact are declining. The STC and the trade have large carry over stocks of VFC tobacco and they have not been able to find any export outlet for these carry-over stocks.

3. In view of the above facts, it is imperative to follow a cautious policy regarding tobacco exports. Any drastic change in the export policy of tobacco may land to a substantial decline in the demand for Indian tobacco abroad. For reasons given at para 2 above, canalisation of tobacco exports may not be desirable at this stage. If tobacco exports are canalised, there is a risk that our traditional buyers may change over to other competing countries who are already trying to increase their production of VFC tobacco and to increase their share in our traditional markets. The Committee are, therefore, respectfully requested to reconsider their recommendation for canalisation of exports through STC.

4. It may be mentioned that the Tobacco Board has already prescribed a standard contract form, which, *inter-alia*, requires opening of 100% Letter of Credit by the importer, with a view to ensuring that the country does not suffer loss of legitimate earnings of foreign exchange. Further, minimum export prices are fixed every year by the Central Government to avoid unhealthy competition among the tobacco exporters, to ensure that our tobacco is not under-sold for any reason and to improve unit value realisation from tobacco.

[Ministry of Commerce & Civil Supplies (Deptt. of Commerce)
O. M. No. 4/38/79-EP. (Agri. vi) Dated the 23rd January 1980]

Comments of the Committee

Please see paragraphs 10 and 11 of Chapter 1.

Recommendation Serial No. 15 (Paragraph 4.44)

The facts highlighted in this Report as well as the observations and conclusions of the Committee would show unmistakably that the poor tobacco growers were systematically exploited and the nation was denied of its legitimate share of foreign exchange earnings solely on account of the nefarious activities of the monopolists and multinational Company in the Tobacco trade and industry, who also undoubtedly indulged in large scale evasion of tax and got richer and still richer in the process. The Committee therefore, recommend strongly that the role of Private tobacco trade and industry should be thoroughly probed by a High Powered Commission of Enquiry with a comprehensive terms of reference which should in particular cover the operation of large companies in the field today.

Reply of the Government

In order to ensure that the country does not suffer any loss of legitimate earnings of foreign exchange, the Tobacco Board has prescribed a standard contract form, which *inter-alia* requires opening of 100% Letter of Credit by the importer. Further, fixation of statutory minimum export prices of tobaccos every year by the Central Government also ensures that our tobacco is not under-sold for any reason. It also avoids unhealthy competition among exporters.

2. In so far as the purchasing operations are concerned, it is true that some of the trading companies were not having the growers a remunerative price and in some cases not paying in time. In order to streamline the payment procedure, the Tobacco Board introduced the Tobacco leaf Purchase Voucher system, which after some resistance from the trade, has now been accented. However, the voucher system will only ensure payment of the sale consideration within a time bound schedule. It cannot by itself ensure a fair price to the growers.

3. Another factor which leads to exploitation of the growers is lack of a scientific system of grading. Here again the Tobacco Board has introduced 8 new farm grades co-related to agmark grades for black soil areas. It was only in 1979 that this scheme was popularised to some extent and it is learnt that so far nearly 15,000 growers have been educated on those grades. Within the next two to three years it is hoped that most of the growers would be educated on the new farm grades. Similarly in the light soil areas plant position grades are being popularised by the Tobacco Board.

4. While these measures initiated by the Tobacco Board would certainly go a long way in reducing if not eliminating the various malpractices, there are some more measures under contemplation, the most important being the introduction of auction scheme. The auction scheme has been recently submitted by the Tobacco Board to the Government and it is being examined in consultation with all concerned.

5. Increased participation and a more effective role by the STC in internal marketing and export of tobacco is also envisaged to minimise the monopolistic hold in tobacco trading.

6. It is hoped that the above mentioned steps taken/contemplated by the Tobacco Board and the Government, will go a long way in minimising and eliminating the various malpractices existing in tobacco trading and the monopolistic influence of a few big tobacco trading companies in tobacco marketing and export. In view of this, it is submitted that there may not be any need for setting up a High Power Commission of Inquiry as recommended by the Committee. The Committee may kindly reconsider their recommendation.

[Ministry of Commerce & Civil Supplies (Deptt. of Commerce)
O. M. No.4/38/79-EP. (Agri. vi) dated the 23rd January, 1980]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation Serial No. 9 (Paragraph 3.16)

In terms of Section 8(2)(g) of the Tobacco Board Act, 1975 the Parliament's intention was to vest the Board with the responsibility of undertaking support purchase operation. This cannot be delegated to the State Trading Corporation under an executive fiat as has been done recently. This executive order seriously offends against the Act of Parliament which amounts to scant regard bordering on contempt. The Committee, therefore, strongly feels especially in view of the half-hearted, wayward and poor performance of the STC that the Tobacco Board should undertake purchase though it is advisable to associate STC's export agency with it in order to ensure marketability of tobacco abroad. In this connection it is also worthwhile to nominate a representative of the STC on the Tobacco Board.

Reply of the Government

Section 8(2)(g) of the Tobacco Board Act, 1975 enables the Tobacco Board to purchase "virginia tobacco from growers when the same is considered necessary or expedient for protecting the interests of the growers". It should, however, be noted that the Tobacco Board is in its infancy and has to devote attention fully to matters relating to regulation of production of virginia tobacco, development of exportable type of virginia tobacco, standardisation, popularisation of farm grades at the grower's level, regulation of tobacco marketing and the like if it has to fulfil its *statutory* duty, conferred on it by Section 8(1) of the Act "to promote.....the development.....of the tobacco industry". In view of this, it is considered that it would not be desirable for an organisation still in its infancy to handle purchase of tobacco under price-support operations, which is an intricate operation. At the present moment, till the Tobacco Board develops more experience in the diverse fields of tobacco marketing, it would be more appropriate to entrust price-support operations to the STC, which has experience in the purchase and export of tobacco and other products as well as requisite financial means to undertake such operations without much of initial financial outlay from Government budget. The Committee may like to reconsider this recommendation for direct purchase by the Board.

It may be mentioned in this connection that during the 1979 season, price-support operations were undertaken by STC in close cooperation with the tobacco Board. The Board's involvement in future price-support operations, as they become necessary, is likely to be even closer.

2. The Tobacco board has been asked to consider associating a representative of STC on the Tobacco Board and its marketing committee.

In view of this, the Committee may kindly reconsider their recommendation for formal nomination of a representative of STC in the Tobacco Board.

[Ministry of Commerce and Civil Supplies (Department of Commerce)
O.M. No. 4/38/79-EP (Agri-VI) dated 23rd January 1980]

Comments of the Committee

Please see paragraphs 12 to 14 of Chapter L.

Recommendation Serial No. 10 (Paragraphs 4.37 and 4.38)

4.37 Although India is one of the main producers and exporters of virginia flue cured tobacco and nearly a lakh growers depend on the cultivation of tobacco for their livelihood, until quite recently virtually no step was taken to either protect the interests of the growers or to improve the export earnings. There has been regulation of neither production for marketing nor exports. Consequently, Indian tobacco alone has been totally in the buyers' market in the internal and external trade and a very unhealthy buyers-seller relationship had developed in the country which only benefited middlemen, the monopoly houses and foreign multi-nationals to the detriment of the interest of the growers and the economic interest of the country.

4.38 The opposition to the introduction of the voucher system of payment holding up purchase by the trade which was used to abnormally delayed payment and non-payment to the growers and various mal-practices including evasion of taxes generating back money is a measure of the vested interest that has been allowed to grow unchecked all these years. The Commerce Secretary in his evidence before the Committee apprehended resistance by the trade to the compulsory introduction of auction sales also. Further it is unfortunate that the statutory minimum export price notified by Government on the recommendations of the Tobacco Board admittedly did not help the growers at all and it only helped the middlemen. The growers left high and dry are totally at the mercy of unscrupulous traders all along. The price they obtained for their produce was a mere 17 per cent of what their counterparts got in Japan for similar Tobacco. The Committee were informed that our tobacco is as good as the best produced in America or any other country in the world. Thus even with a low realisation in the export market the middlemen especially the rich, get an enormous margin.

Reply of the Government]

The Tobacco Board was set up in 1976, and thereafter it has taken a number of measures in the interest of growers and to improve export earnings. The Tobacco Board has prescribed a standard contract form which, *inter-alia*, provides for opening of 100% Letter of Credit, to streamline the procedure in the export of unmanufactured tobacco and tobacco products and to protect the country's interest. The Tobacco Board had fixed indicative prices for the major grades of farm grade tobacco during 1977 and 1978 marketing seasons with a view to ensure that the growers get fair and remunerative price. The Tobacco Board has also introduced tobacco leaf purchase voucher scheme in Andhra Pradesh and Karnataka for ensuring timely payment to the growers for their tobacco. The tobacco leaf purchase voucher system is working satisfactorily both in Karnataka

and Andhra Pradesh, though it faced some resistance from the traders at the time of its introduction in Andhra Pradesh. The Tobacco Board has also evolved 8 new farm grades for VFC tobacco grown in black soil areas and plant position grading for VFC tobacco grown in light soil areas at growers, level and the Tobacco Board is taking steps to popularise these grades. During 1979 marketing season, the STC had purchased 3,000 tonnes of VFC tobacco on Government account in new farm grades directly from the growers on the grading and purchasing centres set up by the Tobacco Board. The purchase of tobacco by the STC on Government account in new farm grades during 1979 marketing season in Andhra Pradesh was at the prices recommended by the Agricultural Price Commission. During 1977-78 marketing season, the Tobacco Board had also taken action under the provisions of the Tobacco Board Act, 1975 to restrict production of VFC tobacco in Andhra Pradesh to avoid any excess production of VFC tobacco to prevent any depression in prices etc. However, some growers filed Writ Petitions against the action of the Tobacco Board and the Andhra Pradesh High Court struck down the action of the Tobacco Board. Action is being taken to remove the legal difficulties for regulation of production of virginia tobacco by the Tobacco Board. The Tobacco Board is also proposing to introduce auction system for sale of VFC tobacco in Andhra Pradesh and Karnataka. A scheme has been received by the Government for the purpose which is being examined and will be finalised in consultation with concerned Ministries/Departments, State Governments, various interests representing growers, traders and exporters etc. It may not be correct to say that no steps have been taken to protect the interests of the growers or to increase export earnings.

2. In addition to the steps taken by the Tobacco Board, the Central Government has also been undertaking price support operations for VFC tobacco in case of necessity to minimise distress sale by growers.

3. Statutory minimum export prices for tobacco are fixed every year by the Central Government to ensure realisation of a fair price for our tobacco and to avoid unhealthy competition among the exporters. While fixing minimum export prices, the Government takes into consideration recommendation of the Tobacco Board, based on consideration of matters like surplus of previous crops, total assessed demand, average F.O.B. unit value realisation, change in the cost of cultivation, ensuring a fair and remunerative return to the growers consistent with the need to make the minimum export prices attractive enough to facilitate exports of the entire exportable surplus. Thus the minimum export prices fixed by the Government take into consideration the interests of all, including that of the growers.

It may be pertinent to mention that the unit value realised from exports of unmanufactured tobacco from India has increased during 1970-71 to 1978-79 from Rs. 6.61 per Kg. to Rs. 15.65 per Kg. Similarly the unit value realisation of VFC tobacco from India has increased from Rs. 7.54 Kg. during 1970-71 to Rs. 14.45 per Kg. during 1977-78.

4. In view of the position stated in the preceding paragraphs, the Committee are respectfully requested to reconsider their conclusion that no steps have been taken to protect the interests of the growers or to increase export earnings. The steps already taken and further steps contemplated

will help in establishing standardised grading of VFC tobacco at growers level and regulation of marketing of VFC tobacco, and thus improve the bargaining position of the growers vis-a-vis the traders significantly.

5. In so far as the prices received by growers in Japan are concerned, it may be mentioned that the prices are very high in Japan due to a very high cost of production and subsidies provided to the Japanese growers by their Government as an incentive to encourage local production to decrease their imports of tobacco. It may also be mentioned that the prices payable to growers in the two countries have to be viewed in the context of the per capita income in the respective countries. In view of this it may not be entirely appropriate to compare the prices received by the growers of FVC tobacco in India with the prices received by the growers of VFC tobacco in Japan.

[Ministry of Commerce and Civil Supplies (Department of Commerce)
(O.M. No. 4/38/79-EP(Agri-vi) Dated the 23rd January 1980]

Comments of the Committee

Please see paragraphs 15 to 20 of Chapter 1

CHAPTER V

RECOMMENDATION IN RESPECT OF WHICH FINAL REPLY OF GOVERNMENT IS STILL AWAITED

Recommendation Serial No. 2 (Paragraph 2.58)

The situation in 1978 very much warranted effective action on the part of a Government buying agency to come to the rescue of the tobacco growers. However, it was only after the matter was raised in Lok Sabha in March 1978 by which time the Committee also had stated their examination of the tobacco operation of the State Trading Corporation, that the Government felt compelled to move the Corporation to organise itself to handle support purchase of 10,000 tonnes of tobacco in addition to 5,000 tonnes on commercial basis. A quantity of only 6250 tonnes was purchased on Government account by October 1978 and even this limited quantity was not purchased directly from the growers in kutchra farm grades, which was against the spirit of the Government's directive. A quantity of 2018 tonnes was to be purchased from 11 Cooperatives of Growers and the remaining 7982 tonnes from 266 Growers Syndicates. The necessity for purchasing from packers had also been felt. No export market had been located even by the close of 1978 for the disposal of this quantity. Thus the performance of the STC during the year 1978 was even far worse than what it was in 1972. The Committee would await a report on the total quantity actually purchased and disposed of and the impact as well as the economics of the operations.

Review of the Government

The Virginia tobacco crop in 1977 harvested and marketed in 1978 was a big one due to massive Government assistance provided to the growers in the wake of a severe cyclone that hit coastal Andhra Pradesh in November, 1977. Because of late transplantation and the peculiar climatic conditions the crop was generally of a poorer quality than usual. The percentage of low grades was higher and correspondingly high grades accounted for a lower proportion. This created serious marketing difficulties in early 1978.

2. When the Tobacco Board brought this to the attention of the Government and also suggested that a big purchase programme on Government account should be undertaken to protect the interests of the growers, the Government initially asked the State Trading Corporation of India Ltd. to enter the market and make its commercial purchase to the extent of 5,000 tonnes. Later when the total production picture emerged and the Tobacco Board sent a proposal that there should be a further purchase of 10,000 tonnes on Government account, the Central Government directed the STC in early April, 1978 to make a total purchase of about 10,000 tonnes on Government account, essentially from the growers and growers' cooperatives. On receipt of the instructions from the Government, STC initiated action for purchase of tobacco on Government account.

3. There is no standardised grading at growers level and the growers grade VEC tobacco in *Kutchra* grades and sell to the traders on buyers platforms in Andhra Pradesh. There is no precise definition of "kutchra" grades and there is also no specific or well-defined correlation of

kutchra grades to Agmark grades. Though the Tobacco Board introduced 8 new farm grades at growers' level, these are yet to be popularised and it is likely that it may take two to three years before the new grades are widely accepted and adopted. As such, STC has been purchasing only agmarked packed tobacco on its commercial account as tobacco purchased by the STC on its commercial account is required for exports. The growers are not able to offer agmarked tobacco to the STC and as such STC cannot purchase tobacco direct from the growers on its commercial account operations. Further STC is not asked to intervene in the market every year on Government account and such occasions are very few. After 1972, it was in 1978 only that the Government asked the STC to intervene in the market on Government account. The STC has thus not developed infrastructure for purchase of tobacco direct from the growers. The STC, therefore, continues to purchase agmarked packed tobacco. These are the reasons why the STC could not purchase tobacco direct from the growers on Government account during 1978 price support operations.

4. As the growers could not offer agmarked tobacco to STC, it decided to purchase 10,000 tonnes of tobacco on Government account through growers' cooperatives and growers' syndicates who were able to offer packed and agmarked tobacco to the STC. It was decided by the STC to purchase tobacco through 11 growers' cooperatives and 266 growers' syndicates. Later on, it was found that it was not possible for all these cooperative societies and syndicates to offer the total quantity of 10,000 tonnes to the STC, and a decision had to be taken to purchase the balance quantity from the small packers. The present position (January 21, 1980) in regard to purchases of 1978 crop tobacco on Government account is as under:—

Quantity purchased so far	8180 Mts. (8079 from growers and 401 Mts. from packers).
Quantity to be purchased from growers syndicates and cooperatives.	1104 Mts.

quantity of 1104 Mts. has not been purchased so far as some complaints were received about the genuineness of some of syndicates and the tobacco offered by them to the STC. In view of, this STC has been asked to make further verification of growers' syndicates to ensure that the tobacco offered by them is genuine tobacco of the growers before the quantity of 1104 Mts metric tonnes is purchased from the growers' syndicates. The STC has already started necessary verification. The quantity to be purchased will be determined after the necessary verification has been completed by the STC.

5. In the light of the above position, it may not be correct to say that performance of STC in the matter of purchase of 1978 crop tobacco on Government account was not satisfactory.

6. It may be pertinent to mention here that during 1979 price support operations, the STC purchased about 3,000 tonnes in new farm grades directly from the growers on the grading and purchasing centres set up by the Tobacco Board.

7. The STC has not been able to export any quantity of tobacco of 1978 crop purchased on Government account so far. Indian virginia tobacco is facing stiff competition from many developing countries particularly Brazil, South Korea, Thailand, etc. The trend in the international market is also in favour of light soil tobacco. Most of the purchases of the STC during 1978 were from the black soil areas and also of medium and low grades. These factors have compounded the difficulties being faced by the STC in exporting the stocks of tobacco purchased in 1978. However, vigorous efforts are being undertaken by the STC through their network of offices abroad to find an outlet not only in the traditional importing countries but also in new markets.

8. Economics of the operation can be given only after the tobacco purchased on Government account is disposed of by the STC.

[Ministry of Commerce and Civil Supplies (Department of Commerce)
(O. M. No. 4/38/79-EP (Agri. vi) dated the 23rd January 1980].

Comments of the Committee

Please *see* paragraphs 6 and 7 of Chapter I.

APPENDIX I

(Vide reply to recommendation at S. No. 13)

*Estimates of Cost of Cultivation/Production and related Data for V.F.C.
Tobacco in Andhra Pradesh*

	1975-76
Cost of cultivation per hectare (Rs.)	
A1	3277.54
A2	3563.74
B	4714.16
C	4774.86
Yield per hectare (quintals)	6.95
Value of the main product per hectare (Rs.)	4587.61
Value of the by-product per hectare (Rs.)	63.53
Cost of production per quintal (Rs.)	
A1	462.44
A2	503.62
B	669.15
C	677.88

Notes : 1. Cost of production per quintal is obtained by dividing the cost of cultivation per hectare (net of the value of by-product) by the yield per hectare.

2. Cost A1 pertains to paid out costs or expenses incurred in cash and kind on material inputs, hired human labour, bullock and machine labour (both hired and owned), etc. When rent paid for leased-in-land is added to Cost A1, one gets Cost A2 *i.e.* paid on costs of a tenant cultivator. Cost B is obtained with the addition to Cost A2 of imputed rental value of owned land and interest on owned fixed capital, and total cost, *i.e.*, Cost C, with the further addition of the imputed value of family labour.

Material and labour inputs used per Hectare of VFC Tobacco in Andhra Pradesh, 1975-76

Item	Unit	
Seedlings	(Nos.)	204.81
Fertilizer	(Kgs. in terms of nutrients)	89.83
Manure	(Quintals)	22.77
Human Labour	(man hours)	1717.99
Animal Labour	(Pair hours)	116.12

Statement to Appendix-I
Break-up of Cost of Cultivation per Hectare of VFC
Tobacco in Andhra Pradesh, 1975-76

Cost Items	Rs. per hectare
<i>Total operational cost</i>	3142.54
Operational Cost in Fields	2002.48
Human Labour	
Casual	418.38
Attached	42.63
Family	41.49
Total	502.50
Bullock Labour	
Hired	38.15
Owned	272.64
Total	310.79
Machine Labour	
Hired	91.38
Owned	11.91
Total	103.29
Seed	556.72
Fertilizer and Manure	
Fertilizer	402.83
Manure	94.74
Total	497.57
Insecticides	21.22
Irrigation Charges	10.39
Operational Cost on Curing	1139.97
Human Labour	
Casual	343.46
Attached	91.20
Family	19.21
Total	453.87
Fuel	452.53
Bamboo	74.63
Twine	32.61
Bags	24.22
Others	1.40
Interest on Working Capital	100.61
<i>Total Fixed Cost</i>	1632.41
Rental Value of Owned Land	964.07
Rent Paid for Leased-in-Land	286.20
Land Revenue, Cesses and Taxes	93.21
Depreciation on implements & Farm Buildings	102.67
Interest on fixed capital	186.35
Total Cost of Cultivation	4774.86

APPENDIX II

(Vide reply to recommendation at S. No. 13)

Extracts from D.O. letter No. 5(42)/78-Stat/7066 dated 23 August 1978 from Shri S. Chakravarty, Chairman, Tobacco Board, Guntur to Dr. (Mrs.) R. Thamarajakhi, Member-Secretary, Agricultural Prices Commission, New Delhi regarding cost of production of tobacco together with extracts from Annexure VII of the D.D. Letter.

Kindly refer to your D.O.No.4-1/78-CCC-APC dated the 29th July 1978 regarding the information required by the APC in connection with formulating the price policy for VFC tobacco. As desired by you, I am furnishing the information required by you seriatim.

(5) In respect of the cost of production of tobacco, varying figures are given by different agencies. Whereas the banks place it some what on the lower side (possibly to distribute the available funds to a larger number of farmers), the growers' Associations and traders' Associations and the Government agencies have indicated higher figures. The cost of production during 1976-77 was slightly higher due to 3 successive cyclones. Taking into consideration all factors including the lease amount for the land, the barn charges, the depreciation on barns etc., the cost of production of tobacco was grouped as follows :—

- | | |
|---|-----------------------|
| (i) As per Government agencies | Rs. 4, 601/- per Hec. |
| (ii) As per Exporters' Associations and Banks | Rs. 4, 770/- per Hec. |
| (iii) Growers' Association and Technical | Rs. 4, 913/- per Hec. |

Staff of the Board

The average of these three workout to Rs. 4, 761/-per hectare. The Directorate of Tobacco Development, Madras has also stated that, according to the preliminary estimates conducted by them, the cost of production of tobacco per quintal during 1976-77 is Rs. 650/- to Rs. 675/- per quintal

As regards the cost of cultivation of the competing crops, we have the data which was furnished to us by the Director of Agriculture, Andhra Pradesh in 1975. The same is given below :—

Cost of cultivation per Acre

Tobacco	Rs. 1,465/-
Cotton G. 6 (Rainfed)	Rs. 300/-
L. 147 (Rainfed)	Rs. 300/-
Varalaxmi (Rainfed)	Rs. 300/-
MCU. 5(Irrigated)	Rs. 2,500/-
Varalaxmi (Irrigated)	Rs. 3,170/-
H-4 (Irrigated)	Rs. 2,600/-
Chillies (Rainfed)	Rs. 1,100/-
Irrigated	Rs. 1,850/-

Extracts from Annexure VII to D.O. No. 5(42)/78-Stat/7066 dated 23-8-1978 from Shri S. Chakravarthy, Chairman, Tobacco Board to Dr. (Mrs.) R. Thamarajakshi, Member Secretary, APC

Minimum Export Price and Indicative Prices for Farm Grades for 1977-78 Crop.

* * *

(4) COST OF PRODUCTION OF TOBACCO:—

In respect of cost of cultivation of tobacco, varying figures are given by various agencies. Whereas banks place it somewhat on the lower side (possibly to distribute the available funds to a large number of farmers), the growers' and traders' Associations and Government agencies have indicated higher figures. The cost of production during 1976-77 was slightly higher due to 3 successive cyclones in that year. The cost of cultivation per hectare taking into consideration the lease amount for the land and also the barn charges, depreciation on barns, culled out from the information furnished by various sources is estimated between Rs. 3796 and Rs. 7248. A number of sources have put the figure around Rs. 4700/- The cost of production during 1977-78 is also expected to be somewhat on the higher side, due to the fact that retransplantation has to be taken up in most of the areas, consequent on the November cyclone.

The cost of production data given by various sources have been grouped and the average of each group is as follows :—

(1) Government agencies:	Rs. 4,601/- per Hect.
(2) Exporters' Association and Banks:	Rs. 4,770/- per Hect.
(3) Growers' Associations and Technical Staff of Tobacco Board:	Rs. 4,913/- per Hect.

The average of these 3 works out to Rs. 4,761/- per Hect. The Directorate of Tobacco Development, Madras, has also stated that, according to the preliminary estimates conducted by them, the cost of production of tobacco per quintal during 1976-77 is Rs. 650/- to Rs. 675/-. Taking an average of 789 kgs. per hectare as average of last 5 year yields, the cost of production per hectare is between Rs. 5,128 and Rs. 5,325/-.

Taking the average figure of Rs. 4,760/- and adding the normal bank rate of interest for 9 months, the figure of Rs. 5,300/- is arrived at. We may, therefore, adopt the figure of Rs. 5,300/- for the present calculations.

APPENDIX III

(Vide Para 3 of Introduction)

Analysis of the action taken by Government on recommendations contained in the 34th Report of Committee on Public Undertakings (Sixth Lok Sabha) on Purchase of Tobacco by the State Trading Corporation of India Ltd.

I. Total number of recommendations	15
II. Recommendations that have been accepted by the Government (<i>Vide</i> recommendations at S. Nos. 1,3,5,6,8,11,13, and 14)	8
Percentage to total	53·4
III. Recommendations which the Committee do not desire to pursue in view of Government's replies (<i>Vide</i> recommendations at S. Nos. 4,7,12, and 15)	4
Percentage to total	26·6%
IV. Recommendations in respect of which replies of Government have not been accepted by the Committee (<i>Vide</i> recommendations at S. Nos. 9 and 10)	2
Percentage to total	13·4
V. Recommendation in respect of which final reply of the Government is still awaited (<i>Vide</i> recommendation at S.No. 2)	1
Percentage to total	6·6%