

**LOSS ON PROCUREMENT
OF LAC**

MINISTRY OF COMMERCE

**PUBLIC ACCOUNTS
COMMITTEE
1989-90**

EIGHTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

**HUNDRED AND EIGHTY-FIRST
REPORT**

**PUBLIC ACCOUNTS COMMITTEE
(1989-90)**

(EIGHTH LOK SABHA)

LOSS ON PROCUREMENT OF LAC

MINISTRY OF COMMERCE

[Action taken on 56th Report (8th Lok Sabha)]



Presented in Lok Sabha on 11-8-1989

Laid in Rajya Sabha on 11-8-1989

**LOK SABHA SECRETARIAT
NEW DELHI**

August, 1989/Sravana, 1911 (Saka)

PAC No. 1279

12813-41102/12, 0191-1
309

CH. 11/10) 21 30 12 11 11 1
1111)

Price : Rs. 10.00

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**PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND
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THE COMMITTEE ON PUBLIC ACCOUNTS (1989-90)

CHAIRMAN

Shri P. Kolandaivelu

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Lok Sabha

2. Shri Abdul Hannan Ansari
3. Shri Chhitubhai Gamit
4. Shri M. Y. Ghorpade
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Rajya Sabha

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17. Shri Jagesh Desai
18. Shri Surender Singh
19. Shri P. N. Sukul
20. Vacant**
21. Vacant£
22. Vacant£

SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary*
2. Shri K. K. Sharma—*Director*
3. Shri A. Subramanian—*Senior Financial Committee Officer*
4. Shri N. M. Jain—*Under Secretary*

* Elected w.e.f. 3-8-89 *vice* Sarvashri Bh. Vijay Kumar Raju, S. Jaipal Reddy and Saifuddin Chowdhary resigned from the Committee.

** Due to resignation by Shri Parvathaneni Upendra from membership of the Committee w.e.f. 12-5-89.

£ Due to resignation by Sarvashri Jaswant Singh and Virendra Verma from membership of the Committee w.e.f. 15-5-1989.

INTRODUCTION

1, the Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Hundred and Eighty-first Report on action taken by Government on the recommendations/observations of the Public Accounts Committee contained in their Fifty-Sixth Report (8th Lok Sabha) on Loss on procurement of Lac.

2. In their earlier Report the Committee had observed that the decision to entrust the buffer stock operations to STC was not proper, in the light of the fact that STC did not have the infrastructure to procure sticklac with the result that the objective to provide price support to growers of lac was defeated. In the present Report, the Committee have expressed unhappiness over the evasive reply of the Ministry as they stated that the decision to operate the buffer stock operations by STC was a conscious decision and that it was difficult to fix responsibility for the decision. The Committee have desired that they must be informed of the level at which the "conscious" decision was taken and how the Ministry considered it to be a conscious decision.

3. The Committee considered and adopted the Report at their sitting held on 9th August, 1989. Minutes of the sitting form Part II of the Report.

4. For reference facility and convenience, the recommendations/observations of the Committee have been printed in thick type in the body of the Report.

5. The Committee place on record their appreciation of the Assistance rendered to them in the matter by the office of the Comptroller & Auditor General of India.

NEW DELHI;

11 August, 1989
20 Sravana, 1911 (Saka)

P. KOLANDAIVELU
Chairman,
Public Accounts Committee

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the Committee's observations and recommendations contained in their Report* on Loss on procurement of lac.

2. The Committee's Report contained 8 recommendations/observations. Action Taken Notes have been received from Government in respect of all the recommendations/observations. These have been broadly divided into four categories as shown in Appendix-I.

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

Lack of infrastructure for procurement of sticklac from growers. (Sl. No. 2, Para—54)

4. In the Original Report, the Committee had observed that the scheme of maintenance of buffer stock of sticklac as a price support measure was initiated by the Ministry without making any pioneering study and that the same was entrusted to the State Trading Corporation (STC) which lacked infrastructure required for procurement of sticklac from the growers. As a result thereof STC procured seedlac rather than sticklac from the State Government nominated agencies during the entire period of operation of the scheme. Since sticklac was not purchased from the growers directly, the prices of sticklac often prevailed lower than the minimum procurement price in different lac growing States during the period of procurement and buffer stock operations thus frustrating the very objective of providing a remunerative market to the growers. The Committee had also pointed out that the failure to initiate any measures to form growers cooperatives etc. had left the problem of middlemen, exploiting the growers, unsolved. The Committee had therefore, recommended that responsibility in this regard should be pin-pointed and suitable action taken against those found responsible.

5. The Ministry of commerce in their reply have now stated that the decision to operate the buffer stock operations, by the STC was a conscious decision taken in the Ministry and as such it was difficult to fix responsibility for the decision. The Committee express their dissatisfaction at this evasive reply of the Ministry. The crux of their recommendation was that the decision to entrust the buffer stock operations to STC was not a proper one in view of the fact that STC did not have infrastructure to procure sticklac. The net result was that the objective of providing price

* 56th Report (8th Lok Sabha).

support to growers of lac could not be achieved. The fact that the Ministry went ahead with the scheme without initiating any measure to achieve this objective clearly demonstrates the casual manner in which the scheme was conceived and implemented. Moreover, the circumstances in which STC was allowed to procure seedlac rather than sticklac have also not been explained to the Committee. The Committee, therefore strongly feel that the matter should be thoroughly investigated and responsibility fixed.

The Committee would also like to be informed of the level at which this "conscious" decision was taken and how the Ministry consider it to be a "conscious" decision.

Strengthening of the cooperatives

(Sl. No. 3, Para 55)

6. Taking note of the fact that a belated study of the procurement scheme of sticklac was initiated in May 1978 which proved futile as no procurement was carried from 1978-79 onwards, the Committee had recommended in the original report that if the producers were to be helped effectively, Government should devise ways and means to strengthen the cooperative infrastructure in the States. In their action taken note Government have stated that the recommendations have been forwarded to the concerned State Governments for necessary action.

7. The Committee note that the only action taken by the Government has been to forward the recommendations to the State Governments for necessary action. In the opinion of the Committee this action do not constitute the devising of ways and means for strengthening the cooperative infrastructure in the States. The Committee hence reiterate their earlier recommendation and emphasise that the Government should pursue the matter with the State Govts. and monitor the implementation of the ways and means so devised.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED/NOTED BY GOVERNMENT

Recommendation

Shellac export had been passing through difficult days since early 1975 and even the decision to reduce the minimum export price by 15% for machine-made grades and 22% for hand-made grades had not produced the desired results. The reduced offtake by way of export in the face of increased production had resulted in prices of sticklac crashing, causing distress to the growers, a large number of whom were tribals. With an avowed objective of regaining export market for Indian lac and providing remunerative price to the growers the Ministry of Commerce decided in June, 1975 to canalise the export of shellac and seedlac through the State Trading Corporation of India. The STC was required to undertake maintenance of buffer stock of sticklac as a price support measure. As STC did not have a ready infrastructure for buffer purchase operations it was expected to enter into working arrangements with State Government organisations and utilise their network at the field level.

[Sl. No. 1 (Appendix-II) Para 33 of 56th Report of PAC (8LS)].

Action taken by Government

The observations have been noted.

[Min. of Commerce OM No. 9/6/86-EP (AGRI-IV) dated 21-7-1989]

Recommendation

On 22 April, 1978, it was decided to continue the scheme of canalised exports and buffer stock operations but the scheme was modified to be on Government account during 1978-79. It was decided that STC should take up procurement and buffer stock programme for seedlac involving procurement of 5500 tonnes during the year for which a loss of about Rs. 2 Crores was estimated. The total loss incurred by STC during the year was agreed to be met by Government. The minimum procurement price of sticklac was reduced to Rs. 2.25 per kg. as against Rs. 3.00 and the release price of seedlac was reduced to Rs. 500 per bag of 75 kg. as against Rs. 640 in the previous year, i.e. 1977-78. The Committee regret that the Ministry did not review the said price stipulations during the year 1978-79 when there was a crop failure and the resultant short supply.

This only helped the traders in keeping the price of sticklac under their control. The exporters realised Rs. 9380 per tonne of shellac exported in 1978-79 as against the anticipated export unit value realisation of Rs. 8750 per tonne calculated on the basis of release price of Rs. 500 per bag. While the exporters made full use of the reduced release price of seedlac as would be evident from the fact that the release of 5528 Mts. of seedlac during the year 1978-79 was the highest made by the STC in a single year during the entire course of buffer stock operations, the Ministry failed to carry out a timely review of the release price in the context of buoyant export market and thus lost an opportunity to minimise the losses on account of buffer stock operations. The Committee would like the Ministry to take a lesson from this for future.

[Sl. No. 4 (Appendix-II) Para 56 of 56th Report of PAC (8 LS)].

Action taken by Government

The Ministry has noted the suggestion for future guidance.

[Min. of Commerce OM No. 9/6/86—EP (AGRI-IV) dated 20-12-1988]

CHAPTER III

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

Recommendations

The STC suffered a total loss of Rs. 1.60 crores during 1978-79. Out of this, a sum of Rs. 94.25 lakhs was reimbursed to STC on the ground that buffer stock was maintained on Government account. The Committee note that reimbursement of Rs. 94.25 lakhs represented mainly loss due to the decision of Government to reduce the release price of seedlac from Rs. 640 per bag to Rs. 500 per bag.

The Committee consider that reimbursement of Rs. 94.25 lakhs to STC was hardly justified as the losses actually related to the stocks procured before the buffer stock operations were undertaken on Government Account and not as result of purchase during year.

The Committee observe that the Ministry was to reimburse the loss of Rs. 94.25 lakhs after setting off the service charges amounting to Rs. 17.14 lakhs earned by STC as canalising agency. The Committee, however, find that while the net amount so payable to the STC was Rs. 77.11 lakhs, the Ministry actually reimbursed Rs. 94.25 lakhs. Even if reimbursement of the losses accruing to STC for buffer stock operations on Government account during 1978-79 is agreed to in principle on the plea put forward by the Ministry that an integrated view of the scheme needed to be taken, the Committee see little justification in not setting off service charges of STC during the year against the loss. To the Committee's surprise, it is contrary to the decision taken by the Ministry in this regard as is clear from the extracts of the notings furnished to the Committee. The Committee would like Government to enquire as to when, at which level and on what considerations was the decision of setting off the service charges of Rs. 17.14 lakhs was reversed due to which an amount of Rs. 94.25 lakhs was ultimately paid to the STC. The Committee may be apprised of the findings in this regard.

[Sl. No. 5, 6 (Appendix II) Para 57, 58 of 56th Report of PAC (8LS)].

Action taken by Government

Govt. had decided to reimburse losses of Rs. 94.25 lakhs to the STC because the release price of seedlac for 1978-79 was reduced from Rs. 640/- per bag to Rs. 500 per bag on account of which the Corporation had incurred

losses. Initially it was decided to set off Rs. 17.14 lakhs from the losses reimbursable to STC. However, on a reconsideration it was agreed to release Rs. 17.14 lakhs on the following considerations :—

- (i) the losses of STC were incurred on buffer stock operation. The canalised exports scheme was a different one and had no linkage with the Corporation's procurement for buffer stock of seedlac.
- (ii) Service margin is allowed on all canalised exports to the canalised agency. Such margin is allowed even in cases when export are on Govt. account.

Interest/carrying charges were not allowed to be reimbursed to the Corporation. The decision of releasing of Rs. 17.14 lakhs was taken at the level of Additional Secretary and AS&FA.

[Min. of Commerce OM No. 9/6/86—EP (AGRI—IV) dated 20-12-1988].

Recommendation

The Committee are informed that STC do not have a system for scheme-wise monitoring of expenditure and net profits earned as canalising agency for import/export of different items. As a large number of Government schemes are executed through the medium of STC, it is desirable that the system of accounts should be reorganised to ensure that the cost incurred by STC on individual schemes is available separately to give a proper and timely feedback to the Government.

[Sl. No. 7 (Appendix II) Para 59 of 56th Report of PAC (8LS)].

Action taken by Government

The system of accounts of STC was examined by their consultant, Dr. Rajagopalan, formerly Chief Adviser (Cost), Ministry of Finance. Dr. Rajagopalan has observed that the existing practice followed by STC for proportionate allocation of overheads in respect of canalised items of import and export is in order and that the administrative expenses are kept for Corporation as a whole and it is not possible to directly identify these expenses with a particular commodity or product handled by STC.

[Min. of Commerce OM No. 9/6/86—EP (AGRI—IV) dated 20-12-1988].

Recommendation

The Committee observe that the scheme of operation of buffer stock and support price has since been discontinued. The Committee consider it unfortunate that the scheme has been discontinued without proper examination and longer trial. The Committee are of the opinion that the objective of providing remunerative prices to the growers can still be achieved if the

scheme is taken up and implemented as a part of Integrated Rural Development Programme monitored by District Rural Development Agency. The Committee recommend that this aspect of the issue should be examined now and suitable action taken in the matter.

[Sl. No. 8 (Appendix II) Para 60 of 56th Report of PAC (8LS)].

Action taken by Government

The Department of Rural Development have informed that the scheme of buffer stock operation for sticklac cannot be implemented as a part of Integrated Rural Development Programme, as the IRDP is for assisting individual families. There is no provision for setting up of buffer stocks for any particular commodities under IRDP.

The ATN has been vetted by the Director of Audit Commerce, Works and Miscellaneous, New Delhi *vide* their U.O. No. Rep./I-11(14(469)/AR/Com/83-84/589-90 dated the 27th November, 1988.

[F. No. 9/6/86-EP (AGRI.—IV) dated 20-12-88].

CHAPTER IV

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

Recommendation

The Committee wonder how Government had expected the benefits of buffer purchase operations in respect of sticklac to flow to the growers when no infrastructure existed with STC. Evidently, the scheme was not well conceived and no pioneering study had been made before it was initiated. It was taken up in an unplanned manner with the result that relatively little benefit actually accrued to the growers. For, during the entire period of buffer stock operations STC continued to make purchase of seedlac from the State nominated agencies who followed varying mechanisms for procurement operations and supplied seedlac (an intermediate product) rather than sticklac (the basic material marketed by the growers). Since sticklac was not purchased from the growers directly, this resulted in the price often prevailing lower than the minimum procurement price in different lac growing States during the period of procurement and buffer stock operations. The Committee further note that even though a large number of States are growing lac the operations were confined only to three States, viz., Bihar, Orissa and West Bengal. The other States which were addressed to undertake procurement did not respond to the proposed scheme positively. The Committee thus, cannot, but conclude that the objective of providing a remunerative market to the growers was largely frustrated. That the scheme had this inherent deficiency is born out by the fact that even the Ministry of Commerce were themselves not happy with the existing mechanism as is evident from the following observations contained in their note dated 14-4-1978. The note conceded :

"I am not entirely happy in making this recommendation as the published reports of Management Development Institute and the shortly to be published report of IIPA condemn the present scheme of procurement specially on the count of the middlemen. Elimination of middlemen in our new proposals was being done by two measures-firstly, by changing the present agencies of procurement and arranging procurement through cooperative of tribal growers and secondly by changing the procurement to sticklac instead of seedlac. Tribals deal only in sticklac and unless our scheme deals in sticklac we would be dealing with middlemen."

The Committee are astonished to observe that despite the STC having made clear that they do not have infrastructure for procurement of sticklac

from the growers and that they will continue to procure the seedlac from the state agencies and despite the Ministry having fully realised that the scheme is not likely to benefit the growers for whose benefit the same was introduced, they went ahead with the scheme in a halfhearted, haphazard and unbusiness-like manner, after recording their misgivings about any arrangements for procurement of sticklac directly from growers and without even spelling out or initiating any arrangements to establish marketing cooperatives etc. through the specialised organisations like the National Cooperative Development Corporation etc. With all the misgivings and reservations, the scheme of subsidy was approved even by the Ministry of Finance who had also failed to initiate any long-term measures to alleviate the hardships caused to the tribal growers. Failure to initiate any measures to form growers' cooperatives etc. has left the problem of middlemen, exploiting the growers, unsolved. The Committee recommend that responsibility in this respect should be pin-pointed and suitable action taken against those found responsible in the matter. The Committee also place on record their disapproval of the procurement of lac having been handled in a halfhearted manner which led to this failure to achieve the objectives of the scheme.

[Sl. No. 2 (Appendix II) Para 54 of 54th Report of PAC (8LS)].

Action taken by Government

The decision to canalise the exports of lac and operate the scheme of buffer stock operations by the STC was a conscious decision taken in the Ministry of Commerce and as such it is difficult to fix responsibility for the decision.

[Min. of Commerce OM No. 9/6/86—EP (AGRI-IV) dated 20-12-1988].

Recommendation

A belated study of the procurement scheme was initiated in May 1978 which obviously proved futile as no procurement was carried out from 1978-79 onwards. Even so, this study might throw some light into the working of the scheme of this type in future. The Committee recommend that if the producers are to be helped effectively, Government should devise ways and means in the light of this experience to strengthen the cooperative infrastructure in the States.

[Sl. No. 3 (Appendix II) Para 55 of 56th Report of PAC (8LS)].

Action taken by Government

Government have noted the recommendations and have forwarded these to the concerned State Govts. for necessary action.

[Min. of Commerce OM No. 9/6/86—EP (AGRI-IV) dated 20-12-1988].

CHAPTER V

RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES.

— NIL —

NEW DELHI:
11 August, 1989
20 Sravana, 1911 (Saka)

P. KOLANDAIVELU
Chairman,
Public Accounts Committee.

PART II

MINUTES

Minutes of the 8th sitting of the Public Accounts Committee held on 9-8-1989

The Committee sat from 1500 hrs. to 1545 hrs.

PRESENT

1. Maj. Gen. R. S. Sparrow—*In the Chair*
2. Shri M. Y. Ghorpade
3. Shri Mohd. Ayub Khan
4. Shri Y. S. Mahajan
5. Shrimati Usha Rani Tomar
6. Dr. Chandra Shekhar Tripathi
7. Shri Rameshwar Thakur

SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary*
2. Shri K. K. Sharma—*Director*
3. Shri A. Subramanian—*Senior Financial Committee Officer*

REPRESENTATIVES OF AUDIT

1. Shri R. Parmeshwar—*ADAI, CAG*
2. Shri D. S. Iyer—*Director of Audit, (CW&M-I)*
3. Shri V. Srikantan—*Director of Audit (P&T)*
4. Shri Ved Prakash—*Dy. Director (P & T)*

2. In the absence of Chairman, the Committee chose Maj. Gen. R. S. Sparrow to act as Chairman for the sitting.

3. The Committee considered and adopted the following draft Action Taken Reports :

- (i) On the recommendations contained in 56th Report of PAC (8th Lok Sabha) re. Loss on Procurement of Lac.
- | | | | | |
|-------|----|----|----|----|
| (ii) | xx | xx | xx | |
| (iii) | xx | xx | xx | |
| 4. | xx | xx | xx | xx |
| 5. | xx | xx | xx | xx |

6. The Committee authorised the Chairman to finalise the Draft Reports in the light of verbal and consequential changes arising out of factual verification by audit and present the same to the House.

The Committee then adjourned.

APPENDIX I

(Vide Para No. 2)

- I. Recommendations and observations which have been accepted/
noted by Government :**
Sl. Nos. 1 and 4

- II. Recommendations and observations which the Committee do not
desire to pursue in view of the replies received from Govern-
ment :**
Sl. Nos. 5, 6, 7 and 8

- III. Recommendations and observations replies to which have not been
accepted by the Committee and which require reiteration :**
Sl. Nos. 2 and 3

- IV. Recommendations and observations in respect of which Govern-
ment have furnished interim replies :**

NIL

APPENDIX II
Conclusions/Recommendations of the Committee

| Sl. No. | Para No. | Conclusions/Recommendations |
|---------|----------|---|
| 1 | 2 | |
| 1 | 5 | <p>The Ministry of Commerce in their reply have now stated that the decision to operate the bufferstock operations, by the STC was a conscious decision taken in the Ministry and as such it was difficult to fix responsibility for the decision. The Committee express their dissatisfaction at this evasive reply of the Ministry. The crux of their recommendation was that the decision to entrust the buffer stock operations to STC was not a proper one in view of the fact that STC did not have infrastructure to procure sticklac. The net result was that the objective of providing price support to growers of lac could not be achieved. The fact that the Ministry went ahead with the scheme without initiating any measures to achieve this objective clearly demonstrates the casual manner in which the scheme was conceived and implemented. Moreover, the circumstances in which STC was allowed to procure seedlac rather than sticklac have also not explained to the Committee. The Committee, therefore strongly feel that matter should be thoroughly investigated and responsibility fixed. The Committee would also like to be informed of the level at which this "conscious" decision was taken and how the Ministry consider it to be a "conscious" decision.</p> |
| | 7 | <p>The Committee note that the only action taken by the Government has been to forward the recommendations to the State Governments for necessary action. In the opinion of the Committee this action do not constitute the devising of ways and means for strengthening the cooperative infrastructure in the States. The Committee hence reiterate their earlier recommendations and emphasise that the Government should pursue the matter with the State Govts. and monitor the implementation of the ways and means so devised.</p> |