

PUBLIC ACCOUNTS COMMITTEE
(1977-78)

(SIXTH LOK SABHA)

FIFTY-SECOND REPORT

CONTROLLED CLOTH SCHEME

MINISTRY OF COMMERCE

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 223rd Report (Fifth Lok Sabha)]

Presented in Lok Sabha on 23-12-1977

Laid in Rajya Sabha on 23-12-1977



LOK SABHA SECRETARIAT
NEW DELHI

December, 1977/Agrahayana 1899 (S)

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CORRIGENDA

Fifty-Second Report of the Public Accounts Committee (Sixth Lok Sabha) on action taken by Government on the recommendations contained in their 223rd Report (Fifth Lok Sabha) on 'Controlled Cloth Scheme'.

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PUBLIC ACCOUNTS COMMITTEE

(1977-78)

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2. Shri H. G. Paranjpe—*Chief Financial Committee Officer.*
3. Shri Bipin Behari—*Senior Financial Committee Officer.*

*Elected with effect from 23 November, 1977 *Viz* Sarvashri Sheo Narain and Jaedambhi Prasad Yadav ceased to be Members of the Committee on their appointment as Ministers of State.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Fifty-second Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Two Hundred and Twenty-Third, Report (5th Lok Sabha) on 'Controlled Cloth Scheme' relating to the Ministry of Commerce.

2. On 10 August, 1977 an 'Action Taken Sub-Committee', consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri C. M. Stephen—*Chairman*
 2. Shri Asoke Krishna Dutt—*Convener*
 3. Shri Gauri Shankar Rai
 4. Shri Tulsidas Dasappa
 5. Shri Kanwar Lal Gupta
 6. Shri Zawar Hussain
 7. Shri Vasant Sathe
- } *Members*

3. The Action Taken Sub-Committee of the Public Accounts Committee (1977-78) considered and adopted the Report at their sitting held on 28 November, 1977. The Report was finally adopted by the Public Accounts Committee (1977-78) on 20 December, 1977.

4. For facility of reference the conclusions/recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, the conclusions/recommendations of the Committee have also been appended to the Report in a consolidated form.

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

NEW DELHI:
December 20, 1977
Agrahayana 29, 1899 (S)

C. M. STEPHEN,
Chairman
Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by Government on the recommendations/observations of the Committee contained in their 223rd Report (Fifth Lok Sabha) on 'Controlled Cloth Scheme' commented upon in Paragraph 30 of the Report of the Comptroller and Auditor General of India for the year 1973-74. Union Government (Civil).

1.2. The Committee's 223rd Report was presented to the Lok Sabha on 30 April, 1976 and contained 33 recommendations/observations.

1.3. Action Taken Notes on all the recommendations/observations have been received from Government and these have been broadly categorised as follows:

(i) *Recommendations/observations which have been accepted by Government*

Sl. Nos.: 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 18, 22, 23, 24, 25, 26, 27, 28, 29, 30 and 33.

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

Sl. Nos.: 17, 19, 20, 21, 31 and 32.

(iii) *Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration*

Sl. Nos.: 1, 2, 3 and 4.

(iv) *Recommendations/observations in respect of which Government have furnished interim replies*

Nil.

1.4. The Committee will now deal with the action taken on some of their recommendations.

1.5. Dealing with the non-fulfilment of the social objectives of the Controlled Cloth Scheme and Government's concern to prevent 'erosion

in the profitability' of the industry, the Committee, in Paragraphs 1.132, 1.133 and 1.134, had observed:

"1.132. The primary objective, professedly of the Controlled Cloth Scheme has been to make available cheap, durable cloth to the weaker sections of our people. The Audit Paragraph and the narrative thereafter indicates that the scheme has been modified periodically. In spite of all the refinements, incentives and penalties introduced from time to time, Government have yet to come truly to grips with this major problem. The social objectives of the Scheme have remained largely unfulfilled on account of various factors. The Committee concede that some of the difficulties and hurdles encountered in the process of trying to implement the gigantic task of clothing the masses of our people have been daunting. Even, so, the Committee fear that there had been much avoidable vacillation in policies which continued to favour the industry even when it became intransigent to the detriment of the larger public interest."

"1.133. The Committee regret that in May 1968 not only was control on fine and superfine cloth withdrawn but the obligation of the mills for the production of the controlled cloth was reduced from 40 to 25 per cent of the total production, without making any precise assessment of the actual requirements of controlled cloth. The Committee have been informed, in extenuation, that the cotton textile industry was facing 'difficult times' during the preceding two to three years on account of the increase in cotton prices, wage costs, loss of production-efficiency as a result of the obsolescence of machinery in a large number of units, all of which factors, had in turn, led to an 'erosion in overall profitability'. (The cost of cotton is stated to account for 50 per cent of the cost of production and the cotton price index moved from 139.9 during 1966-67 to 176.9 in January 1968). The industry had, therefore, suggested an increase in the price of controlled cloth and a substantial reduction in the volume of cloth under control. The Committee learn that after discussion between the Commerce Ministry, Finance Ministry and the Indian Cotton Mills Federation, 'sizeable reduction in the quantity of cloth under control seemed inescapable', and the other alternative of total decontrol or price rise were ruled out."

"1.134. It would appear that greater concern had been shown for preventing an 'erosion in the profitability' of the industry than for working out special measures for ensuring that the weaker sections of the community were provided with a basic necessity of life at reasonable prices. Even when 40 per cent of the production of the mills had been earmarked for controlled cloth, the per capita availability of cloth was less than 1.7 square metres. As pointed out elsewhere in this Report the pleas of losses incurred in the production of controlled cloth, which had prompted the Government from time to time, to rush to the rescue of the industry appears to be, on closer scrutiny, considerably exaggerated. Even assuming that it was necessary, in 1968, for Government to come to the assistance of an allegedly ailing industry, the Committee are unable to appreciate the rationale for the simultaneous withdrawal of controls on fine and superfine varieties of cloth and the reduction in the obligation of the mills for the production of controlled cloth from 40 to 25 per cent. In the Committee's view, Government should have, in the first instance, confined the concession to the withdrawal of control on fine and superfine cloth so as to enable the industry to stabilise itself, and only after having watched the impact of that measure for a year or two, Government should have considered whether, if at all, the obligation of the mills also needed to be reduced. The Committee feel that in a vital matter like the reduction of the mills' obligation of production of controlled cloth, which was bound to affect adversely the per capita availability of cloth to the weaker sections of society, nothing would have been lost if Government moved with wisdom and circumspection. What happened, however, produces, on the contrary, an impression that Government was less anxious about ensuring adequate production and availability of controlled cloth for the poor, than about stemming the alleged erosion of the industry's profitability."

1.6. In their Action Taken Note dated the 8th September, 1976, the Ministry of Commerce have stated:

"In terms of the scheme for the production of controlled cloth as originally introduced in October 1964, price revisions were made every six months upto April, 1967 in order to set off the rise in production costs. The revision in April 1967 did not however fully neutralise the increase in production costs.

Thereafter, despite increases in production costs, no such periodic price revisions were undertaken. The industry's persistent representations for price increases were not accepted. Thus, the gap between the production costs and prices of controlled cloth continued to widen and affect the health of the industry. The industry found it difficult to compensate itself for the loss incurred in the packing of controlled cloth through sale of non-controlled cloth because of strong consumer resistance. At the end of March, 1968 as many as 38 mills were lying closed. If this situation had been allowed to continue, there was an apprehension that more and more mills might close down.

For the first time in May 1968, a conscious decision had to be taken as to the quantum of controlled cloth the industry could be called upon to pack at prices considerably below cost, for the consumption of vulnerable sections of the population consistent with the health of the industry. Fine, superfine and medium categories of controlled varieties were items of occasional consumption for the vulnerable sections of the population; these categories were therefore excluded from the categories of controlled cloth. Production of the remaining categories was then found to be about 16 per cent of the total packed production for civil consumption (total production minus exports and supplies for defence). In order, however, to ensure a reasonable supply of controlled varieties, the level of obligation for production of controlled cloth in coarse and medium B categories was fixed at a level of 25 per cent of the total production, which was higher than the prevailing level. Had this level been fixed at 40 per cent of the total cloth production packed for civil consumption, the production of coarse and lower medium categories in the controlled sector would alone have come to about 1653 million metres on the basis of total production in the year 1967 as against an actual total packing of 1400 million metres of coarse and medium B categories of cloth for civil consumption. This would have been more than 100 per cent of the total civil packings in these categories. Even the obligation on the basis of 25 per cent amounted to nearly 75 per cent of the civil packing of cloth in coarse and medium B categories.

The observation made in paragraph 1.134 that 'the plea of losses incurred in the production of controlled cloth... appears to

be, on closer scrutiny, considerably exaggerated' does not appear to be borne by facts. With the pegging of prices of controlled cloth at a constant level since 1968—modified to a limited extent only once in 1974—the industry had been making losses on the production of controlled cloth. In fact, at the then current level of cotton prices, it has been found that even the cost of cotton could not be covered by the price in some controlled cloth varieties. It is on this ground that a Committee was set up under the Chairmanship of Shri S. S. Marathe to look into production costs and recommend whether the present multiplier is realistic and if not, to suggest corrections in the same. The Marathe Committee has come to the conclusion that the multiplier is out of step with the production costs."

1.7. In the context of a press report published in the *Economic Times* of 3rd September, 1976 that "with the exemption being given to NTC-run units; weak mills and export-oriented mills, the mills' obligation to manufacture controlled cloth has been steadily reduced over the past eight months to mere 450 million metres a year from 800 million metres last year", the Ministry of Commerce have, at the instance of the Committee, sent a further note* on 12 September, 1977 which has stated:

"The annual target for the production of controlled cloth was fixed at 800 million sq. metres with effect from 1st April, 1974. This overall target was achieved by the industry during 1974-75. In the following year i.e. April, 1975 to March, 1976, actual achievement was 681.09 million metres. The downward trend in production persisted in the subsequent period when cotton prices rose and general health of the industry deteriorated particularly affecting the weaker mills. This necessitated relief to the financially weak mills, which was given by way of exemption from production of controlled cloth from January 1, 1976 on the basis of total erosion of the reserves by the losses. Subsequently from August, 1976 the system of partial exemption was also introduced on the following basis:—

	<i>Extent of exemption</i>
(i) where accumulated loss is more than 75% of the total reserves	75%
(ii) where accumulated loss is more than 50% but less than 75%.. . . .	50%

*Not vetted in Audit.

The net result of the above policy was that the production level for 1976-77 was anticipated to be around 428 million sq. metres against which actual production was only 363.49 million square metres.

The controlled cloth scheme was reviewed in the context of sharp decline in the production as a result of unprecedented rise in the prices of cotton. A number of decisions were announced in January, 1977 raising the ex-mill price by 35 per cent but neutralising its effect on consumer by simultaneously allowing a matching subsidy to the National Cooperative Consumers Federation (NCCF) towards its distributive costs. Now the industry is required to produce 100 million sq. metres of controlled cloth every quarter—400 million sq. metres a year. Production of controlled cloth during January—March 1977 quarter was about 96 million sq. metres. Production during April—June '77 quarter is about 82 million sq. metres. It may be mentioned that the entire scheme of production of controlled cloth is under review to augment the production."

1.8. Having considered the reply of the Government, the Committee still feel that the policy of the Government in progressively reducing the obligation of the cotton mills in respect of production of controlled varieties of cloth has not been in the interest of consumers, particularly the economically vulnerable sections of society for whose benefit the scheme was initiated. The policy has resulted in consistent fall of production of this variety of cloth from 1764 million square metres in 1965 to a mere 363.49 million square metres in 1976-77. The Committee have been informed in September 1977 by the Ministry of Commerce that "the entire scheme of production of controlled cloth is under review to augment the production". The Committee recommend that Government should take urgent steps to maintain, if not increase, the production of controlled varieties of cloth at the targeted level fixed with effect from 1-4-1974, so as to cater for the common masses of the people who are unable to buy their basic requirements of cloth at high prices prevailing in the market for the medium and fine varieties of cloth produced by the mills.

1.9. Dealing with the fixation of the rate of compensation at the paltry rate of 6 paise per sq. metre of controlled cloth not produced under the obligation, which ultimately led to serious shortfalls in the production of controlled cloth, the Committee, in paragraph 1.135 had recommended:

"1.135. When in May, 1968, the obligation of the mills to produce controlled cloth was reduced to 25 per cent of the total pro-

duction, a provision was also made that in the event of any shortfall in the production of controlled cloth, a mill would pay compensation to Government at the rate of 6 paise per sq. metre of controlled cloth not produced under the obligation. The rationale for fixing what, *prima facie*, appeared to be a ridiculously low rate of compensation was stated to be that this amount was considered to be higher than the losses faced by the mills in the production of controlled cloth. Subsequently, however, when on account of the increase in cotton prices and consequential increase in production costs, the losses on the production of controlled cloth turned out to be more than the petty penalty of 6 paise per square metre, most of the mills preferred paying the compensation rather than producing controlled cloth at a higher loss and the actual packing of controlled cloth declined sharply from 201 million square metres (November 1968—January, 1969) to only 9.14 million square metres (February, 1971—April 1971). The Committee are amazed that even though the production of controlled cloth had so drastically and sharply declined and had almost come to a grinding halt by April 1971, Government was no more than a helpless spectator and took no steps whatsoever to raise at least the rate of compensation to an adequate level or otherwise persuade or compel the mills to honour their obligation to serve the needs of our own people. The Committee are convinced that if Government had increased the rate of compensation, the mills would have found it difficult to evade their obligation, as can be seen from the performance of the mills from April '74, when the rate of compensation was increased to Rs. 2.50 per square metre. This appears to have had some salutary effect, for the production by the mills was 810 million square metres of controlled cloth as against the obligation of 800 million square metres. The Committee deplore Government's unaccountable passivity in the matter, especially when it was not unknown that the mills were finding it easier to pay the paltry compensation of 6 paise rather than produce controlled cloth for the masses. Since this inaction on Government's part led to serious shortfalls in the production of controlled cloth and consequent distress for the people, the Committee urge that the matter be closely look into and responsibility for the lapse be squarely fixed and appropriate action taken."

1.10. In their Action Taken Note, the Ministry of Commerce have stated:

"A rate of compensation for non-production of controlled cloth at 6 paise per square metre as fixed in May, 1968 was considered at the time to be an adequate penalty. This, in fact, proved to be so; the production level after 2nd May, 1968 remained satisfactory for some time thereafter. A decline in the production of controlled cloth set in from August—October, 1969 and the reduction after February 1970 became rather steep. The proposal for increasing the rate of compensation was considered along with other steps to secure adequate production of controlled cloth. However, consideration of this aspect was disturbed by the fact that in March, 1970 a textile mill had filed a writ petition in the High Court challenging the provisions of the Cotton Textile Control Order including the provision for collection of compensation money and payment of incentives. Since at the time of framing the arrangements for collection of compensation money and payment of incentives, the Law Ministry had pointed out the legal weakness of such an arrangement and the Commerce Ministry had placed reliance on the understanding given by the industry for a smooth operation of these arrangements, Government were not in a position to put up defence in this case.

Another relevant factor is that since May 1968, production cost had substantially increased on account of rise in cotton prices and rise in wages. The Textile Commissioner had estimated sometime in January 1971 that the multiplier prices were out of step with production costs to the extent of about 32 per cent. However, price increases were not permitted. In this situation, a review of the scheme was undertaken and it was decided that the question of increase in prices should be referred to the Bureau of Industrial Costs and Prices.

Meanwhile a Committee was set up under the Chairmanship of Additional Secretary, Ministry of Commerce to review in detail the working of the scheme as a result of which voluntary arrangements for the production of controlled cloth were introduced from June 1971.

In the circumstances set out above it was not found feasible to increase the rate of compensation in respect of the non-production of controlled cloth."

1.11. The Committee have considered the reply of the Government. They, however, still feel that Government should not have been a passive onlooker at the persistent disregard shown by the mills of the quota requirements for production of controlled varieties of cloth. Immediate steps should have been taken to raise the rate of compensation when it came to the notice of the Government towards the end of 1969 that the existing low rate of compensation was no longer a deterrent and was being used by the mills as a handy and cheap instruments for avoiding the quota requirements for production of controlled cloth.

1.12. In regard to prosecuting the defaulting mills for their failure to pay compensation, the Committee had, in paragraph 1.139 of their Report, observed:

"1.139. The Committee have been informed that during the period 1964 to 1968, as against an amount of Rs. 15.22 lakhs recoverable as compensation from mills, (at the rate of 6 paise per square metre for deficiencies in production), two private mills and eight mills now under the National Textile Corporation were in default to the extent of Rs. 0.91 lakh and Rs. 4.36 lakhs respectively. While F.I.R had been lodged with the U.P. Police against one of the private mills, the other mill had been granted an injunction prohibiting the Textile Commissioner from taking any action against that mill. The default in respect of the subsequent period from 1968 to 1971 was stated to be Rs. 24 lakhs, out of which 2.12 lakhs were due from private mills. The Committee would like to be informed of the steps which Government propose to take to enforce their claim. The Committee would also very much like to know why Government have shed away from prosecuting the defaulting mills when adequate powers in this regard are already available with Government."

1.13. In their Action Taken Note dated 8th September, 1976, the Ministry of Commerce have stated:

"During the currency of the controlled cloth scheme before May, 1968, extensions of time for the fulfilment of controlled cloth obligation were given from time to time, because it was considered more purposeful to have the cloth produced. Cloth so produced was to be sold at prices relevant to the period of the obligation and not to the period of the extension. In May 1968, when the system of payment of compensation and disbursement of incentives was introduced, a decision was taken to give the mills, which had defaulted before May 1968, the

option to pay the compensation in respect of the shortfalls or to pack controlled cloth to the extent of the shortfalls at prices relevant to the periods when the shortfalls occurred. This arrangement was considered advisable again in the interest of having controlled cloth produced, particularly because the volume of production obligation had been reduced to 25 per cent from May, 1968.

From May 1968 onwards, the system of extension of time for fulfilment of the obligation was given up. Before any decisive view could be taken on the punitive action to be taken against defaulting mills, one of the textile mills viz. the Laxmi Vishnu Textile Mills challenged the legal validity of the various provisions of the Cotton Textiles (Control) Order, 1948 including the provisions for realisation of compensation in respect of the shortfall in the production of controlled cloth. They filed a writ in the Bombay High Court in March 1970.

In the meanwhile, the arrangements for the production of controlled cloth were placed on a voluntary basis from June, 1971 till April, 1974. The position was reviewed and prosecution of the defaulting mills for failure to fulfil the obligation has since been launched in case of private mills. There are two cases of the period before 1968. One of these two mills had taken High Court injunction restraining the Textile Commissioner from taking any legal action and this mill has since deposited the amount of the penalty in terms of the High Court Order. An F.I.R. was filed against the other mills in U.P. In the meanwhile, the management of the mills has been taken over by an Ordinance issued on 19th July, 1976 and the legal implication of prosecution of the previous management has to be considered. In case of the defaulting mills now under the charge of the N.T.C., the feasibility of action against the previous management is under examination.

**There were two private sector textile mills defaulting during the post-1968 period. An F.I.R. has been filed against one mill. The other mill had taken a court injunction protecting itself against any legal action. However, this mill has made a payment in terms of the Court Order. As regards the mill against which an F.I.R. has been filed, the amount of penalty has been deposited by the mill with the High Court and the High Court has ordered payment of the amount to the Textile

Commissioner who has since received a cheque covering the amount. During this period also, there were some cases of default by N. T. C. mills, and as said earlier, the feasibility of action against previous management, is under consideration."

1.14. The Ministry also furnished at the instance of the Committee, further Action Taken Note* dated 18th October, 1977, which is reproduced below:

"In terms of Section 5 of the Sick Textile Undertakings (Nationalisation) Act 1974, under which 103 textile mills were nationalised and placed under the management of N.T.C., past liabilities, except certain specified liabilities, for the period before the take over devolving on the previous owners are enforceable against them. Government had a claim for compensation money in respect of defaults/deficiencies in the production of controlled cloth by the mills in question under the management of N.T.C. Under Section 20 of the above-mentioned Act, every person having a claim against the owner of a textile mill was to prefer the claim before the Commissioner of Payments. The Textile Commissioner has filed with the Commissioner of Payments the claims in respect of the period May, 1968 to May, 1971 when payments for defaults were required on statutory basis.

As regards the defaults during the period before May, 1968, there was no statutory requirement for payment of compensation for not producing controlled cloth. Only in the interest of securing increased production of controlled cloth, the defaulting mills were allowed option to produce and pack controlled cloth to the extent of shortfalls at prices relevant to the periods when the shortfalls occurred, or to pay the compensation in respect of the shortfalls so that the money thus collected could be utilised for securing additional production of controlled cloth in other mills. In respect of the compensation money for this period, therefore, there is no legal support for filing claims with the Commissioner of Payments. The only action that is possible in respect of such defaults is prosecution of the mill management. Legal aspects relevant to such action need careful consideration and each individual case would have to be sorted out before a view can be taken on the feasibility of legal action. Cases are being studied on that basis."

*Not vetted in Audit.

1.15. The Committee note that in the case of defaulting mills which were subsequently taken over by the National Textile Corporation, the feasibility of taking action against the previous management is still under consideration. The Committee would like Government to take an early conclusive action against the managements of the defaulting mills.

1.16. As regards the recommendation of the Committee that urgent and adequate steps should be taken to dissemination of information about the Controlled Cloth Scheme and stressing the need for the outlets for its distribution, the Committee, in paragraph 2.70 of their Report, recommended:

"2.70. Apart from the inadequacies and deficiencies in the distribution arrangements there appears to have been a peculiar and pernicious gap in the controlled cloth scheme. A large proportion of the consumers is, according to the NCAER Survey, unaware of the scheme itself, and this does not by any means speak well of the Government's publicity campaign. The Committee desire that urgent and adequate steps should be taken to disseminate information about the controlled cloth scheme and the outlets for its distribution. Facts about the availability of cloth, prices, etc. should also invariably be displayed at a prominent point by all the retail outlets."

1.17. In their Action Taken Note dated 28th September, 1970, the Ministry of Commerce have stated:

"The scheme for the production and pricing of controlled cloth is largely meant for the vulnerable sections of the population and, therefore, any publicity campaign covering controlled cloth availability would have to be oriented towards these sections. Careful thought is needed to be given as to how best to direct publicity towards these vulnerable sections. Necessary action is being taken in that direction in consultation with the DAVP. Meanwhile State Governments have been requested to ensure that availability and prices of controlled cloth are displayed at all the retail shops."

1.18. The Ministry of Commerce have in a further note* dated 12 September, 1977 furnished at the instance of the Committee, stated:

"On the 11th January, 1977 the Government of India initiated a new policy in regard to distribution of controlled cloth through the NCCF and its affiliated distribution outlets. Controlled cloth or also called cheap cloth received direct publicity through two Press Notes and combined brochure on economic

* Not vetted in Audit.

programme brought out by the DAVP. During the recent Handloom Fair the production of controlled cloth for the vulnerable sections of the society also got due publicity as a part of the production of controlled cloth is being produced in the Handloom and Powerloom sectors also. Now that the entire distribution is in the hands of the N.C.C.F. the latter have been giving due publicity to the cheap cloth through their monthly journal 'Indian Consumer Cooperator'. Other methods adopted by the NCCF are participating in the village fairs, exhibitions, putting up hoardings at suitable places and through its 60,000 and odd retail outlets in the country (48,000 in rural areas and 12,000 in urban areas). Taking the present production level and the number of retail outlets (where only half a bale of controlled cloth per outlet is available) the existing level of publicity is considered enough. The scheme is under review and the matter will be further considered when higher output is achieved."

1.19. The Committee are surprised that although the scheme for production of controlled cloth has been in operation for well-nigh 13 years and despite the fact that this Committee had in their original Report emphasised the need for urgent and adequate steps to disseminate information, about this scheme and the outlets for its distribution, the Ministry of Commerce had, in September 1976, nothing to report to the Committee by way of concrete action taken in the matter. The Committee note the reply of the Government furnished in September 1976, that "careful thought is needed to be given as to how best to direct publicity towards these vulnerable section" and that "necessary action is being taken in that direction in consultation with the DAVP." They also note a further reply furnished by the Ministry in September 1977 that the existing level of publicity (which was a couple of Press Notes and the production of "a combined brochure on Economic progress") is "considered enough." The Committee would impress upon the Ministry the need for taking concrete steps in this direction on an urgent basis as a publicity campaign in regard to the availability of cloth of common consumption at cheap rates would go a long way in guiding the vulnerable sections of the population to take advantage of it.

NEW DELHI;

December 20, 1977

Agrahayana 29, 1899 (s).

C. M. STEPHEN.

Chairman,

Public Accounts Committee

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

What is also peculiarly distressing is the fact that though mills which fail to produce and pack the stipulated minimum quality of controlled cloth are liable to be prosecuted for a contravention of clause 21A of the Cotton Textile (Control) Order, 1948 and punished under section 7 of the Essential Commodities Act, the Ministry of Commerce glibly went ahead and incorporated, in May 1968, clause 21(1)(b) in the said Order which gave an option to the mills to pay a compensation to the Textile Commissioner in respect of the deficiency in production of controlled cloth. This appears to have been done despite the apprehensions of the Law Ministry that the levy imposed by means of an 'executive order' was liable to be challenged as being *ultra vires* since it amounted to expropriation of property consisting of cash belonging to the mills. The Commerce Ministry, however, appears to have felt that as the proposal had been sponsored more or less at the instance of the affected industry, there was no great risk of the matter being taken to a Court of Law. The fears of the Law Ministry came true when, on 16th March, 1970, a private textile mill filed a writ petition in the Bombay High Court, impugning the various provisions including clause 21C of the Cotton Textile (Control) Order. In October, 1970, the Law Ministry pointed out that in view of the provisions for prosecution, clause 21C(1)(b) which empowered the Textile Commissioner to levy a cash compensation amounted in effect to 'compounding the said offence but of court'. While, however, this question was being reconsidered, the 'voluntary scheme' of controlled cloth was introduced in June 1971 and, therefore the issue was not pursued further and the aforesaid clause was deleted.

After the controlled cloth scheme was again placed on a statutory footing from April 1974 and a penalty of Rs. 2.50 per square metre was prescribed, the Textile Commissioner pointed out that it was open to a mill to pay the penalty of Rs. 2.50 per square metre and thus compound the offence instead of facing prosecution. He also felt that it might be necessary to acquire powers under the authority of Parliament to levy a penalty for non-performance of the obligations. There was no ambiguity in the earlier advice of the Law Ministry, but, strangely, the Commerce Ministry

advised the Textile Commissioner, *inter alla*, that the scheme of payment of penalty might be operated as 'an informal arrangements' by the industry outside the statutory scheme.

The Committee are unhappy with the manner in which the entire issue relating to the legal validity of the penalty clause was handled. It appears that even though the Law Ministry had pointed out several times that such a provision required the authority and force of law to sustain it, and even the Textile Commissioner had, though belatedly, felt that Parliament's authority was necessary to provide for such a levy, the Commerce Ministry had reservations about it and was not inclined to come up before Parliament with a proposal for the imposition of such a levy. The Committee do not appreciate this peculiar approach and would urge that rather than operating the penalty provision as an "informal arrangement", Government should, in consultation with the Law Ministry, consider the desirability of integrating the penalty provision in the statutory scheme itself.

[Sl. Nos. 5, 6 and 7 (paragraphs 1.136, 1.137 and 1.138) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The observations of the Committee have been noted. The following facts may however be reiterated.

The Government did examine the feasibility of incorporating into the legal frame work of the Essential Commodities Act suitable provisions for imposition and collection of penalty in respect of defaults on production of controlled cloth. Since this involved a compromise on a statutory obligation, the Law Ministry gave in October 1970 the advice that such provisions would be *ultra vires* of the Constitution.

The informal arrangements for the collection of penalty at the rate of Rs. 2.50 per sq. metre of shortfall after the re-introduction of the statutory scheme for production with effect from 1-4-1974 was continued in the manner of a similar arrangement which existed before 1-4-74 as part of the voluntary scheme. The collection was meant to be utilised for securing production of controlled cloth to the needed levels. With effect from 1-1-1976, this informal arrangement was discontinued and for the purpose of enforcement of the obligations, reliance is now placed on the penal provisions of the Essential Commodities Act. As suggested by the Committee the feasibility of securing provisions for collection of cash penalty in respect of shortfalls in the production of controlled cloth is being given fresh examination in consultation with the Ministry of Law.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Further Information

As already indicated in the action taken notes submitted earlier, the Government gave thought to the feasibility of incorporating into the legal frame work of the Essential Commodities Act suitable provision for imposition and collection of penalty in respect of defaults on production of controlled cloth. In the light of the Law Ministry's opinion and the constant review of the scheme of production of controlled cloth with reduced target of production (100 million sq. metres a quarter) it is felt that the imposition of fine for default would amount to compromising on a statutory obligation and the best corrective method would be to prosecute the defaulting mills. Some mills have defaulted on their obligations during the years 1975-76 and 1976-77—some partially and some totally. Considering the difficulties experienced by the mills in procuring the right type of cottons required for the production of controlled cloth, general extension of time upto 30-6-77 was given to mills which had shortfalls against their production obligations for the quarters July-September, 1976 and October-December, 1976, on the basis that 50 per cent of the shortfall should be made good by end of March, 1977 and the remaining 50 per cent by the end of June, 1977. Assessment has been made by the Textile Commissioner on the basis of performance as on 31-3-77, so that defaulting mills could be suitably dealt with. At present no penalties in respect of defaults are collected and legal action under the Essential Commodities Act, 1955 is the only course open to the Government. So far in case of 11 mills, where *prima facie* case for legal action has been found necessary, FIRs have been filed. In two of these 11 cases, even charge-sheets have been filed by the Police in the Courts. In 40 cases the mills have been called upon to show cause against prosecution in respect of defaults that have come to notice and more cases are under scrutiny.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I/CTI dated the 12th September, 1977]

Recommendation

The Committee have been informed that during the period 1964 to 1968, as against an amount of Rs. 15.22 lakhs recoverable as compensation from mills, (at the rate of 6 paise per square metre for deficiencies in production) two private mills and eight mills now under the National Textile Corporation were in default to the extent of Rs. 0.91 lakh and Rs. 4.36 lakhs respectively. While F.I.R. had been lodged with the U.P. Police against one of the private mill's, the other mill had been granted an injunction prohibiting the Textile Commissioner from taking any action against that mill. The default in respect of the subsequent period from 1968 to 1971 was stated to be Rs. 24 lakhs, out of which 2.12 lakhs were due from private mills. The Committee would like to be informed of the steps which Government

propose to take to enforce their claim. The Committee would also very much like to know why Government have shed away from prosecuting the defaulting mills when adequate powers in this regard are already available with Government.

[Sl. No. 8 (paragraph 1.139) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

During the currency of the controlled cloth scheme before May 1968, extensions of time for the fulfilment of controlled cloth obligation were given from time to time, because it was considered more purposeful to have the cloth produced. Cloth so produced was to be sold at prices relevant to the period of the obligation and not to the period of the extension. In May 1968, when the system of payment of compensation and disbursement of incentives was introduced, a decision was taken to give the mills, which had defaulted before May 1968, the option to pay the compensation in respect of the shortfalls or to pack controlled cloth to the extent of the shortfalls at prices relevant to the periods when the shortfalls occurred. This arrangement was considered advisable again in the interest of having controlled cloth produced, particularly because the volume of production obligation had been reduced to 25 per cent from May 1968.

2. From May 1968 onwards, the system of extension of time for fulfilment of the obligation was given up. Before any decisive view could be taken on the punitive action to be taken against defaulting mills, one of the textile mills viz., the Laxmi Vishnu Textile Mills challenged the legal validity of the various provisions of the Cotton Textiles (Control) Order, 1948 including the provisions for realisation of compensation in respect of the shortfall in the production of controlled cloth. They filed a writ in the Bombay High Court in March 1970.

3. In the meanwhile, the arrangements for the production of controlled cloth were placed on a voluntary basis from June, 1971 till April 1974. The position was reviewed and prosecution of the defaulting mills for failure to fulfil the obligation has since been launched in case of private mills. There are two cases of the period before 1968. One of these two mills had taken High Court injunction restraining the Textile Commissioner from taking any legal action and this mill has since deposited the amount of the penalty in terms of the High Court Order. An F.I.R. was filed against the other mill in U.P. In the meanwhile, the management of the mill has been taken over by an Ordinance issued on 19-7-76 and the legal implication of prosecution of the previous management has to be considered. In case of the defaulting mills now under the charge of the N.T.C., the feasibility of action against the previous management is under examination.

4. There were two private sector textile mills defaulting during the post-1968 period. An F.I.R. has been filed against one mill. The other mill

had taken a court injunction protecting itself against any legal action. However, this mill has made a payment in terms of the Court Order. As regards the mill against which an F.I.R. has been filed, the amount of penalty has been deposited by the mill with the High Court and the High Court has ordered payment of the amount to the Textile Commissioner who has since received a cheque covering the amount. During this period also, there were some cases of default by N.T.C. mills, and as said earlier, the feasibility of action against previous management, is under consideration.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Further Information

In terms of Section 5 of the Sick Textile Undertakings (Nationalisation) Act 1974, under which 103 textile mills were nationalised and placed under the management of NTC, past liabilities, except certain specified liabilities, for the period before the takeover devolving on the previous owners and are enforceable against them. Government had a claim for compensation money in respect of defaults/deficiencies in the production of controlled cloth by the mills in question under the management of NTC. Under Section 20 of the above-mentioned Act, every person having a claim against the owner of a textile mill was to prefer the claim before the Central Office of Payments. The Textile Commissioner has filed with the Commissioner of Payments the claims in respect of the period May 1968 to May 1971 when payments for defaults were required on statutory basis.

2. As regards the defaults during the period before May 1968, there was no statutory requirement for payment of compensation for not producing controlled cloth. Only in the interest of securing increased production of controlled cloth, the defaulting mills were allowed option to produce and pack controlled cloth to the extent of shortfalls at prices relevant to the periods when the shortfalls occurred, or to pay the compensation in respect of the shortfalls so that the money thus collected could be utilized for securing additional production of controlled cloth in other mills. In respect of the compensation money for this period, therefore, there is no legal support for filing claims with the Commissioner of Payments. The only action that is possible in respect of such defaults is prosecution of the mill management. Legal aspects relevant to such action need careful consideration and each individual case would have to be sorted out before a view can be taken on the feasibility of legal action. Cases are being studied on that basis.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I/CTI dated the 29th September, 1977]

Recommendation

The Committee find that from October, 1964 to April, 1968, there was no provision for any payment of cash assistance for production in excess of the minimum quantity of controlled cloth prescribed. However, when the scheme was modified in May, 1968, a provision was made for the payment of cash assistance at the rate of 1/2 to 6 paise per square metre for controlled cloth produced in excess of the obligation fixed. When the controlled cloth scheme was operated on a voluntary basis by the Indian Cotton Mills Federation from June, 1971 to March, 1974, it was provided that from out of the premium on sale of imported cotton and contributions from Government and mills, the losses on production of controlled cloth would be subsidised. The rate of subsidy was first fixed at 50 paise per square metre but was reduced subsequently to 35 paise from December, 1971, 30 paise from March, 1972 and 20 paise from June, 1972. When statutory control was resumed in April, 1974, no provision was made for compensation or subsidy. The Committee are surprised that in spite of the liberal concessions allowed (quota for controlled cloth was reduced to less than half and cash assistance was more liberal) to the industry during the period when the voluntary scheme was in operation, the production was only 1000.18 million square metres against 1133 million square metres undertaken to be provided by the industry. In other words, the liberal incentives not only had not resulted in excess production of controlled cloth but even the minimum obligation was not fulfilled. In the circumstances, it is a moot point whether the persistent pampering of the industry by the grant of liberal incentives was at all justified. In any case, even if such incentives were considered inescapable, they should have been inextricably linked with the fulfilment of the production obligation in full. This question has been discussed in some detail in Chapter II of this Report the Committee would urge Government to take serious note of their observations.

[Sl. No. 9 (paragraph 1.140) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The observations of the Committee have been noted. It may be stated that when the voluntary arrangement for the production of controlled cloth were introduced in June, 1971, it had been estimated that production of each metre of controlled cloth involved an average loss of 63 paise per sq. metre. However, an incentive of 50 paise per sq. metre was fixed to encourage production of controlled cloth. Subsequently, the rate of incentive was adjusted from time to time and ultimately totally withdrawn. Meanwhile, the level of cotton prices had risen very high over the 1968 levels. The fall in the production of controlled cloth to the extent of about 133 million sq. metres during the period of June, 1971 to March, 1974 during which

voluntary arrangements prevail, might be viewed in that context. No incentives have been given after the termination of the voluntary arrangements.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Recommendation

Yet another provision being operated without any statutory basis is 'Inter-Mill Transfer of obligation'. The Committee find that this provision was introduced in May, 1968 (when Medium 'A' Fine and Superfine categories of cloth were excluded from the ambit of the controlled cloth scheme) when it was felt that it was not technically feasible for some mills to produce controlled varieties in the Medium 'B' and coarse categories, while others were predominantly structured to produce these varieties. The provision of Inter-Mill transfer of obligation was accordingly made, whereunder mills of the former category could opt out of their obligation by paying a compensation and the mills in the latter category were entitled to incentives for producing controlled varieties in excess of their obligation. When the voluntary scheme remained in operation (May, 1971—March, 1974), the mills were allowed to get their obligation fulfilled by another mill on the payment of a premium to be settled among the mills themselves. The Committee find that even though the controlled cloth scheme was placed on a statutory basis from April, 1974, the aforesaid facility was still continued. The Committee were informed that out of the total obligation of 800 million square metres of controlled cloth fixed from April, 1974, inter-mill transfers had been of the order of 200 to 240 million square metres, i.e., about 25 per cent of the total obligation. In support of this provision it was stated that it had enabled Government to get the full quota of controlled cloth produced. The Committee, while not happy with the somewhat tortuous nature of the scheme, might conceivably concede that it might have worked as a partial arrangement, they are of the view that such a provision, if really thought satisfactory, should have been sought to be operated as an integral part of the statutory scheme. It may be added that during evidence the representative of the Law Ministry himself doubted the legal validity of this arrangement.

[Sl. No. 10 (paragraph 1.141) of Appendix IX to 223rd Report of the
Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The rationale of the facility for "inter-mill transfer of the obligation" for controlled cloth lies in that all mills were not technically capable of producing controlled varieties in coarse and medium categories. The

operation of the scheme on this basis has not presented any particular problems and has not been considered cumbersome or tortuous by the industry. The necessity and feasibility of incorporating in the statutory scheme a provision for 'inter-mill transfer of obligation' is being examined separately.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Further Information

The system of inter-mill transfer of obligation for production of controlled cloth was in vogue during the period when the controlled cloth scheme was in operation on voluntary basis between May, 1971 and April, 1974. The rationale was that it was not technically feasible for some mills to produce controlled cloth varieties. The system was, for this reason, continued after the scheme was again placed on statutory basis in April, 1974. Operation of the system of inter-mill transfer on voluntary basis has presented no difficulty and there are no pitfalls. It does not appear worthwhile Government directly involving itself on inter-mill transfers by placing the system on statutory basis. At present the obligation for the production of controlled cloth remains that of the transferer mill and Government has nothing to do with the transferee mill. In the event of default, the transferer mill can be proceeded against without any legal complications. If the system of inter-mill transfer of obligations is given a statutory base, complications can arise. The present system of voluntary basis is working well and need not be replaced.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I/CTI dated the 29th September, 1977].

Recommendation

The Committee find that during the period April, 1974 to March, 1975, as many as 118 private mills had transferred their controlled cloth obligation to the NTC mills. The obligation thus accepted amounted to 90.47 million square metres. The rates of premium payable for the performance of the obligation on behalf of other mills is understood to have been fluctuating, but the ruling premium was stated to be about 80 paise per square metre. The Committee found during evidence that while the NTC mills had, on an average, been incurring a loss of Rs. 1.10 per square metre of controlled cloth produced towards their 'own' obligation, they made a profit of Rs. 1.19 crores on 'transferred' obligation. The Committee are not averse to the idea of NTC mills accepting the controlled cloth obligation of private mills especially when such a transfer appears to have been a profitable proposition and perhaps enable the NTC mills to utilise more fully their manufacturing capacity. The Committee, however, do not approve of a situation where private mills, no doubt hunting

for higher profit arenas, can shove off their own obligation to the shoulders of NTC, particularly when the latter's experience shows that controlled cloth production by no means necessarily involves loss. Here is clearly yet another instance of our cotton mill industry, which once upon a time had patriotic motivations, having turned out to be profit-oriented to the extent even of being allergic towards national obligations.

[Sl. No. 11 (paragraph 1.142) of Appendix IX to 223rd Report of the Public Accounts Committee 1975-76) (Fifth Lok Sabha)]

Action Taken

As indicated in the note on recommendation No. 1.141 the justification, for the facility for "inter-mill transfer of the obligation" for controlled cloth lay in the fact that all mills were not technically capable of producing controlled cloth in coarse and medium categories. In reality there is no transfer of the obligation as such. What happens is that the mill under obligation enters into an arrangement with another mill to get controlled cloth produced by the other mill to the extent of its obligation. This is done on the basis of terms that are mutually settled. Production of controlled cloth in any case remains to be a loss-making activity. NTC mills have made profits on the production of controlled cloth on behalf of other mills by way of receiving premium from the mills on whose behalf they produced the controlled cloth.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Recommendation

The Committee were informed during evidence that by producing 8,000 million metres of cloth, per capita availability of cloth (after excluding exports and non-wearable varieties or industrial varieties of cloth from the total production) worked out to 12 metres by the end of the Fourth Five Year Plan (1973-74). As far as the vulnerable sections of the population, (those having an annual earning below Rs. 3,000 for a household) are concerned, their number was assessed at 230 millions and per capita consumption of cloth at 7.5 metres by the end of the Fourth Plan. According to the projections made for the Fifth Five Year Plan, while the per capita availability of cloth in the country is expected to be in the vicinity of 14 or 14.5 metres, requirements of cloth for the weaker sections is estimated to be 3070 million metres by the end of the Fifth Plan. The Committee were also informed that since the formulation of the draft Fifth Plan, there have been various developments, including rise in prices as a result of which these estimates have been affected and are, therefore, likely to undergo changes. The Committee regret that even after the lapse of the first two years of the Fifth Plan, final estimates of annual require-

ments of cloth for the vulnerable sections of population are yet unavailable. This failure calls for rapid rectification.

[Sl. No. 12 (paragraph 1.143) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The observation of the Committee have been noted. The requirements of the vulnerable sections of the population to be met by the mill sector are however not easy to gauge. There is a large volume of production in the handloom and powerloom sector catering to their requirements already, besides the changing consumption pattern in favour of synthetic and blended fabrics particularly in the urban areas.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Recommendation

Another disturbing phenomenon of the operation of the Controlled Cloth Scheme is that there has been a steady decline in the production of dhoties and sarees since 1968. Perhaps, the most important factor which has come in the way of the smooth functioning of the scheme is that the production pattern was not in conformity with the actual requirements of the people, and the mills were producing more long cloth (presumably because of the opportunities available for clandestine sales by their conversion and reprocessing) and shirting and less sarees and dhoties. While in 1968, the mill sector produced 465 million metres of dhoties and sarees, the production was 440 million in 1969, 242 million in 1970, 230 million in 1971, 219 million in 1972 and only 180 million metres in 1973. During 1974 (upto September, 1974), while the percentage requirement under the scheme was assessed at 20 per cent, the actual production of dhoties was 6.3 per cent and that of sarees only a meagre 2.7 per cent. Apart from this tremendous shortfall in production, dhoties and sarees produced under the controlled cloth scheme were of such a by smally poor quality and width that they could be of hardly any use to the poorer sections of the population, especially in the countryside. This is an intolerable situation and the Committee ask for stringent measures to ensure adequate production of dhoties and sarees by the mill sector. An early report on this issue is particularly called for.

[Sl. No. 13 (paragraph 1.144 of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

Till October, 1972 there was no statutory control on the marketing of controlled cloth and free marketing did not provide any opportunity to

assess the varietal requirements of controlled cloth. After the introduction of statutory control in October, 1972, the supervisory task was entrusted to the N.C.C.F. For some time there were no complaints about non-conformity between production pattern and consumption pattern of controlled cloth. However, in the later half of 1974 the N.C.C.F. brought to the notice of Government the varietal pattern of requirements, which indicated that dhoties and sarees were required to the extent of 45 per cent of the total requirements. Immediate increase in the production of dhoties and sarees from the then existing level of about 9 per cent would have run into practical difficulties in the matter of production as well as on account of the protection deservedly available to the handloom sector. Immediately therefore a higher production level was specified at 20 per cent and the response from the industry was encouraging in that the production level during the period January—June, 1975 increased to about 36 per cent of the total production of controlled varieties. Specific production levels are now being fixed for dhoties and sarees within the total production obligation to ensure adequate production.

2. Decision has since been taken in principle to transfer production of dhoties and sarees of controlled varieties to the handloom sector in a phased manner. This step will ensure, apart from giving assured work to the handloom sector, production of dhoties and sarees upto the needed level. To begin with, production of these varieties in the handloom sector is being undertaken on experimental basis and can be put in full gear after securing the results of experimental production.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Further Information

In order to meet the varietal requirements of controlled cloth by the people, the mills have been statutorily required to produce different varieties of controlled cloth in the following proportions from the quarter July-September, 1976:—

1. Dhoties	20%
2. Sarees	13%
3. Grey long cloth	15%
4. Processed long cloth	20%
5. Drill	24%
6. Shirting	27½%

(The quantity of bleached and dyed varieties of shirting packed should not be less than 50 per cent of the total quantity of controlled shirting packed)

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I/CTI dated the 12th September, 1977]

Recommendation

In spite of the Controlled Cloth Scheme having now been in operation for more than a decade, no genuine survey or even broadly reliable data

on the estimated requirements of dhoties and sarees for the vulnerable sections of the people are available. It is no wonder that in 1974 (upto September, 1974), while the production of long cloth was 53.7 per cent in excess of requirement, the production of all other categories (shirts, sarees, dhoties, drill) was far short of requirements. While the Committee feel strongly that Government through the Textile Commissioner should have enforced corrective measures in time, they urge on Government to collect relevant data without any delay to ensure that the production pattern of the mills conform to actual requirements.

[Sl. No. 14 (paragraph 1.145) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The Textile Commissioner is already going into the varietal requirements of controlled cloth on a periodic basis and the feasibility of gearing the production to such requirements. The National Co-operative Consumers Federation is associated in this task.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Recommendation

The Committee find that during the years 1966-67 to 1972-73, India imported 4907 thousand bales of Cotton, valued at Rs. 609.98 crores. The bulk of these imports were confined to the long-staple varieties. Till a few years back, cotton was being imported against free foreign exchange, against PL-480 Agreements and against Bilateral Trade Agreements. In 1975, under a special arrangement, 2 lakh bales of medium staple cotton were imported from Pakistan. Justifying these imports it was stated by the Commerce Ministry that over the years the overall production of cotton had remained far short of the requirements of the mill industry. This reason does not, by itself, appear to be plausible, in view of the fact, which was also admitted during evidence, that India has in recent years successfully achieved a breakthrough in the development of long-staple cotton as this variety commanded a higher price of Rs. 900 per quintal as against the price of Rs. 200-300 of other varieties, the production picked up to such an extent that there was even a glut in the home market in 1974-75 and Government had to permit a portion of it to be exported. The Committee were informed that the low off-take of long staple cotton was due to the higher requirements of the medium varieties. In April, 1974, the production of controlled cloth, which depended for its production on short and medium varieties of cotton, was doubled from 400 to 800 million square metres. There was also a spurt in our export of cotton textiles which too depended on those varieties. Explaining this paradox of imports in the face of a glut of long-staple cotton, the representative of the Agriculture Ministry stated that "once we introduce a

variety, it takes time even to discourage it". The Committee are not impressed by this statement. The hardships and puzzling dilemma which the growers of that variety must have faced when they found to their dismay that the very variety they were encouraged to grow was no longer required by the mills can be visualised. The Committee recommend that in order to avoid such unhappy situations in the future, Government should follow what may broadly be termed an integrated policy so that varieties of cotton produced in the country are not out of tune with the trends in consumption.

[Sl. No. 15 (paragraph No. 1.146) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The recommendation of the Committee has been taken a very careful note of. In fact, the need for aligning the production of cotton with the demand pattern was discussed in detail at a meeting of the Cotton Advisory Board. The Committee set up by the Ministry of Agriculture has already examined this aspect. This Committee has accepted demand-projections in respect of cotton as indicated below by the year 1978-79:—

1. Long staple and extra staple varieties	25.00 lakh bales
2. Medium and superior medium varieties	49.00 lakh bales
3. Short staple varieties	7.00 lakh bales
TOTAL	82.00 lakh bales

The Committee does not visualise any difficulty in meeting the demand for long and short staple cotton in full. As against demand of 82 lakh bales, the production target for cotton by 1978-79 is about 80 lakh bales. Bulk of the gap of 21 lakh bales between demand and the production target is in respect of medium staple varieties. Even this gap can be bridged if the breeders succeed in isolating high yielding hybrid suitable for cultivation in the irrigated belt of the North Western States. The Indian Council of Agricultural Research has already initiated measures to step up production of medium staple varieties through better farm managements techniques and introduction of new high yielding varieties. Following are the few important steps taken in that direction:—

- (i) bringing additional irrigated areas under cotton in the Beas-Sutlej link canal system in Punjab, Haryana and Rajasthan
- (ii) Replacing the existing varieties with high yielding short duration varieties like Bikeneri, Narma, CPH-2, SRT-1, JK 97, JK 99.
- (iii) Raising productivity through better farm management practices including maintenance of optimum plant population, foliar application of fertilisers and plant protection measures.

It might be mentioned that pattern of demand for Cotton is susceptible to change in relation to the demand pattern for cloth and for that matter a continual watch will have to be kept.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex. 1 dated the 6th October, 1976.]

Recommendation

The Committee note that while imports of cotton are canalised through the Cotton Corporation of India to whom a bulk license is issued for the imports, it was the Indian Cotton Mills Federation which not only functioned as the sponsoring authority for recommending applications from individual units but also collected a premium at the rate of Rs. 300 per bale of imported cotton. As the amount was collected from the mills by the ICMF under a voluntary arrangement, the same was not credited into Government account. As far back as April 1966, the Committee had in their 50th Report (Third Lok Sabha) pointed out that the levy of premium had all the ingredients of a tax and as such it should be operated by an official agency. In their reply, the Ministry of Commerce had pointed out that such voluntary and indirect methods and modalities of export promotion were recognised and practised in many countries. The Committee did not at that time pursue their recommendation further. It is surprising, however, to learn that Government did not even go into the question of how the ICMF collected premium on imported cotton during the period the voluntary scheme was in force, i.e. from June 1971 to March 1974. A much better arrangement would have been for Government to use its power of levying import duty on cotton and out of the amount so collected consider subsidising the production of controlled cloth. The Committee recommend that whenever private bodies manage to impose levies on or make collections of premium from industries, Government should not acquiesce in such an arrangement on the plea of its being 'informal', but should, on the contrary, examine fully the implications of such levy/collections and place it if thought fit, on an appropriate statutory basis.

[Sl. No. 16 (paragraph 1.147) of Appendix IX to 223rd Report of the
Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The observations of the Committee have been noted. However, it may be stated that the requirements of funds for securing production of controlled cloth under the voluntary arrangements during the period June 1971 to March 1974 were assessed preliminarily by the Committee headed by the then Additional Secretary in the Ministry of Foreign Trade and subsequently by a sub-committee headed by the Textile Commissioner from time to time.

Collection by the ICMF was by way of fees on imported cotton, contributing in relation to production of non-controlled cloth and penalties in respect of the shortfall in the production of controlled cloth. The amounts in respect of these collections and expenditure had been properly audited by the Chartered Accountants and they have been accepted by the Textile Commissioner. At present ICMF is not collecting any premium on imported cotton to raise funds for the production of controlled cloth and the scheme for controlled cloth production is now working on statutory basis.

[Ministry of Commerce (Department of Textiles O.M. No. 9/12/76-
Tex-I dated the 6th October, 1976]

Recommendation

The primary objective of the Controlled Cloth Scheme is to make cheap and durable cloth available to the weaker sections of society. However, complaints have persisted about its poor quality as well as non-availability, the inadequacy of its distribution machinery, the prevalence of questionable practices at all levels and other defaults. It will not be unfair to state that the social objectives of the scheme have largely failed and there has been pitiful chasm between demand and supply and between promise and performance. Evidently, imaginative changes and effective steps are called for if the controlled cloth scheme is to be rescued and our long suffering people are to have some little amelioration.

[Sl. No. 18 (paragraph 2.63) of Appendix IX to 223rd Report of the
Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The observations of the Committee have been taken note of and the scheme would continue to be reviewed and adjusted, within the framework of feasibility, to better serve the vulnerable sections of the consumers. It may be added that the controlled cloth scheme was introduced in October 1964 with the objective to make available to the consumers at large, at reasonable prices, varieties of cloth of mass consumption, which were identified and brought under production and price control. It was not the aim of the Government to organise through such control, production and supply of the entire requirements of cloth even for the vulnerable sections of the population. The operation of the scheme was kept under review and suitable modifications were made from time to time consistent with the health of the industry and the interests of the consumer.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex. I dated the 28th September, 1976]

Recommendation

The Committee find particularly that the distribution system is not geared to take the income variant into account and hardly performs its primary obligation, namely, service of the vulnerable, often too pitifully poor, sections of our people. The NCAER Survey points out, for instance, that about 70 per cent of the sample of controlled cloth buyers belonged to the salaried class employed in manufacturing industries and other organisations including Government, while cultivators and agricultural labourers accounted for less than 10 per cent of the buyers. Observing that in States such as Maharashtra and Tamil Nadu, 65 per cent of the buyers' cannot be classified as belonging to vulnerable sections of the community', the survey concludes that the controlled cloth scheme, primarily intended to accord protection to the economically weaker sections of the society 'is not fully serving its purpose'. The Bureau of Industrial Costs and Prices had also, in its interim report on cotton textiles (September 1972) expressed substantially the same view. The Committee urge on Government that this basic drawback in the operation of the scheme is removed without delay.

There is at present no uniformity in regard to the entitlement to controlled cloth and various States Governments have prescribed different monetary limits in this regard. The Committee have been informed that while in some States, persons in the income range upto Rs. 400/- per month are entitled to draw their quota of controlled cloth on ration cards, those with an income upto Rs. 750/- and even upto Rs. 1,300 can, in some other States, get controlled cloth. This is entirely unsatisfactory, as it discriminates against those who cannot easily acquire a basic necessity of life. The Committee would suggest that the feasibility of laying down a uniform ceiling of income throughout the country for entitlement of controlled cloth should be examined, in consultation with the State Governments.

[Sl. Nos. 22 and 23 (paragraphs 2.67 and 2.68) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The Textile Commissioner had advised the State Governments that as the production of controlled cloth is mainly designed to meet the requirements of weaker sections of the community controlled cloth may be sold to people with monthly income upto Rs. 400 -. In pursuance of this advice, several State Governments regulated sale of controlled cloth and imposed quantitative and other restrictions on sale of controlled cloth; in some States, the sale was restricted to certain income groups.

These restrictions were by and large implemented by the State Governments, except when there was problem of accumulation of stocks of controlled cloth and it became necessary to clear the accumulated stocks, particularly of slow-moving varieties. In those circumstances, the restrictions had to be temporarily relaxed by the State Governments. Thus, this is a matter in which the State Governments have to take action in the light of the local conditions in each State and any uniform advice or instructions in this respect from the Centre may not be workable, as the position varies from State to State and from time to time. However, the possibility of laying down a uniform ceiling of income, or other methods to ensure that controlled cloth is sold to the lower income groups, on a preferential basis, will be further examined, in consultation with the State Governments.

[Ministry of Commerce (Department of Textiles O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

Recommendation

The Committee are surprised that though the controlled cloth scheme has now been in operation for over a decade, no scientific survey has yet been conducted by the Government to determine the type of people who purchased controlled cloth and how far the objectives envisaged by the scheme had been achieved. Such a survey should be undertaken by the Central Government soon and on the basis of its findings, which should not take too long, all essential steps should be adopted.

[Sl. No. 24 (paragraph 2.69) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The observation of the Committee have been noted. The requirements of the vulnerable sections of the population to be met by the mill sector are however not easy to gauge. There is a large volume of production in the handloom and powerloom sector catering to their requirements already, besides the changing consumption pattern in favour of synthetic and blended fabrics particularly in the urban areas.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 28th September, 1976]

Recommendation

Apart from the inadequacies and deficiencies in the distribution arrangements there appears to have been a peculiar and pernicious gap in the controlled cloth scheme. A large proportion of the consumers is, according to the NCAER Survey, unaware of the scheme itself, and this does not by any means speak well of the government's publicity campaign.

The Committee desire that urgent and adequate steps should be taken to disseminate information about the controlled cloth scheme and the outlets for its distribution. Facts about the availability of cloth, prices, etc. should also invariably be displayed at a prominent point by all the retail outlets.

[Sl. No. 25 (paragraph 2.70) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The scheme for the production and pricing of controlled cloth is largely meant for the vulnerable sections of the population and therefore, any publicity campaign covering controlled cloth availability would have to be oriented towards these sections. Careful thought is needed to be given as to how best to direct publicity towards these vulnerable sections. Necessary action is being taken in that direction in consultation with the D.A.V.P. Meanwhile State Governments have been requested to ensure that availability and prices of controlled cloth are displayed at all the retail shops.

[Ministry of Commerce (Department of Textiles O.M. No. 9/12/76-
Tex-I dated the 28th September, 1976)]

Further Information

On the 11th January, 1977 the Government of India initiated a new policy in regard to distribution of controlled cloth through the NCCF and its affiliated distribution outlets. Controlled cloth or also called cheap cloth received direct publicity through two Press Notes and a combined brochure on economic programme brought out by the DAVP. During the recent Handloom Fair the production of controlled cloth for the vulnerable sections of the society also got due publicity as a part of the production of controlled cloth is being produced in the Handloom and Powerloom sectors also. Now that the entire distribution is in the hands of the NCCF the latter have been giving due publicity to the cheap cloth through their monthly journal 'Indian Consumer Cooperator'. Other methods adopted by the NCCF are participating in the village fairs, exhibitions, putting up hoardings at suitable places and through its 60,000 and odd retail outlets in the country (48,00 in rural areas and 12,000 in urban areas). Taking the present production level and the number of retail outlets (where only half a bale of controlled cloth per out-let is available) the existing level of publicity is considered enough. The scheme is under review and the matter will be further considered when higher output is achieved.

[Ministry of Commerce (Department of Textiles O.M. No. 9/12/76-
Tex-I/CTI dated the 12th September, 1977)].

Recommendation

The Committee have been informed that Government's approach, generally, was not to have separate societies to cater to the needs of

different communities in the vulnerable sections of society, such as Scheduled castes, scheduled tribes, etc. However, in States like Andhra Pradesh and Orissa where there was a sizeable population of Scheduled tribes, separate tribal cooperatives were involved in the distribution of controlled cloth. The Committee recommend that the scope for setting up cooperative societies to serve specially vulnerable communities in places where there is a concentration of such people may be explored.

[Sl. No. 26 (paragraph 2.71) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

Cooperative Societies have to be viable units if they are to function effectively. Therefore, the approach is to have a society to cover a viable area of operation with appropriate safeguards in regard to membership, composition of the Managing Committee etc., to protect the interests of vulnerable sections, including scheduled castes, scheduled tribes etc. The Cooperative Tribal Development Corporations and other cooperatives functioning in areas predominantly inhabited by tribal population are already eligible for supply of controlled cloth for distribution to the people of those areas. Separate viable societies specially catering to the needs of the vulnerable sections can be formed only in areas where there is a sizeable population of scheduled tribes and separate multi-purpose tribal cooperatives are already being formed in such areas.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976].

Recommendation

There have also been a number of complaints that the Industry itself has been indulging in a systematic sabotage of the controlled cloth scheme. Various news media have also carried reports on the clandestine sale of controlled cloth at different times to bulk buyers either for reprocessing or conversion into readymade garments. In fact, even the then Minister of Foreign Trade, while addressing an ICMF Conference on 7 October 1972, had stated

“...it appears that the moment the controlled cloth leaves the mills gate, it disappears, without leaving any trace behind. . . . I believe a fair quantity reaches the processing houses where it changes shade and colour and reemerges as non-controlled processed cloth with a high unit value.”

The Bureau of Industrial Costs and Prices had also alluded to this fact, in September 1972, and had recommended ‘fuller examination’ of this aspect. Admittedly, prior to November 1972, before the distribution system introduced by the Commerce Ministry came into force, complaints of controlled

cloth being largely diverted to processing units were received by Government and were found to have some basis. Though the clandestine sales of long cloth to the processing houses was apparently within the knowledge of Government for a fairly long time and Government were also aware that the malpractices alleged related largely to the long cloth component which constitutes a substantial portion of the total production, the Committee are surprised and perturbed that it was only in September 1974 that orders were issued by the Textile Commissioner directing the mills to bring down the proportion of long cloth in the total production and to produce long cloth only in the bleached form instead of the grey form which is susceptible to reprocessing and conversion. The Committee seriously deplore the delay in taking these remedial measures and would like urgently to know the reasons therefor. They would ask Government to be truly vigilant in this regard and come down heavily on those mills/dealers whose self-interested and clandestine transactions tended clearly to sabotage a national welfare scheme.

[Sl. No. 27 (paragraph 2.72) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

Marketing of controlled cloth was brought under statutory control with effect from October 1972 and the coordination of the arrangements at national level was entrusted to the National Co-operative Consumers Federation. For some time there were no complaints about lack of conformity between production pattern and consumption pattern. The N.C.C.F. reported in the month of July 1974 that certain varieties of controlled cloth were in short supply and certain others were in excess. Production obligations are fixed for quarterly periods and Textile Commissioner issued instruction for the production of long cloth in bleached form from the next quarter commencing from October 1974. From the quarter commencing January 1975, mills were required to produce dhoties and sarees to the extent of 20 per cent of their obligation. For the quarter July—September 1976, the following varietal requirements have been statutorily laid down for the production of controlled varieties:—

Dhoty	20%
Saree	15%
Grey Long Cloth	15%
Processed Long Cloth	20%
Drill	2½%
Shirting	27½%

(the quantities of bleached and dyed varieties of shirting packed shall not be less than 50 per cent of the total quantities of shirting packed).

2. The situation would be kept under watch and the necessary adjustments will be made so that the gap between production pattern and the consumption pattern is minimised.

Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 28th September, 1976]

Recommendation

Another common complaint about the working of the controlled cloth scheme relates to the quality of cloth produced and supplied by the mills. The Textile industry had been criticised, in no uncertain terms, by the National Consumers Cooperative Federation, which pointed out that the industry was interested 'only in statistical data' in terms of square metres of controlled cloth produced, but was 'completely blind' to the aspect whether the cloth produced were meant for wearing purposes or 'to be used as dustors and packing cloth'. The Federation had also alleged that the 'worst type of cotton with minimum permissible picks' were used in production and added that a mere scrutiny of the cloth 'will reveal that they are nothing but netting cloth'. These complaints were also corroborated by a Government spokesman before the Committee when he conceded that 'it was a well-known fact' that the private textile industry produced sub-standard cloth, especially between September, 1974 and February, 1975, and that the quality of the cloth was so bad that 'even the poorest sections felt that it was not fit for wearing'. The sarees and dhoties, according to him, were 'more or less transparent and were more suitable for netting rather than for wearing purposes'. Some of the controlled cloth produced during this period was so bad that it could be used only as bandage cloth. This, in the opinion of the Committee, represents a shocking state of affairs and is indicative of the extent to which a scheme evolved for the common good had been distorted and shamelessly exploited by powerful and unscrupulous elements in the industry.

The upshot of all this bungling and worse was the accumulation of stocks valued at approximately Rs. 5 crores throughout the country, which caused heavy loss and 'severe strain' on the cooperative distribution system. It would appear that the Textile Commissioner's quality control organisation had dismally failed to take effective steps to ensure that there was proper and genuine inspection of the quality of cloth produced and to enforce rigidly the stipulated specifications. It is otherwise inconceivable to the Committee how such a large scale deterioration in quality could take place suddenly. The Committee would like to be satisfied that the inspection machinery did, at least, attempt to discharge the responsibilities cast on it and would like the circumstances leading to the large-scale production of sub-standard cloth to be investigated and responsibility for

default fixed. The Committee repeat that they take a grave view of the matter and call for stringent action on the basis of the investigation, against those who had been remiss in their duties. The results of such investigation must come soon to the Committee.

[Sl. Nos. 28 and 29 (paragraphs 2.73 and 2.74) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

Prior to November, 1972 there was no distribution control and marketing of controlled cloth was the responsibility of the mills concerned. With the imposition of statutory distribution control, the marketing of controlled cloth was no more the responsibility of the mills and a tendency for production of controlled cloth of very low construction came to be noticed in the middle of 1973. Immediately Notification No. CER/1/73 dated 30th August, 1973 was issued prescribing the minimum number of picks per inch of varieties of dhoties, sarees and long cloth and brought into force from 1st November, 1973. Like-wise minimum picks per inch of controlled shirting was also prescribed vide Notification No. CER/1/74 dated 29th May, 1974 and made effective from 1st July, 1974. The need for further improving the specifications of controlled cloth was again examined in late 1974 and the Notification No. CER/1/75 dated 10th January, 1975 was issued prescribing the minimum number of ends and picks per inch of controlled cloth produced. Simultaneously the count ranges applicable to cloth produced under each group was also narrowed to ensure that controlled cloth produced has a better coverage.

2. With effect from 1st April, 1974, an annual level of production of 800 million, sq. metres was envisaged as against 400 million sq. metres envisaged during the period of voluntary arrangements. There were fairly wide-spread reports about deterioration of quality and in January, 1975 specifications were revised and enforced from 1st March, 1975. Rigorous inspection on an adequate scale could have prevented deterioration in quality. However, Textile Commissioner has indicated that its 7 Regional Offices carried out periodical inspections of mills under their respective jurisdiction. There have since been hardly any complaints about the quality of controlled cloth.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex. I dated the 28th September, 1976]

Recommendation

The Committee have been assured, in this context, that the situation was reviewed as soon as this position came to light that the standards

were immediately revised in January, 1975, and that packing of controlled cloth is being done according to the revised standards from March, 1975 onwards. The present quality of controlled cloth is also stated to be acceptable to the consumer. While the Committee concede that the quality of controlled cloth can be improved only upto a certain limit without seriously affecting the existing price structure, the Committee feel that it should be possible for the industry to bring down the cost of production by improved methods of production and management, research and development, etc. and also to impose itself a certain amount of self-discipline and a commitment to subserve the common cause. The Committee would urge Government also to keep standards and specifications for controlled cloth under constant review and enforce vigorous inspection and quality control at the production stage itself so as to ensure that the prescribed standards are rigidly observed. The Committee are of the view that drastic measures are necessary to discipline the truant textile industry and make sure that it fulfils its larger social obligations and commitments.

[Sl. No. 30 (paragraph 2.75) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)].

Action Taken

After the introduction of revised specifications of controlled cloth effective from 1st March, 1975, the quality of controlled cloth has generally been satisfactory. Increased attention will be paid by the inspecting staff of the Textile Commissioner's Organisation to the enforcement of quality control. As regards the suggestion for reduction in the cost of production by improved method of production and management, research and development, the matter will be taken up with the industry through the Textile Commissioner. It may, however, be pointed out that only recently prices of cotton shot up inevitably making an impact on prices of cotton yarn. A number of steps have been taken to contain the prices, but situations like this have to be reckoned with.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex. I dated the 28th September, 1976].

Recommendation

The Committee learn from the Commerce Secretary that even after the 30 per cent price increase allowed from April, 1974, the mills are supposed to be incurring a loss of Re. 1 per square metre of controlled cloth produced, which meant that the obligation to produce 800 million square metres of controlled cloth had placed a burden of Rs. 80 crores on the industry. In the context of what has been said before, the Committee cannot help feeling that there is perhaps in certain quarters a

greater concern and solicitude for something like an optimum profitability of the by no means impecunious textile industry of this country than for the needs of our people. The Committee stress that Government should take concerted measures to see that the basic necessities of the common man including the requirements for cloth are met and that the textile mills are made to realise this national obligation. Apart from assessing the financial implications of the controlled cloth scheme on the industry on the basis only of an investment analysis it would be more appropriate to assess the importance of the scheme on the criteria evolved by a social cost-benefit analysis. The considerable margin of profit clearly found available over the years to the industry by the production and sale of non-controlled varieties of cloth must also be taken into account. Having due regard to the socio-economic objectives undertaking the controlled cloth scheme, the Committee would call on Government to ensure that the right type of national discipline is brought to bear on the textile industry which should, with a reasonable effort, be able to ensure generally uninterrupted supply of acceptable quality cloth in adequate quantities and at moderate and regulated prices.

[Sl. No. 33 (Paragraph 2.78) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)].

Action Taken

The recommendation for concerted efforts to supply the basic necessities of common man has been also conveyed to the Ministry of Civil Supplies. So far as controlled cloth is concerned, Government attached due importance to the scheme for production and distribution of controlled cloth and would take all possible steps to make the scheme for controlled cloth production subserve the purpose of ensuring supplies of controlled cloth adequately consistent with the health of the industry involved in the production of Controlled Cloth.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex. I dated the 28th September, 1976].

CHAPTER III

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

Recommendation

It is distressing that during the years 1971-72 to 1973-74, while the production of long-staple cotton increased by 15 per cent (from 1,779 thousand bales in 1971-72 to 2059 thousand bales in 1973-74), the production of medium and short staple, which was 3807 and 978 thousand bales respectively in 1971-72 increased to 2883 and 880 thousand bales respectively in 1973-74, the percentage decline being 24 to 10 per cent respectively. The Committee would like the Agriculture Ministry to go into the reasons for this decline and give greater encouragement to the production of medium and short-staple varieties of cotton in the country with a view to ensuring that the controlled cloth scheme which is dependent on these varieties of cotton, does not come to grief on this account. There should, in other words, be a well thought-out plan for growing all required varieties of cotton, with an eye particularly to the cloth requirements of the weaker sections of our society.

[Sl. No. 17 (Paragraph 1.148) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

Bulk of the cultivation of cotton, particularly of medium and short staple varieties depends on rain and, therefore, the fluctuations in the production of these varieties has to be reckoned with. The steps now being taken to develop production of medium staple varieties of cotton are indicated in the action taken note in respect of Recommendation No. 1.146. As indicated in that note, the demand for short-staple cotton by 1978-79 is assessed by 7 lakh bales. While official estimates of staple-wise cotton production during the year 1974-75 have not yet become available, it is estimated that production of short-staple variety during that year would have been about Rs. 10.71 lakh bales as against 9.3 lakh bales during 1973-74. There is no gap between demand and supply so far as short-staple varieties are concerned.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I] dated the 6th October, 1976]

Recommendation

In this context, the findings of a sample survey of controlled cloth marketing conducted, during September-October 1974, by the National Council of Applied Economic Research, have some relevance. The survey, of course, covered a small sample, being confined to only 144 outlets in nine States and no basis for large generalisations. However, it focusses attention on some of the weak spots in the scheme, which should serve as pointers to Government for taking necessary remedial measures. Since, according to the 1971 census, nearly 80 per cent of the weaker sections of the community live in rural areas, this fact should have been the basis for the allocation of controlled cloth for distribution between the urban and rural areas and the latter should have, therefore, received a much larger quantity of controlled cloth than the former. The NCAER Survey points out, on the contrary, that rural areas accounted for only about 15 per cent of the releases of controlled cloth. Maharashtra, for instance, with 9.4 million households had only about 800 rural outlets, out of which, paradoxically, some 350 were located in the Bombay metropolitan area.

The Committee have learnt that in pursuance of the specific measures initiated by Government to expand the distribution network for controlled cloth, the total number of retail outlets for controlled cloth increased from 18,646 as on 30 June 1974 to 28,035 on 31 March 1975, out of which 21,089 were in rural areas, and that the quantity of controlled cloth distributed in rural areas accounted for about 68 per cent of the total sales during 1974-75. That it was found necessary to add as many as 9,389 retail outlets in a single year would indicate that the earlier distribution arrangements were inadequate and also that it required almost some sort of a crisis to develop before remedial measures were taken. The Committee would urge Government to keep a vigilant eye on the adequacy of the retail outlets for controlled cloth and constantly evaluate their performance so that timely corrective measures can be initiated.

[Sl. Nos. 19 and 20 (Paragraph 2.64 and 2.65) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

In the revised policy relating to production and distribution of controlled cloth introduced by the Central Government with effect from April 1974, it was clearly laid down that a substantial part of the controlled cloth should be distributed in the rural areas, so as to particularly benefit the vulnerable sections. Specific advice in this respect was communicated to the State Governments by the erstwhile Department of Cooperation in their first circular letter on the subject dated 23rd May, 1974. At the request of the Central Government, the President of the NCCF, which

was nominated as the National Level Coordinating Agency for the distribution of controlled cloth through cooperatives, addressed a demi-official letter on April 25, 1974, requesting the Presidents of the State-level Cooperative Federation, State Registrars of Cooperative Societies and others "to ensure that the rural areas are adequately covered with the distribution arrangements for the controlled cloth". Similar advice was repeated by the Central Government to the State Governments on a number of occasions subsequently. Within 3 months of the introduction of the new controlled cloth scheme in April 1974, 18646 retail outlets were organised for the distribution of controlled cloth, as at the end of 30-6-1974. As these retail outlets were not considered adequate for reaching controlled cloth in far flung rural areas of the country, the State Governments were advised to take vigorous steps for increasing the number of retail outlets and for ensuring that such outlets are located in rural areas to the maximum extent necessary. The number of retail outlets was increased to 28035 as at the end of March, 1975, out of which as many as 21089 outlets were located in rural areas and 6946 outlets in urban areas. Efforts in this respect were further intensified, with the result that, as at the end of December 1975, the total number of retail outlets in different States went up further to 46694, out of which 37408 were in rural areas and 9286 in urban areas. In other words, as much as 80 per cent of the total number of retail outlets were located in rural areas and the remaining 20 per cent only in urban areas. The State Governments are free to organise more retail outlets for the distribution of controlled cloth in rural areas, if more such outlets are actually required on the basis of local needs and demands. It will thus be observed that the Central as well as State Governments have throughout attached great emphasis on having the maximum number of retail outlets for making controlled cloth available to people in rural areas where the majority of the vulnerable sections reside. Statewise details in the matter are furnished in statement at *Annexure I*. Data relating to number of retail outlets as on 30-6-76 is still awaited from some States. However, reports received from 10 States show a further increase of 6689 in the number of rural outlets in the first six months of 1976, thus raising the total number of retail outlets in rural areas to 44097. This number is likely to go up further after reports are received from the remaining States. Reports received from State Governments about the quantity of controlled cloth distributed in rural and urban areas respectively during the period April, 1975 to December, 1975 show that about 70 per cent of the cloth was distributed in rural areas, *vide* statement at *Annexure II*.

A mention has been made about paucity of sales points of controlled cloth in the rural areas of Maharashtra. Chapter II of the Report on Mini-Survey conducted by the National Council for Applied Economic Research says that, out of a total number of 800 retailers in the State of Maharashtra for selling controlled cloth at that time (*i.e.* in September-October 1974,

the period when the survey was conducted), 342 were located in Bombay and Thana rationing area. It may be stated in this connection that the Bombay-Thana area contains amongst the largest concentration of industrial and factory workers, slum dwellers and other vulnerable sections and, as such, meeting their needs is also equally important as meeting the requirements of rural people. Besides, as stated above, the number of retail outlets in rural areas increased considerably during 1975. The position in Maharashtra as at the end of December, 1975 was that, out of a total number of 1335 retail outlets, as many as 902 (68 per cent) were in rural areas of the State.

The State Governments have been requested to constantly review the adequacy of retail outlets in rural areas and also to ensure that controlled cloth is available to the weaker sections of the society to the maximum extent.

All possible efforts are being made by the Central as well as the State Governments to further develop and sustain the cooperative sector for improving the distribution net-work.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

ANNEXURE—1

Statement showing the number of Rural/Urban Retail outlets for distribution of controlled cloth

Sl. No.	State/U. T.	As at the end of December, 1975		
		Rural outlets	Urban outlets	Total Retail outlets
1	2	3	4	5
1	Andhra Pradesh	1148	421	1569
2	Assam	724	102	826
3	Bihar	7895	1721	9616
4	Gujarat	3075	1206	4279
5	Haryana	396	490	1395
6	Himachal Pradesh	1448	96	1544
7	Jammu & Kashmir	415	110	525
8	Kernataka	1233	372	1605
9	Kerala	1763	192	1955
10	Madhya Pradesh	1341	604	1945
11	Maharashtra	902	433	1335
12	Manipur	26	8	34
13	Meghalaya	113	16	129
14	Nagaland	9	2	11
15	Orissa	2359	121	2980

1	2	3	4	5
16	Punjab	2157	227	2384
17	Rajasthan	2487	715	3202
18	Sikkim	18	1	19
19	Tamil Nadu	1658	703	3261
20	Tripura	585	47	632
21	Uttar Pradesh	4218	1285	5503
22	West Bengal	2123	180	2303
23	Arunachal Pradesh	48	6	54
24	A.N. Islands	8	2	10
25	Chandigarh	24	9	33
26	D. N. Haveli	14	..	14
27	Delhi	50	183	233
28	Goa, Daman & Diu	26	12	48
29	Lakshadweep	9	..	9
30	Mizoram	55	3	58
31	Pondicherry	73	5	78
TOTAL		37,408	9286	46,694
Percentage		80	20	

ANNEXURE II

Statement showing actual distribution of controlled cloth in Rural and Urban areas from April, 1975 to Dec., 1975 as reported by the States

(In bales)

Sl. No. (1)	Name of the State/U.Ts. (2)	Rural (3)	Urban (4)
1.	Andhra Pradesh	8941	4447
2.	Assam	7766	1941
3.	Bihar	15562	7780
4.	Gujarat	9948	4974
5.	Haryana	2559	5202
6.	Himachal Pradesh	1611	575

1	2	3	4
7.	J. & K.	4206	1302
8.	Karnataka	5929	2915
9.	Kerala	15051	2812
10.	Madhya Pradesh	7079	3763
11.	Maharashtra	N.R.	N.R.
12.	Manipur	214	150
13.	Meghalaya	212	197
14.	Nagaland	85	75
15.	Orissa	2031	1286
16.	Punjab	12582	4558
17.	Rajasthan	15897	3974
18.	Sikkim	145	125
19.	Tamilnadu	5495	6050
20.	Tripura	964	240
21.	Uttar Pradesh	51470	22059
22.	West Bengal	16343	2123
23.	Arunachal Pradesh	16	36
24.	A. & N. Islands	31	46
25.	Chandigarh	115	125
26.	Delhi	470	2585
27.	Goa, Daman & Diu	120	342
28.	D. N. Haveli	45	..
29.	Lakshadweep	12	..
30.	Mizoram	7	40
31.	Pondicherry	209	55
Total		188415	79777
PERCENTAGE		70	30

N.R. = Not Reported.

Recommendation

The distribution of controlled cloth is at present done through four channels, namely (i) Super Bazars in the cooperative sector, (ii) the National Cooperative Consumers' Federation (NCCF) and the chain of cooperatives affiliated to it, (iii) fair-price shops run under the aegis of the State Governments and (iv) any other agency in the cooperative sector specified by the State Governments. The National Cooperative Consumers' Federation is the coordinating agency, at the national level, for the onward distribution of 90 per cent of the controlled cloth produced to the Wholesale and retail channels nominated by the State Governments. While it was legitimately expected that the widely alleged malpractices in the sale of controlled cloth would be checked, if not altogether eliminated, by entrusting its distribution and sale to reliably run cooperatives, the Committee understand that cooperatives in some States did not have the necessary expertise and experience for shouldering this responsibility. It is also a known fact that our cooperatives have a lot of leeway to make up before they become effective instruments of service. Besides, financial constraints and lack of professional skills further aggravate the situation. Even as recently as two years ago, Government had stated before the Estimates Committee that the existing channels of distribution 'do not have adequate retail outlets to replace the traditional channels and reach the cloth to the weaker sections of society both in the urban and remote rural areas'. While the steps stated to have been taken subsequently are welcome, the Committee feel that a lot more needs to be done in this regard. The Central Government, instead of merely maintaining that the responsibility for the distribution of controlled cloth is that of the concerned State Governments, should play a more constructive and far-reaching role. Apart from maintaining close watch over the performance of the distribution machinery, Government should evolve and work out long-term policies and programmes of developing and sustaining the cooperative sector in its different facets as an immediate and inescapable task.

[Sl. No. 21 (paragraph 2.66) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

When cooperatives were asked to distribute controlled cloth, it was envisaged that 80 per cent of the controlled cloth produced by the mills should be distributed through the cooperatives and the remaining 20 per cent by the mills, through their own retail shops.

Cooperatives started distributing controlled cloth only from October, 1972. The following figures will show that the cooperatives have fulfilled their obligation in this respect:—

Period	Production of controlled cloth (Lakh bales)	Quantity required to be distributed by cooperatives (80% of the production) (Lakh bales)	Quantity for which despatch instructions were issued by cooperatives (Lakh bales)
October 1972 to March '74 (18 months)	3.70	2.96	3.32
April '74 to March '75 (12 months)	5.49	4.39	4.78
April '75 to Dec., '75 (9 months)	3.27	2.62	2.89
Jan. '76 to July, 1976 (7 months)	2.24	1.79	1.85

All possible efforts are being made by the Central as well as State Governments to further develop and sustain the cooperative sector for improving the distribution net-work.

It is true, that in the beginning, the cooperatives lacked experience and expertise in the distribution of controlled cloth. Financial constraints of these institutions had also impeded the distribution work in initial stages. The Central Government played a very positive role by extending financial assistance to the cooperatives for the effective distribution of controlled cloth and, for this purpose, sanctioned assistance of Rs. 50 lacs, on soft terms to the NCCF, and a special assistance of Rs. 2.34 crores to 512 Central/Wholesale Societies and other Cooperatives, on the recommendations of the State Governments, as margin money assistance, to enable the societies to obtain the requisite amount of working capital loan from Cooperative and Commercial Banks specifically for this work. The Central Government have extended guarantees to the extent of Rs. 3.50 crores in favour of the NCCF, Rs. 1.55 crores in favour of four State level Consumers' Cooperative Federations and Rs. 10.32 crores in favour of 51 Central/Wholesale Societies to enable them to obtain requisite Bank Credit, under the Central Government Guarantee Scheme, for expanding their services, major portion of which consists of distribution of controlled cloth. At the request of the Central Government, the Reserve Bank of India have advised Cooperative as well as Commercial Banks to advance loans to consumer cooperatives on a margin of a security of only 10 per cent. The Central Government have been advising and assisting the State Governments in strengthening the cooperatives for proper distribution of controlled cloth, with particular emphasis that the bulk of such cloth should go to rural areas and to vulner-

able sections. On the advice of the Central Government, the NCCF has been functioning as the National level co-ordinating agency for the distribution of controlled cloth through cooperatives and has been maintaining constant liaison with the State Governments, on the one hand, and the State level Cooperative Federations and Textile Commissioner's Organisation on the other. Progress and problems of controlled cloth distribution have been reviewed by the Central Government, from time to time in consultation with the State Government representatives in an all India Conference specially called for the purpose in July, 1975, and again at the Conference of State Registrars and State Cooperation Ministers in September, 1975. Thus, although the State Governments are directly responsible for proper and effective distribution of controlled cloth to the people of their respective States, the Central Government have throughout played a leading role in guiding, advising and assisting them in this matter.

[Ministry of Commerce (Department of Textiles) O.M. No. 9.12.76-
Tex-1 dated the 8th September, 1976]

Recommendation

Another aspect which compels attention is the pricing of controlled cloth. Prices of controlled cloth were revised, under a scheme of 'realisation multipliers', on two occasions in 1965, twice in 1966, once in 1967 and again once in 1968. Subsequently, it was only in April 1974 that Government allowed a 30 per cent increase in the prices of controlled cloth, allegedly to neutralise, 'to the extent possible' the increases in the cost of production, arising particularly, from the increase in cotton prices. Simultaneously, the retailers' margin was also raised from 12½ per cent to 20 per cent. Though the prices of controlled cloth were pegged down at the 1968 level, despite repeated pleas from the industry for an upward revision, assistance in other forms were given to the industry, on the recommendation of a committee set up, under the chairmanship of the Additional Secretary in the Ministry of Foreign Trade, to find ways and means to ensure that the production of controlled cloth was immediately stepped up to the extent originally contemplated. It is significant that the decision to give cash assistance out of the Textile Commissioners' Controlled Cloth Compensatory Fund, built up out of the penalties recovered in the past from defaulting mills, which resulted in the payment of Rs. 189 crores to the industry, between January 1972 and March 1973, had been arriving at on the basis of the statistics supplied by the industry, even when the findings of the Industrial Costs and Prices, which was then engaged in a cost price study of the cotton textile industry, were still awaited.

[Sl. No. 31 (paragraph 2.76) of Appendix IX to 223rd Report of the
Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The voluntary arrangements for the production of controlled cloth from June 1971 emerged out of in-depth study of the causes of decline in the production of controlled cloth and consideration of the steps needed to step up the production by a Committee headed by Additional Secretary in the then Ministry of Foreign Trade. It was then estimated that loss in the production of 1 metre of controlled cloth was 63 paise. Apart from losses, there were physical limitations caused by serious shortage of cotton. In this situation the industry not only faced the problem of maintaining production of controlled cloth at the requisite level but also faced a difficult situation in respect of economies of production of non-controlled varieties of cloth. It was, therefore, found necessary to give financial support for the production of controlled cloth under the voluntary arrangements. The financial requirements and resources for the funds needed for a reasonable support were initially assessed by the Committee and subsequently reviewed by a Sub-Committee headed by Additional Textile Commissioner. On account of the financial stress already faced by the industry, the entire funds needed for this purpose could not be raised from the industry and the amount of Rs. 1.89 crores from the Controlled Cloth Compensatory Fund of the Textile Commissioner was sanctioned in two parts on the basis of this assessment.

[Ministry of Commerce (Department of Textile) O.M. No. 9/12/76-
Tex-I dated the 28th September, 1976]

Recommendation

The Committee fear that the assistance extended to the industry by the Ministerial Committee was entirely premature particularly in view of the fact that the findings of the Bureau subsequently made available, on the basis of a scientific collation of material appeared to indicate that this assistance was unjustified. In its Interim Report based on a cost study of certain selected units, submitted in September, 1972, the Bureau had concluded that even on the basis of an assumed production of 20 per cent controlled cloth, the industry as a whole would have well over 15 per cent return on the capital employed. An analysis of the dividends paid by the cotton textile mills during 1965-66 to 1972-73 also indicates that reports about the textile industry suffering heavy losses were exaggerated and that an adequate profit margin was, in fact, available to it. The Committee fear that Government have virtually permitted the industry to follow a 'Heads-I win, tails you lose' policy.

[Sl. No. 32 (paragraph 2.77) of Appendix IX to 223rd Report of the
Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

The data in respect of gross profits (prior to interest but after depreciation) as percentage to the capital employed for cotton textile companies set against all companies is indicated below for the years 1965-66 to 1972-73.

Cotton Textile Companies

1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
5.4	7.8	6.3	5.3	7.9	7.8	6.3	9.7

All Companies

10.1	9.8	8.6	8.5	9.6	10.3	10.3	10.2
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All though, the profits in case of cotton textile mills have been much below the level of profits for all companies, even on the basis of other alternatives of reckoning the same. As explained in the note on recommendation No. 2.76, the industry was facing difficulties on account of serious cotton shortage in the year 1971-72 which is also evidenced from the fact that the production of cotton yarn during that year was lowest ever since 1962-63 and that of mill cloth lowest ever since 1960-61. The relevant production figures are indicated below:—

Year ending 31st March	Cotton yarn (Million Kgs.)	Mill made cloth (Million Metres)
1960-61	801	4.645
1961-62	873	4.688
1962-63	857	4.499
1963-64	916	4.483
1964-65	968	4.675
1965-66	907	4.400
1966-67	902	4.205
1967-68	926	4.256
1968-69	958	4.298
1969-70	962	4.191
1970-71	929	4.055
1971-72	901	4.039
1972-73	972	4.224
1973-74	1,000	4.084
1974-75	1,025	4.450

This position has been indicated as relevant to the circumstances in which support for production of controlled cloth from June, 1971 was considered necessary. Such support was withdrawn altogether from December, 1972.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-I dated the 8th September, 1976]

CHAPTER IV

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

Recommendation

The primary objective, professedly, of the Controlled Cloth Scheme has been to make available cheap, durable cloth to the weaker sections of our people. The Audit paragraph and the narrative thereafter indicates that the scheme has been modified periodically. In spite of all the refinements, incentives and penalties introduced from time to time, Government have yet to come truly to grips with this major problem. The social objectives of the Scheme have remained largely unfulfilled on account of various factors. The Committee concede that some of the difficulties and hurdles encountered in the process of trying to implement the gigantic task of clothing the masses of our people have been daunting. Even so, the Committee fear that there had been much avoidable vacillation in policies which continued to favour the industry even when it became intransigent to the detriment of the larger public interest.

The Committee regret that in May 1968 not only was control on fine and superfine cloth withdrawn but the obligation of the mills for the production of controlled cloth was reduced from 40 to 25 per cent of the total production, without making any precise assessment of the actual requirements of controlled cloth. The Committee have been informed, in extenuation, that the cotton textile industry was facing 'difficult times' during the preceding two to three years on account of the increase in cotton prices, wage costs, loss of production-efficiency as a result of the obsolescence of machinery in a large number of units, all of which factors, had in turn, led to an 'erosion in overall profitability'. (The cost of cotton is stated to account for 50 per cent of the cost of production and the cotton price index moved from 139.9 during 1966-67 to 176.9 in January 1968). The industry had, therefore, suggested an increase in the price of controlled cloth and a substantial reduction in the volume of cloth under control. The Committee learn that after discussion between the Commerce Ministry, Finance Ministry and the Indian Cotton Mills Federation, 'sizeable reduction in the quantity of cloth under control seemed inescapable', and the other alternative of total decontrol or price rise were ruled out.

It would, appear that greater concern had been shown for preventing an 'erosion in the profitability' of the industry than for working out special measures for ensuring that the weaker sections of the community were

provided with a basic necessity of life at reasonable prices. Even when 40 per cent of the production of the mills had been earmarked for controlled cloth, the per capita availability of cloth was less than 1.7 square metres. As pointed out elsewhere in this Report, the plea of losses incurred in the production of controlled cloth, which had prompted the Government from time to time, to rush to the rescue of the industry appears to be, on closer scrutiny, considerably exaggerated. Even assuming that it was necessary, in 1968, for Government to come to the assistance of an allegedly ailing industry, the Committee are unable to appreciate the rationale for the simultaneous withdrawal of controls on fine and superfine varieties of cloth and the reduction in the obligation of the mills for the production of controlled cloth from 40 to 25 per cent. In the Committee's view, Government should have, in the first instance, confined the concession to the withdrawal of control on fine and superfine cloth so as to enable the industry to stabilise itself, and only after having watched the impact of that measure for a year or two, Government should have considered whether, if at all, the obligation of the mills also needed to be reduced. The Committee feel that in a vital matter like the reduction of the mills' obligation of production of controlled cloth, which was bound to affect adversely the per capita availability of cloth to the weaker sections of society, nothing would have been lost if Government moved with wisdom and circumspection. What happened, however, produces, on the contrary, an impression that Government was less anxious about ensuring adequate production and availability of controlled cloth for the poor, than about stemming the alleged erosion of the industry's profitability.

[Sl. Nos. 1 to 3 (paragraphs 1.132 to 1.134) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)]

Action Taken

In terms of the scheme for the production of controlled cloth as originally introduced in October 1964, price revisions were made every six months upto April, 1967 in order to set off the rise in production costs. The revision in April 1967 did not however fully neutralise the increase in production costs. Thereafter, despite increases in production costs, no such periodic price revisions were undertaken. The industry's persistent representations for price increases were not accepted. Thus, the gap between the production costs and prices of controlled cloth continued to widen and affect the health of the industry. The industry found it difficult to compensate itself for the loss incurred in the packing of controlled cloth through sale of non-controlled cloth because of strong consumer resistance. At the end of March, 1968 as many as 38 mills were lying closed. If this situation had been allowed to continue, there was an apprehension that more and more mills might close down.

For the first time in May 1968, a conscious decision had to be taken as to the quantum of controlled cloth the industry could be called upon to pack at prices considerably below cost, for the consumption of vulnerable sections of the population consistent with the health of the industry. Fine, superfine, and medium-A categories of controlled varieties were items of occasional consumption for the vulnerable sections of the population; these categories were therefore excluded from the categories of controlled cloth. Production of the remaining categories was then found to be about 16 per cent of the total packed production for civil consumption (total production minus exports and supplies for defence). In order, however, to ensure a reasonable supply of controlled varieties, the level of obligation for production of controlled cloth in coarse and medium-B categories was fixed at level of 25 per cent of the total production, which was higher than the prevailing level. Had this level been fixed at 40 per cent of the total cloth production packed for civil consumption, the production of coarse and lower medium categories in the controlled sector would alone have come to about 1653 m.m. on the basis of total production in the year 1967 as against an actual total packing of 1400 m metres of coarse and medium-B categories of cloth for civil consumption. This would have been more than 100 per cent of the total civil packings in these categories. Even the obligation on the basis of 25 per cent amounted to nearly 75 per cent of the civil packing of cloth in coarse and medium-B categories.

The observation made in paragraph 1.134 that "the plea of losses incurred in the production of controlled cloth appears to be, on closer scrutiny, considerably exaggerated" does not appear to be borne by facts. With the pegging of prices of controlled cloth at a constant level since 1968—modified to a limited extent only once in 1974—the industry had been making losses on the production of controlled cloth. In fact, at the then current level of cotton prices, it has been found that even the cost of cotton could not be covered by the price in some controlled cloth varieties. It is on this ground that a Committee was set up under the Chairmanship of Shri S. S. Marathe to look into production costs and recommend whether the present multiplier is realistic and if not, to suggest corrections in the same. The Marathe Committee has come to the conclusion that the multiplier is out of step with the production costs.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex-1 dated the 8th September, 1976]

Further Information

The annual target for the production of controlled cloth was fixed at 800 million sq. metres with effect from 1st April, 1974. This overall target was achieved by the industry during 1974-75. In the following year *i.e.* April, 1975 to March, 1976, actual achievement was 681.09

million metres. The downward trend in production persisted in the subsequent period when cotton prices rose and general health of the industry deteriorated particularly affecting the weaker mills. This necessitated relief to the financially weak mills, which was given by way of exemption from production of controlled cloth from January 1, 1976 on the basis of total erosion of the reserves by the losses. Subsequently from August, 1976 the system of partial exemption was also introduced on the following basis:—

	<i>Extent of exemption</i>
(i) where accumulated loss is more than 75% of the total reserves	75%
(ii) where accumulated loss is more than 50% but less than 75%	50%

The net result of the above policy was that the production level for 1976-77 was anticipated to be around 428 million sq. metres against which actual production was only 363.49 million square metres.

The controlled cloth scheme was reviewed in the context of sharp decline in the production as a result of unprecedented rise in the prices of cotton. A number of decisions were announced in January, 1977 raising the ex-mill price by 35 per cent but neutralising its effect on consumer by simultaneously allowing a matching subsidy to the National Cooperative Consumers Federation (NCCF) towards its distributive costs. Now the industry is required to produce 100 million sq. metres of controlled cloth every quarter—400 million sq. metres a year. Production of controlled cloth during January—March, 1977 quarter was about 96 million sq. metres. Production during April—June 1977 quarter is about 82 million sq. metres. It may be mentioned that the entire scheme of production of controlled cloth is under review to augment the production.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex. I/CTI dated the 12th September, 1977].

Recommendation

When in May, 1968, the obligation of the mills to produce controlled cloth was reduced to 25 per cent of the total production, a provision was also made that in the event of any shortfall in the production of controlled cloth, a mill would pay compensation to Government at the rate of 6 paise per square metre of controlled cloth not produced under the obligation. The rationale for fixing what, prima facie, appeared to be a ridiculously low rate of compensation was stated to be that this amount was considered to be higher than the losses faced by the mills in the production of controlled cloth. Subsequently, however, when on account of the

increase in cotton prices and consequential increase in production costs, the losses on the production of controlled cloth turned out to be more than the petty penalty of 6 paise per square metre, most of the mills preferred paying the compensation rather than producing controlled cloth at a higher loss and the actual packing of controlled cloth declined sharply from 201 million square metres (November, 1968—January, 1969), to only 9.14 million square metres (February 1971—April 1971). The Committee amazed that even though the production of controlled cloth had so drastically and sharply declined and had almost come to a grinding halt by April, 1971, Government was no more than a helpless spectator and took no steps whatsoever to raise at least the rate of compensation to an adequate level or otherwise persuade or compel the mills to honour their obligation to serve the needs of our own people. The Committee are convinced that if Government had increased the rate of compensation, the mills would have found it difficult to evade their obligation, as can be seen from the performance of the mills from April, 1974, when the rate of compensation was increased to Rs. 2.50 per square metre. This appears to have had some salutary effect, for the production by the mills was 810 million square metres of controlled cloth as against the obligation of 800 million square metres. The Committee deplore Government's unaccountable passivity in the matter, especially when it was not unknown that the mills were finding it easier to pay the paltry compensation of 6 paise rather than produce controlled cloth for the masses. Since this inaction on Government's part led to serious shortfalls in the production of controlled cloth and consequent distress for the people, the Committee urge that the matter be closely looked into and responsibility for the lapse be squarely fixed and appropriate action taken.

[Sl. No. 4 (paragraph 1.135) of Appendix IX to 223rd Report of the Public Accounts Committee (1975-76) (Fifth Lok Sabha)].

Action Taken

A rate of compensation for non-production of controlled cloth at 6 paise per square metre as fixed in May, 1968 was considered at the time to be an adequate penalty. This in fact, proved to be so; the production level after 2nd May, 1968 remained satisfactory for some time thereafter. A decline in the production of controlled cloth set in from August—October, 1969 and the reduction after February, 1970 became rather steep. The proposal for increasing the rate of compensation was considered along with other steps to secure adequate production of controlled cloth. However, consideration of this aspect was disturbed by the fact that in March, 1970 a textile mill had filed a writ petition in the High Court challenging the provisions of the Cotton Textile Control Order including the provision for collection of compensation money and payment of incentives.

Since at the time of framing the arrangements for collection of compensation money and payment of incentives, the Law Ministry had pointed out the legal weakness of such an arrangement and the Commerce Ministry had placed reliance on the understanding given by the industry for a smooth operation of these arrangements, Government were not in a position to put up defence in this case.

Another relevant factor is that since May, 1968, production cost had substantially increased on account of rise in cotton prices and rise in wages. The Textile Commissioner had estimated sometime in January, 1971 that the multiplier prices were out of step with production costs to the extent of about 32 per cent. However, price increases were not permitted. In this situation, a review of the scheme was undertaken and it was decided that the question of increase in prices should be referred to the Bureau of Industrial Costs and Prices.

Meanwhile a Committee was set up under the Chairmanship of Additional Secretary, Ministry of Commerce to review in detail the working of the scheme as a result of which voluntary arrangements for the production of controlled cloth were introduced from June, 1971.

In the circumstances set out above it was not found feasible to increase the rate of compensation in respect of the non-production of controlled cloth.

[Ministry of Commerce (Department of Textiles) O.M. No. 9/12/76-
Tex. I dated the 8th September, 1976].

CHAPTER V

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

NIL.

NEW DELHI;
December 20, 1977.
Agrahayana 29, 1899 (S).

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

APPENDIX

CONCLUSIONS/RECOMMENDATIONS

S. No.	Para No. of Report	Ministry Department concerned	Conclusions Recommendations
1	2	3	4
1	1-8	Ministry of Commerce (Department of Textiles)	Having considered the reply of the Government, the Committee still feel that the policy of the Government in progressively reducing the obligation of the cotton mills in respect of production of controlled varieties of cloth has not been in the interest of consumers, particularly the economically vulnerable sections of society for whose benefit the scheme was initiated. The policy has resulted in consistent fall of production of this variety of cloth from 1764 million metres in 1965 to a mere 363.49 million square metres in 1976-77. The Committee have been informed in September, 1977 by the Ministry of Commerce that "the entire scheme of production of controlled cloth is under review to augment the production". The Committee recommend that Government should take urgent steps to maintain, if not increase, the production of controlled varieties of cloth at the targeted level fixed with effect from 1st April, 1974, so as to cater for the common masses of the people who are unable to buy their basic requirements of cloth at high prices prevailing in the market for the medium and fine varieties of cloth produced by the mills.

1	2	3	
2	1-11	Ministry of Commerce (Department of Textiles)	<p>The Committee have considered the reply of the Government. They, however, still feel that Government should not have been a passive on-looker at the persistent disregard shown by the mills of the quota requirements for production of controlled varieties of cloth. Immediate steps should have been taken to raise the rate of compensation when it came to the notice of the Government towards the end of 1969 that the existing low rate of compensation was no longer a deterrent and was being used by the mills as a handy, and cheap instrument for avoiding the quota requirements for production of controlled cloth.</p>
3	1-15	—Do—	<p>The Committee note that in the case of defaulting mills which were subsequently taken over by the National Textile Corporation, the feasibility of taking action against the previous managements is still under consideration. The Committee would like Government to take an early conclusive action against the managements of the defaulting mills.</p>
4	1-19	—Do—	<p>The Committee are surprised that although the scheme for production of controlled cloth has been in operation for well-nigh 13 years and despite the fact that this Committee had in their original Report emphasised the need for urgent and adequate steps to disseminate information about this scheme and the outlets for its distribution, the Ministry of Commerce had, in September, 1976, nothing to report to the Committee by way of concrete action taken in the matter. The Committee note the reply of the Government furnished in September, 1976 that "careful</p>

thought is needed to be given as to how best to direct publicity towards these vulnerable sections" and that "necessary action is being taken in that direction in consultation with the D.A.V.P." They also note a further reply of the Government furnished in September, 1976 that "careful of publicity (which was a couple of Press Notes and the production of "a combined brochure on Economic progress") is "considered enough." The Committee would impress upon the Ministry the need for taking concrete steps in this direction on an urgent basis as a publicity campaign in regard to the availability of cloth of common consumption at cheap rates would go a long way in guiding the vulnerable sections of the population to take advantage of it.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI.					
24.	Jain Book Agency, Connaught Place, New Delhi.	11	33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	68
25.	Sar Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	95
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	37.	Bookwell, 4, Sansi Narankari Colony, Kingsway Camp, Delhi-9.	96
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	MANIPUR		
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	38.	Shri N. Chaoba Singh, News Agent, Ramtal Patal High School Annex, Imphal.	77
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27	AGENTS IN FOREIGN COUNTRIES		
32.	Jayana Book Depot, Chaparwala Kuan, Karol-Bagh, New Delhi.	66	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W. C.-2.	59

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