

17

HEAVY LOSS ARISING FROM JOINT
VENTURE OPERATION

MINISTRY OF COMMERCE

**PUBLIC ACCOUNTS
COMMITTEE
1997-98**

SEVENTEENTH REPORT

ELEVENTH LOK SABHA

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PUBLIC ACCOUNTS COMMITTEE
(1997-98)

(ELEVENTH LOK SABHA)

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VENTURE OPERATION**

MINISTRY OF COMMERCE



सत्यमेव जयते

Presented to Lok Sabha on 20.11.1997
Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
NEW DELHI

November, 1997 / Kartika, 1919 (Saka)

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CORRIGENDA TO THE SEVENTEENTH REPORT OF
PUBLIC ACCOUNTS COMMITTEE (11TH LOK SABHA)
ON HEAVY LOSS ARISING FOR JOINT VENTURE
CORPORATION

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(1997-98)

Dr. Murli Manohar Joshi—*Chairman*

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* Expired on 24 May, 1997.

** Ceased to be member of the Committee on her appointment as Minister of State w.e.f. 3.6.1997.

INTRODUCTION

I, the Chairman, Public Accounts Committee having been authorised by the Committee, do present on their behalf, this Seventeenth Report on Paragraph 7 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1995, No. 3 of 1996, Union Government (Other Autonomous Bodies) relating to "Heavy loss arising from joint venture operation."

2. The Report of the C&AG for the year ended 31 March, 1995 (No. 3 of 1996), Union Government (Other Autonomous Bodies) was laid on the Table of the House on 26 July, 1996.

3. The Committee took evidence of the representatives of the Ministries of Commerce, Tea Board and Department of Civil Aviation on the subject at their sitting held on 6 June, 1997. The Committee considered and finalised this Report at their sitting held on 23 October, 1997. Minutes of the sitting form Part-II of the Report.

4. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

5. The Committee would like to express their thanks to the officers of the Ministry of Commerce, Tea Board and Department of Civil Aviation for the cooperation extended by them in furnishing information and tendering evidence before the Committee.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
4 November, 1997

13 Kartika, 1919 (Saka)

DR. MURLI MANOHAR JOSHI
Chairman,
Public Accounts Committee.

REPORT

I. Introductory

1. Tea Board is a statutory body which was set up under Section 4 of the Tea Act 1953 for the purpose of development of Indian tea industry and promotion of exports of Indian Tea. Under the Act, the Tea Board has been assigned wide functions and responsibilities which are to be discharged under the direction of the Central Government. Tea Board's promotional work is generally carried out through its foreign offices located at London, Hamburg, New York, Dubai and Moscow. The promotional activities are aimed at popularising Indian tea with emphasis on promoting tea in value added forms like packet, tea bags and instant tea. The business of the Board is conducted through the Committees, viz. Executive Committee (EC), Export Promotion Committee (EPC), Labour Welfare Committee (LWC) and Development Committee (DC). The Export Promotion Committee (EPC) deals with the work relating to the promotion of export of Indian tea.

2. The functioning of the Tea Board had engaged the attention of the Public Accounts Committee earlier also. This report is based on Paragraph 7 of the Report of C&AG of India for the year ended 31 March 1995, No. 3 of 1996, Union Government (Other Autonomous Bodies) which is reproduced at Appendix-I to the Report. The Audit paragraph deals with a case of heavy loss incurred in the running of Indian restaurants at London and Sydney by the company India Tea & Restaurants Ltd. (ITRL) which was formed jointly by the Tea Board and the Hotel Corporation of India (HCI) with the objective of popularising and promoting the consumption of Indian tea abroad. The various aspects emerging from the examination of the subject by the Committee have been dealt with in the succeeding paragraphs.

II. Genesis of the Joint Venture

3. As per Audit paragraph, the Tea Board and the Hotel Corporation of India Limited (HCI) set up jointly "India Tea and Restaurants Limited" (ITRL) in 1981 in place of Tea Board's two tea centres at London and Sydney for running these as high class Indian restaurants on commercial basis. One of the objectives of the ITRL was to undertake and carry on the business in all types of Indian tea with a view to popularise and promote its consumption.

In the context of the genesis of the proposal for setting up of the joint venture, the Committee were informed that the Tea Board had set up five

Indian Tea Centres at Cairo, Edinburgh, London, Sydney and Melbourne as promotional outlets for Indian Tea in foreign countries. These Centres had to be closed over a period of time (as per details given below) due to their unsatisfactory performance:—

Tea Centres	Date of opening	Date of closure	Reasons for closure
Edinburgh	May, 1963	1970	Unsatisfactory performance.
Melbourne	Dec., 1970	1975	
Cairo	May, 1961	1984	Pursuant to the decision to handover to the newly formed ITRL.
London	Nov., 1963	1983	
Sydney	Nov., 1964	1982	

In respect of the Board's Tea Centre at Sydney, the Committee were informed that the huge losses were being incurred to run this Centre continuously right from the beginning. The question of continuance of this Tea Centre in the context of mounting deficits was discussed by EPC at its 71st meeting held on 27 September 1977, 72nd meeting held on 12 December 1977 and 73rd meeting held on 30 March 1978. Finally the EPC left the matter to the discretion of the Chairman, Tea Board.

4. As regards Tea Centre, Sydney, the information furnished by the Ministry of Commerce and Tea Board, indicated the following:—

- (i) The Additional Secretary, Ministry of Commerce had written a letter on 22nd July 1978 to the Chairman, Tea Board and had expressed his concern on the running of the Centre at a loss.
- (ii) The High Commissioner of India at Australia had written a D.O. letter dated 2nd August 1978 to the Chairman, Tea Board wherein he had mentioned that the Tea Centre had outlived its utility, that the expenditure on running it was unproductive and that the extent of the annual deficit of Rs. 6,13,800 was downright wasteful. He had also mentioned that it was too sick to be restored to health by cosmetic operations such as re-equipment, renovation etc. He had categorically suggested that it should be closed down and the money so saved spent in more productive and rewarding ways."
- (iii) The Director, Tea Promotion, Sydney after a detailed study and survey had suggested the following options:—
 - (a) The Tea Centre could be handed over to a professional hotel management group and run as a joint venture;

- (b) To thoroughly renovate the Tea Centre at an approximate expenditure of \$(A) 80,000 and change the entire management of the Tea Centre with contract based staff; and
- (c) To close the Tea Centre and to utilise the funds for Tea promotion by more modern and productive methods.
- (iv) The deficits of the Tea Centre, Sydney during the years 1976-77 to 1978-79 had been as follows:—

1976-77	\$ 52,437	Rs. 464,067.45
1977-78	\$ 66,658	Rs. 588,923.30
1978-79	\$ 73,440	Rs. 649,944.00

5. The information made available to the Committee further indicated that the Tea Centre, Sydney was not closed and an agenda paper was prepared for the 79th meeting of the EPC which was to be held on 19 January 1980. In the Agenda paper, the Tea Board had expressed that they had been in touch with the HCI, a subsidiary of Air India, with a view to finding out the possibility of the Corporation taking over the Tea Centre; and they (Tea Board) felt that it would be in the interest of the Board to handover Sydney Tea Centre to the HCI. The agenda paper was submitted to the EPC with the request to approve the above mentioned proposal. The EPC after considering the matter in its meeting held on 19 January 1980 approved the proposal for handing over the Sydney Tea Centre to the HCI.

6. On being enquired as to how was the agenda item formulated and also whether it was the suggestion of Tea Board or of the Ministry, the representatives of the Ministry and those of Tea Board did not give pointed reply to the question during evidence.

7. According to the information furnished by the Ministry of Commerce, an inspection team was sent by HCI to Sydney, London and Cairo for examining the possibility of taking over management of the tea centres of Tea Board in these cities. The team suggested the forming of a new company as a joint venture between Tea Board and HCI for running these centres in a professional way.

8. The Committee learnt from the information made available to them that the Chairman, Tea Board and Chairman, HCI at their meeting held on 14 February 1980 in Bombay discussed various alternatives. The minutes of the meeting *inter-alia* stated:

“The various alternatives for operating Restaurants at Sydney, Cairo and London were discussed and it was finally agreed that the Restaurants at the three centres be run on a joint venture basis with 50/50 per cent or 70/30 per cent participation by Tea Board and HCI.

It was agreed that MD, HCI and Chairman, Tea Board should take up the matter with the respective Ministries for formation of a new

company with participation by HCI and Tea Board on a 50/50 per cent or 30/70 per cent basis.”

9. The Chairman, Tea Board subsequently vide his D.O. letter dated 26 February, 1980 informed the Ministry of Commerce about his discussion with the MD, HCI on 13-14 February, 1980 and proposed to have a meeting in the Ministry of Commerce wherein the representatives of the Tea Board, HCI and Air India could be available to take a final decision in the matter.

10. The meeting, on the basis of the above proposal, was held on 31 May, 1980 in the Ministry of Commerce. In the meeting, Secretary (Textiles) had indicated that after considering the various alternatives for running the Tea Centres of the Tea Board, abroad in conformity with the objective of promoting Tea sales while ensuring viability of the Centres, the preference of the Ministry of Commerce was for running of the centres in collaboration with HCI, a subsidiary of Air India, as Air India already had a substantial presence in most countries abroad and that would help in keeping the overhead expenses to the minimum in view of the infrastructure available and would also enable setting up of such Centres in other countries. The following important decisions were taken at this meeting:—

- (i) “The Company will be formed of which 50 per cent share to be held by HCI and 50 per cent by Government of India/TTCI/Tea Board.
- (ii) Feasibility Report would be made by HCI. The Company would have authorised capital of Rs. 2 crore and paid up capital of Rs. 50 lakh (to be shared equally).
- (iii) HCI would draw up articles/memorandum of Association of the proposed company.
- (iv) The proposed company would have a total of 8 Directors — 4 by HCI and the rest by Government. Chairman would be Tea Board’s Chairman and Chief Executive to be nominated by HCI.
- (v) A Steering Committee consisting of four members each from HCI and Government of India was to be set up to monitor progress.”

III. Feasibility Report

11. The Committee wanted to know whether any feasibility report on the economic viability of the proposed joint venture was prepared and analysed before ITRL was established by Tea Board and HCI. The Ministry of Commerce in a note stated:—

“A feasibility report was prepared by the HCI. The projected Profit and Loss Account in the report indicated that while there would be

loss in the 1st year, the Company will start making profit from the 2nd year onwards. Projections indicated in the feasibility report with regard to profitability of the restaurants were as under:—

Year of Projection	Sydney	Cairo (Rs. in lakh)	London
1980-81	(2.24)	(0.20)	0.08
1981-82	1.36	0.39	1.16
1982-83	3.83	1.40	3.72
1983-84	6.58	2.28	4.89
1984-85	10.63	3.72	7.72
1985-86	14.47	4.78	9.79

12. The feasibility report was considered by the Steering Committee under the Chairmanship of the then Additional Secretary & Financial Adviser, Ministry of Commerce in a meeting held on 28 July 1980. It was decided in the meeting that HCI would make certain revisions and modifications in the report based on which a note for the Union Cabinet was to be prepared for obtaining approval to the project. The revised projections of profitability were as follows:—

Year of Projection	Sydney	Cairo (Rs. in lakh)	London
1980-81	-5.72	-5.68	-4.01
1981-82	1.75	0.08	-0.24
1982-83	4.67	1.57	1.73
1983-84	7.81	2.87	4.07
1984-85	12.17	4.67	6.48
1985-86	16.47	6.13	9.55

13. The Committee desired to know as to how the amendments resulted in substantial alteration in the figures of profitability projected in the subsequent feasibility report. The representative of the Ministry during evidence *inter-alia* stated that the amendments were only in terms of projections and it did not change the feasibility report.

IV. Formation of ITRL

14. The Union Cabinet at its meeting held on 17 February 1981 approved the proposal of joint venture of Tea Board and the HCI. Subsequently, ITRL was incorporated on 30 June 1981. The first Board meeting of the ITRL was held on 26 August 1981 in which a decision was taken that the company should set up a first-class Indian restaurant at Sydney and thereafter at London.

15. According to Audit Paragraph, the authorised share capital of ITRL was Rs. 50 lakh which was subscribed by Tea Board with Rs. 25.50 lakh being 51 per cent share holder and the rest by HCI being 49 per cent holder of its share. In this context, the Committee was informed that the Steering Committee had decided that Tea Board would have 51 per cent share in the new company and Hotel Corporation of India 49% and the company would be under the administrative control of the Ministry of Commerce. The company would have a total of 8 Directors — four to be nominated by the Government of India, (Ministry of Commerce) and four by the HCI, The Chairman of the Board would be nominated by the major Share Holder i.e. Government of India/Tea Board and Chief Executive would be nominated by HCI. The day-to-day operations of the new company was to be conducted by HCI on its behalf.

16. The Committee desired to know as to what safeguards/provisions were made by the Tea Board/Ministry in the agreement with the HCI to ensure that the latter met its liabilities and commitments in running the proposed restaurant abroad. The Ministry, in a note stated:—

“The running and management of the restaurants of ITRL were assigned to Hotel Corporation of India Ltd. (HCI) in terms of an ‘operating contract’ between Hotel Corporation of India Ltd. and ITRL which was approved by the ITRL Board in the meeting held on 19 April, 1983. The entire operation and the management of the restaurants were entrusted to Hotel Corporation of India Ltd. to get the benefit of expertise from HCI for running the restaurants and make them a profitable venture. Tea Board had also drawn attention of ITRL to certain modifications in the ‘operating contract’ to strengthen the rights of the owning company M/s ITRL. Tea Board had expressed the view to ITRL that most of the clauses of the draft operating contract between ITRL and Hotel Corporation of India Ltd. were against ITRL in as much as M/s HCI, as the operating company did not guarantee that there will be profits. Also, according to the draft contract the operating company was to charge a fee of 2 per cent of the gross income in addition to 4 per cent of gross profits from the two restaurants. The contract however provided that losses, if any, should be entirely borne by the owning company viz. M/s ITRL and no reduction shall be made on the compensation payable to the operating company M/s HCI. These objections alongwith suggestion for amendment of other clauses was made to ITRL by the Tea Board so as to strengthen the rights of the owning company viz. ITRL. However, from records available, it is seen that these suggestions requested by Tea Board were not included in the ‘operating contract’ finalised by ITRL.”

17. On being asked as to whether all the losses were to be borne by the ITRL as mentioned in the operating contract, the representative of the Ministry during evidence deposed:

“It is true that HCI as an operator, manager to run these two restaurants, had said in the operating agreement that the losses would belong to ITRL. ITRL is owned 51 per cent by the Tea Board and 49 per cent by HCI. Therefore, whatever losses are there in the Balance Sheet of ITRL, 49 per cent would be borne by HCI and 51 per cent would be borne by the Tea Board. So, the position is, HCI is a co-owner of a company and because its expertise is a manager to run the show. As far as running the show is concerned, they were to get 2 per cent of the service.”

18. The Audit Paragraph also reveals that the ITRL was administratively controlled by the HCI. The Committee desired to know as to why the administrative control of the Joint venture of ITRL was agreed to be given to the HCI when the larger contributor (51 per cent of the share capital) was Tea Board, the Ministry in a note stated:

“Even though Tea Board was the majority share holder of the ITRL, it was thought advisable to entrust the job of running the management of the restaurants of ITRL by the 49 per cent share holder M/s HCI, who have the requisite expertise and experience of running hotels/restaurants professionally. Tea Board which is a developmental and promotional organisation, did not have such expertise in running restaurants.”

19. According to the information furnished by the Ministry of Commerce, the following objectives were sought to be achieved by running high class Indian restaurants in place of Tea Board's two Tea Centres at London and Sydney:

- “To take over as going concerns and/or otherwise manage the business and undertakings of the Tea Board's Tea Centres carried on at London, Sydney and Cairo and elsewhere.
- To undertake and carry on throughout the world the business as dealers in all kinds of Indian tea and with that end in view to promote and popularise Indian tea through display service and sale of loose and packet tea and to take such steps as may be necessary for development of its objects including holding of exhibitions and fairs and to use every media commercial or otherwise of advertisement for development of its objectives.
- To carry on throughout the world the business of restaurants, inflight catering to Airlines abroad, cafes, refreshment rooms, clubs and casinos to establish shops, canteens, kitchens and other establishments, for this purpose and for the sale of food and drinks and to arrange for and provide all manner of entertainments, amusements, recreation and instruction for the public.”

V. Opening of Mayur Restaurants

20. According to the information furnished to the Committee, ITRL opened two restaurants viz. Mayur Sydney and Mayur London in October, 1982 and October 1984 respectively. The Mayur Restaurant, Sydney commenced its operations on 28 October 1982 and Mayur Restaurant London on 23 October 1984.

21. Considering the fact that ITRL was incorporated in June 1981, the Committee desired to know the reasons for delay in starting operations of two restaurants. According to Tea Board, reasons for delay were on account of factors such as problems in obtaining possession of the premises at London Tea Centre due to lack of consent of the landlord, delay in renovation work etc.

22. The Committee also enquired about the cost of food and beverages sold by the restaurant at Sydney and also the tea packets. The representative of the Ministry deposed during evidence:

“For Sydney in 1982-83 the F&B cost was Rs. 7.98 lakh. It rose to Rs. 21.02 lakh which again rose to Rs. 24.94 lakh, Rs. 24.94 lakh and then there was a decline. The tea packets sold were for Rs. 56,000, Rs. 61,000, Rs. 35,000 and Rs. 34,000.”

VI. Performance/Rehabilitation/Closure of the Restaurants

23. The Audit Paragraph pointed out the both the restaurants suffered considerable losses since their inception and ultimately were close down in 1990. The Committee desired to know the system prevalent at that time to review the performance of operations of the two restaurants. The Ministry of Commerce in a note stated:—

“Review of performance of operations of the two restaurants was made by the ITRL Board from time to time in their meetings when the nominee directors of Tea Board/Ministry of Commerce expressed their serious concern about the losses being incurred by the two restaurants.”

24. In 1986, Tea Board nominee in the ITRL Board expressed their concern that in view of continuing losses by ITRL further continuance in the joint venture by the Tea Board would not be fruitful. The ITRL Board in its meeting held on 8 March 1986 proposed disinvestment by the Tea Board on an immediate basis.

25. The Committee were informed that the matter relating to continuing loss by ITRL was further discussed in a meeting taken by the then Commerce Secretary on 16 June, 1986 wherein it was *inter alia* decided that ITRL would prepare a rehabilitation plan for revival of the two restaurants.

26. The Committee desired to know on what consideration it was decided that ITRL should prepare a rehabilitation plan for revival of these two restaurants. The representative of the Ministry of Commerce in his

reply quoted the viewpoint of his Ministry expressed in the meeting of June 1986 as follows:

“The rethinking in the Ministry of Civil Aviation regarding the transfer of majority shareholding in ITRL to HCI was taken note of and it was clarified that any change in the earlier decision would have to be taken at the appropriate level.

In the earlier meeting, the 80 per cent proposal was agreed. But later, the Civil Aviation Ministry and the Hotel Corporation of India said that they would not like to increase their share to 80 per cent, that they would like to remain at 49 per cent, and instead they will have a rehabilitation package which amounted to further injection of funds.

The conclusion, therefore, is that the Ministry of Civil Aviation, by 10th of July, will prepare a financial result of ITRL for the current year and specific measures to be spelt out to increase tea promotion through ITRL.”

27. It was, however, learnt that the view of the Ministry of Civil Aviation in the meeting of June 1986 was that since ITRL's two restaurants have been in operational existence for only about two years, it was inappropriate to consider at that stage the options relating to liquidation and it was desirable to take a final view afterwards on the basis of detailed costing and cash flow projections and for this purpose a comprehensive financing/rehabilitation proposal could be furnished by the Ministry of Civil Aviation.

28. The representative of the Ministry during evidence *inter alia* stated that the rehabilitation proposal came up in the Committee of Management of ITRL and this was debated. During this time, all through a consideration was given that it was not possible to revive this and this must be closed. Alternatives were also thought of. From 1986 to 1988 alternatives such as giving the business to ITDC, leasing the premises or premature termination of lease to get some compensation were thought of. On being enquired about the fate of the rehabilitation plan, he stated that the plan was prepared and it was considered and the Ministry felt that it could not be revived.

29. According to the information furnished to the Committee Mayur Restaurant, London was closed on 4 April 1990 and Mayur Restaurant, Sydney on 13 September 1990.

30. Although the decision was stated to have been taken in principle to close down the two restaurants in 1989 the actual closure of restaurant at London took place in April 1990 and that at Sydney in September 1990. According to Ministry of Commerce, the closure of restaurant at Sydney had not been effected because the Managing Director, HCI on 9 August 1989 mentioned that the closure of Mayur-Sydney might be preceded by

the use of the options for right to sub-lease the premises with the prior consent of the landlord whereby it might be possible to recover some of the losses. Certain compensation package was also offered by the landlord at London for surrendering the existing lease-hold interest of the Tea Board.

Vii. *Cost/Liabilities*

31. The Committee were informed that the income and expenditure of the restaurants were as under:

(Rs. in Lakh)

Year	Mayur Restaurant, Sydney		Mayur Restaurant, London	
	Income	Exp.	Income	Exp.
1982-83	24.24	31.78	—	—
1983-84	67.48	62.54	—	—
1984-85	80.29	77.55	13.04	21.65
1985-86	79.10	71.20	60.70	66.07
1986-87	61.77	65.33	65.20	69.71
1987-88	51.56	56.85	74.62	81.69
1988-89	57.95	66.72	62.60	89.11
1989-90	23.13	62.11	00.40	95.20
1990-91	06.92	28.06	00.00	28.38
1991-92	00.00	01.28	00.00	43.92
1992-93	00.00	00.01	00.00	06.13

32. The representative of the Ministry of Civil Aviation informed the Committee during evidence that in the five years of operation of restaurants at Sydney and London, HCI got a total sum of Rs.10.14 lakh as fee for running the restaurants.

33. The profitability statement of ITRL furnished by the Ministry of Commerce indicated that a major part of the expenditure was incurred on staff cost. On being asked to state as to what steps were taken by the nominee Director of Tea Board/Ministry of Commerce and ITRL to reduce staff strength and other related expenses in view of the fact that two restaurants were continuously incurring losses from the beginning, the Ministry stated in a note:

“The nominee directors of Tea Board/Commerce Ministry and ITRL had been urging for taking various measures to make the restaurants operate in a commercial manner. The actual operation of these restaurants including deployment of staff etc. were, however, under the control of HCI.”

34. According to post evidence information furnished by the Ministry of Commerce, the number of staff employed in the restaurants happened to

be on the higher side when compared to low turnover resulting in overstaffing. Staff strength in the ITRL at Sydney and London were 22 and 17 respectively.

35. Mayur Sydney showed a sudden rise in staff cost from 1983-84. It rose from Rs. 10.19 lakh in 1983-84 to Rs. 25.63 lakh in 1984-85. Income from sale of tea, however, declined from Rs.0.64 lakh to Rs. 0.35 lakh during the same period. The staff cost increased approximately three fold within a short span of one year in Mayur London. From Rs. 9.94 lakh in 1984-85, the staff cost jumped to Rs. 27.35 lakh in 1985-86. Though the restaurant had no income from 1990-91 to 1992-93, the expenditure was Rs. 78.43 lakh.

36. According to Audit, Tea Board and the HCI had also stood jointly and severally guarantors for various loans amounting to Rs. 109.95 lakh taken by ITRL from Bank of Baroda from time to time. The ITRL also took overdraft of Rs. 46.60 lakh from Bank of Baroda. The Committee desired to know the safeguards taken by Tea Board while standing guarantees for ITRL to ensure that ITRL met its liabilities on account of loans and overdrafts. The Minister in their note stated:

“Tea Board while agreeing to provide guarantee to Bank of Baroda as a co-guarantor to the borrowings of ITRL insisted that ITRL should give guarantee/Counter Indemnity to the Tea Board for the Term Loan being guaranteed by the Board. The payment made by the Board to Bank of Baroda has accordingly been claimed from ITRL and included as dues payable to Tea Board by ITRL.”

37. The Committee enquired whether there was any enabling provision in the MOU/agreement entered into by Tea Board with HCI or ITRL with a view to recovering the outstanding dues. The Ministry informed that there was no formal agreement with regard to recovery of outstanding dues.

38. The Audit has pointed out that the HCI on whose expertise the Board had depended for successful operation of the restaurants did not bear its share of liabilities when the ITRL became bankrupt. Tea Board had also to bear the liability of the interest burden in respect of loans and overdrafts taken by ITRL which added upto Rs. 4.28 crore. The Committee desired to know the quantum and latest position of the repayment of the loans and overdrafts. The Ministry submitted following information:

“The loan taken by M/s ITRL Ltd. from Bank of Baroda, London, included—

1. Euro Dollar Loan of US\$ 2,00,000
2. Euro Dollar Loan of US\$ equivalent to AUD 2,00 000 drawn from Bank of Baroda
3. Term loan of £2,00,000 drawn from Bank of Baroda
4. Term loan of £60,000 drawn from Bank of Baroda

There was also a bank overdraft taken in London with a limit of £40,000. The total amount due to Bank of Baroda as on 29th April 1992 (including interest) in respect of the four Term Loans and the overdraft facility amounted to £8,41,476.37 (including interest.) The loans alongwith interest have since been repaid."

39. As per the information furnished by the Ministry credit facility was given in a few cases to corporate clients of the Indian restaurants run by ITRL and the creditors were required to settle their bills within a period of 30 days. It was however, seen that an amount of Rs. 1,66,701 and Rs.26,961 had remain unrealised at London and Sydney restaurants respectively and the same were subsequently written off. Indians/Indian organisations had defaulted in making these payments and the number of such customers was seven.

40. According to the Audit Paragraph the London restaurant was housed in a building rented to Tea Board and ITRL was required to reimburse 70 per cent of rent, rates and service charges etc. paid by the Board. It did not, however, reimburse the same and the dues on this account for the period April, 1990 to July 1991 amounted to Rs.1.03 crore. The Ministry in their note stated that these charges were demanded by Tea Board from ITRL, but apart from some instalment payment of £ 25479.78, no other payment was made. Hence these were included in dues payable by ITRL to tea board which could not be recovered due to poor financial conditions of ITRL.

VIII. *Liquidation of Joint Venture & Write off of Dues of ITRL*

41. The Committee were informed that the Cabinet approved the proposal for liquidating the Joint venture on 19 February 1992 and the proposal for writing off the dues as irrecoverable loss from ITRL were received from Tea Board in July 1992. According to Ministry of Commerce, the writing off of the losses were required to be approved by the two shareholders—Tea Board and HCI to enable ITRL to obtain a no due clearance prior to final winding up. The Committee during evidence wanted to know the final position with regard to the losses/dues to be written off by Tea Board and HCI. The representative of the Ministry of Commerce stated:

"The positions when everything got closed, the accounts required updating of the exchange rate. So the final tally was that the impact of foreign exchange rate conversion alone was Rs. 3.25 crore. So, ultimately, the loss accounted for is Rs. 8.54 crore."

42. To a pointed query of the Committee as to who would bear the losses, the representative of the Ministry stated:

"Of this, 51 per cent will have to be written off by the Tea Board and 49 per cent will have to be written off by the Hotel Corporation."

43. The Committee enquired that when the amount of Rs. 8.54 crore as reflected in the balance sheet as on 1 April 1996, then it would be much higher than that because interest liability will go on increasing. The representative of the Ministry of Civil Aviation stated during evidence:

“There is no interest liability because everything has been paid for. There is no interest liability accruing now. So, in the ratio of 51:49, the Tea Board’s share comes to Rs. 4.36 crore and the HCIL’s share comes to Rs. 4.18 crore. The Board of HCI passed a resolution and written off the claim on ITRL amounting to Rs. 3.24 crore. The balance amount of about a crore of rupees will be paid to the Tea Board as the share of the Hotel Corporation of India’s liability so that they can meet their liabilities.”

44. He further added:

“A resolution has been passed in the month of March 1997 to write off the amount of Rs. 3.24 crore. So, it will figure in the balance-sheet of 1997-98.”

45. The Committee further enquired with regard to the remaining amount of the HCI’s liability. The representative of the Ministry of Civil Aviation stated that the Board has to meet and pass a resolution and then they would handover the money to the Tea Board.

46. The representative of the Ministry of Commerce while clarifying the position with regard to tea Board’s share of liabilities stated:

“We have now the advice of the Finance Ministry, according to which, the Tea Board being an autonomous body will pass a resolution and it will be endorsed by the Commerce Ministry. If they pass a resolution, then money will come from the Finance Ministry.”

IX. Reasons of the Failure of the Joint Venture

47. The Committee learnt from the documents that in terms of the projections made in the feasibility report of the project, it was envisaged that the company (ITRL) would start making profits from the second year onwards and would recoup its project cost at the end of five years from the date of inception. But the profitability projections went wrong and also in the process the entire capital of the company had been wiped out. The Committee noticed that the visit of AS, Ministry of Commerce to the London Restaurant had clearly established that even the bare minimum upkeep, advertisements and promotion of tea was not being undertaken. The experience of having financial and managerial collaboration of Tea Board with HCI had not been heartening. Apart from the losses and failure in achieving the prime objectives, the entire operation of running the restaurants lacked professionalism.

The Committee desired to know the precise reasons for incurrence of losses. The Ministry of Commerce in their post evidence note submitted that:

“Losses were mainly on account of the following factors:—

- (a) There was delay in starting operations of the two restaurants on account of factors such as problems in obtaining possession of the premises at London Tea Centre due to lack of consent of the landlord, delay in renovation work etc. Delay in operations of the restaurants resulted in increased overheads.
- (b) The projected turnover of the two restaurants could not be achieved on account of factors like stiff competition from other Indian restaurants, recession in the economies of UK and Australia which affected entertainment spending of the common people etc. Though the projected turnover could not be achieved, the fixed costs like staff cost, restaurant furnishings continued to increase resulting in gross operating losses to the two restaurants. Number of staff employed in the restaurants happened to be on the higher side when compared to low turnover resulting in ‘overstaffing’.
- (c) On account of operating losses incurred by the two restaurants the loans could not be repaid and thereby interest burden could not be reduced which resulted in further losses.”

48. On being asked to explain what concrete measures were contemplated by the nominee Directors of Tea Board/Ministry of Commerce to improve the performance of restaurants, the representative of the Ministry of Commerce during evidence stated:

“I have the minutes with me and if permitted, I would submit them. The first concern was expressed in 1985 itself. In that meeting, the Additional Secretary of the Ministry of Commerce drew the attention in Delhi meeting at the level of Secretary, Civil Aviation that the arrangement was not working to the satisfaction of the Ministry of Commerce. This was within one year of London restaurant having been opened. He also pointed out that there was some kind of duplication of control because of HCI having been given the total responsibility to run it. The suggestion of the Ministry of Commerce in 1985 was that they would like to come out from that and that its share might be taken over by the HCI. In that meeting of 1985, it was agreed that the share of HCI would be raised from 49 per cent to 80 per cent and gradually, the share of Tea Board would be withdrawn.”

49. The Committee desired to know the action, if any, contemplated to fix responsibility for failure of the project and to ensure that such misadventure and losses are avoided in future. The Ministry of Commerce in a note stated:—

“This joint venture project was set up as a maiden exercise of joining together the expertise in restaurant and management of Hotel

Corporation with the Tea Board's objective of promoting Indian tea abroad. Because of multifarious factors which could not be foreseen earlier, the performance of these two restaurants did not keep in line with the projections made in the feasibility report. Remedial steps were advised by the ITRL Board from time to time and implemented by the Hotel Corporation of India which however, could not make the project a self-sustaining one in its commercial role. However, this failure cannot be attributed to any specific person."

X. Expenditure incurred on Various Foreign Trips

50. The Committee enquired about the foreign visits undertaken by officials of Ministry of Commerce/Tea Board/HCI in connection with the working of two restaurants at London and Sydney. According to the information furnished after the evidence by the Ministry of Commerce, seven visits by five officials were made during 1981 and 1987. The Ministry in their post evidence note *inter-alia* stated:

.....it may however, be stated that the precise purpose of these visits as to whether these visits were in connection with ITRL's work or not, is not available. However Shri M.C. Jayaram the then Joint Secretary in Ministry of Commerce had visited London in April 1990 for 2 days to examine the case regarding compensation package for building occupied by the Tea Board, London and the Mayur Restaurant."

51. As regards the visits by nominee directors of HCI on ITRL, four visits were stated to have been made to Sydney and seven to London during 1981 to 1988.

52. The Committee also desired to know the expenditure incurred to these visits. According to the information provided by the Ministry of Commerce, nominee directors of HCI visited these places free of cost. However, expenditure incurred on account of visits by nominee directors of Tea Board/Ministry of Commerce was not made available to the Committee.

XI. Posting of Non-Professionals at Tea-Centres Abroad

53. During evidence the Committee enquired whether it was a fact that people from services who were not professionals in the tea business were/are posted at the top level at Tea Board's offices abroad. The representative of the Ministry of Commerce *inter-alia* deposed:

"There are five foreign offices. The heads at three places are from IAS and at two places from the Tea Board and the remaining junior staff members are from Tea Board."

54. It was also seen from the post evidence note that officers from Uttar Pradesh Civil Service and Indian Police Service were also deputed for the purpose of tea promotion abroad.

55. The Committee further desired to know the criteria of suitability for such postings and as to whether their technical competence and experiment in the relevant field were also taken into consideration. The representative of the Ministry stated:

“Generally, when we post a top level officer to the Tea Board, like many other similar organisations, they are not necessarily the most technical people. We take the administrative capability and overall maturity of the officer into consideration and also see how he will interact with other people”.

XII. Conclusions and Recommendations

56. The Tea Board was set up for the purpose of development of Indian tea industry and promotion of exports of Indian tea. The activities leading to export-promotion of Indian tea are being carried out by the Tea Board's five overseas offices located at London, New York, Dubai, Moscow and Hemburg. These offices are to undertake various promotional measures to boost the export of Indian Tea. The Audit paragraph deals with a case of heavy loss incurred in the running of Indian restaurants at London and Sydney by the company—Indian Tea & Restaurants Ltd. (ITRL) which was formed jointly by the Tea Board and the Hotel Corporation of India (HCI) with the objective of popularising and promoting the consumption of Indian tea abroad. The various aspects of the case as emerged from Committee's examination have been brought out in the succeeding paragraphs.

57. The Committee note that the overseas tea centres opened by the Tea Board during the period from 1961 to 1970 at Edinburg, Melbourne, Cairo, London and Sydney were functioning as tea promotion outlets under the control of Tea Board's foreign offices located at London, Sydney and Cairo. None of these Centres earned any profit during the years of its operation resulting in the closure of the Centres at Edinburg in 1970 and Melbourne in 1975. Concerns were expressed from various quarters from time to time and particularly from the year 1977 in respect of the poor financial results of the Sydney Tea Centre. The High Commissioner of India at Australia wrote to the Chairman, Tea Board on 2 August 1978 that the Centre had outlived its utility and that the expenditure on running it was unproductive and it should be closed down. The question of continuance of this Tea Centre in the context of mounting deficits was discussed in several meetings of the Export Promotion Committee (EPC) of the Tea Board who left the matter to the discretion of the Chairman, Tea Board. Further, the Director, Tea Promotion, Sydney suggested closure as one of the options in regard to the fate of the Centre. However, a proposal for handing over the Sydney Tea Centre to the HCI was considered by the EPC for the first time on 19 January 1980. In the agenda paper, it was indicated that the Tea Board had been in touch with the HCI and that the Board had felt that it would be in their interest to handover Sydney Tea Centre to HCI. Curiously enough, neither the Ministry of Commerce nor the Tea Board were able to apprise the Committee of the authority at whose instance the proposal was included

in the Agenda. Surprisingly, the EPC which itself had earlier expressed serious concern time and again over the dire strait of the Centre and which was fully aware of its operational limitations and the viability, unhesitatingly approved the proposal for handing over the Centre to HCI. Subsequently, an inspection team of HCI was sent to Sydney, London and Cairo who did not stick to the initial proposal of "handing over" the Centres to HCI, but rather recommended for formation of a joint venture between Tea Board and HCI for running the Centres. Consequently, a feasibility report on the economic viability of the proposed joint venture was prepared by HCI. The feasibility report was later modified by the HCI which inexplicably showed substantial alterations in the profitability projections made earlier. Eventually, a new corporate entity in the name of the India Tea & Restaurants Ltd. (ITRL) which was joint venture of the Tea Board and HCI came into existence on 30 June 1981 with an authorised share capital of Rs. 50 lakh divided in the ratio of 51 per cent and 49 per cent between Tea Board and HCI. After incorporation, the Company (ITRL) on 28 August 1981 decided to set up a first class Indian Restaurant at Sydney and thereafter at London. The Committee regret to observe that despite their bitter experience from running the overseas tea centre, the Tea Board without analysing the viability of the project in all its ramifications, went ahead with the venture largely depending upon the judgement of the Hotel Corporation of India.

58. The Committee's examination revealed that though the Tea Board was the major shareholder in ITRL, yet the administrative control over it was given to HCI. The Ministry's argument that HCI was entrusted the job of running the management of the restaurants of ITRL because HCI had the requisite expertise and experience of running hotels/restaurants professionally is not only unconvincing but also, as the later events clearly showed, an exaggerated and misplaced perception. The Committee are unhappy to note that the Ministry of Commerce and the Tea Board did not analyse carefully the implications thereon before surrendering the administrative powers to HCI particularly considering the stakes of Tea Board in terms of investment and achievement of the objectives. The Committee expect the Ministry of Commerce and Tea Board to adopt a more alert and cautious approach in all such projects in future.

59. The examination of the subject further revealed that for the entire operation and management of the restaurants, HCI was to be given a fee of two per cent of the gross income in addition to four per cent of gross profits from the two restaurants but the HCI did not give any guarantee that there would be profit from the project. Thus the operating contract was tilted in favour of HCI. The Committee observe that the Ministry of Commerce did not make any attempt to strengthen the rights of the owning company i.e. ITRL as well as of the Tea Board. Apparently, there was no clause in the operating contract which could have been enforced against operating

company viz. HCI in case of their failure to operate and manage the restaurants properly. The Committee feel that for this lapse the Ministry of Commerce and Tea Board have to squarely blame themselves.

60. The Committee further note that though the ITRL was incorporated on 30 June 1981, the two restaurants viz., Mayur, Sydney commenced its operation on 28 October 1982 and Mayur, London on 23 October 1984 thus after considerable delay. The delay in commencement of operation of these restaurants was attributed to factors such as problems in obtaining possession of the premises, delay in renovation work etc. which are not convincing. Significantly, the Tea Board quoted the delay in starting the restaurants as one of the major reasons for the failure of the joint venture in the ultimate analysis. The Committee are of the view that the Ministry did not take prompt action in the matter to persuade ITRL to perform its functions effectively and efficiently in the prescribed time schedule.

61. The Committee observe that the performance of these two restaurants did not keep in line with the projections made in the feasibility report. The losses which had started occurring almost from the inception kept on increasing endlessly. The financial performance of the restaurants had reached such a dismal stage that as against income of Rs. 23.13 lakh and Rs. 40,000/- earned by the Sydney and London restaurants in the year 1989-90, the expenditure incurred stood to the level of Rs. 62.11 lakh and Rs. 95.20 lakh respectively. Astonishingly, except formal expression of concern by ITRL, no concrete steps were taken in time to avoid recurrence of the accumulated financial burden on ITRL. Strangely enough, the Ministry of Commerce entrusted the job of rehabilitation of these two restaurants to the same company (ITRL) which was responsible for the mismanagement of the joint venture. However, the rehabilitation proposals did not yield any concrete result. Further, both the Ministry of Commerce and Tea Board failed to take effective steps immediately even after they had come to the definite conclusion in 1986 that revival was not possible and only closure was the best option. In the process, the precious time of two years from 1986 to 1988 was simply wasted in the name of exploring the alternatives and on the other side losses kept on accumulating by leaps and bounds. The Committee regret to conclude that neither the administrative Ministry viz. the Ministry of Commerce nor Tea Board, the majority shareholder evolved any mechanism to effectively monitor the performance of the restaurants. The Committee express their strong displeasure over the apathetic attitude of the Ministry towards such a costly project.

62. The Committee further note that though the decision was taken in principle in 1989 to close down the two restaurants, the actual closure took place only in April 1990 and September 1990. The Ministry failed to furnish any convincing reply to the Committee about the delay in closure of the restaurants. The Committee cannot but arrive at the inescapable conclusion that lack of sincerity was reflected by both the Tea Board and

the Ministry of Commerce towards this project right from the commencement to the final closure of the restaurants.

63. The Committee note that the ITRL failed to repay the loans of Rs. 109.95 lakh and overdraft of Rs. 46.60 lakh taken by it during its operation for which the Tea Board had provided guarantee to the Bank. ITRL also failed to reimburse major portion of the 70 per cent of rent, rates and service charges etc. amounting to Rs. 1.03 crore on account of its share in the premises hired by Tea Board. ITRL further failed to realise from the corporate clients Rs. 1,66,701 and Rs. 26,961 in respect of London and Sydney restaurants on account of credit sales. The Committee deplore that no concrete measures were taken by the Tea Board to persuade the ITRL in time to take effective steps in this regard. The Committee therefore, desire that Tea Board should enquire into the matter and take action against the officers responsible for such financial lapses.

64. The Committee observe that the Union Cabinet approved the proposal for liquidating the joint venture (ITRL) on 19 February 1992. The proposal for writing off the dues as irrecoverable loss from ITRL was received from Tea Board in July 1992. As sum of Rs. 8.54 crore became recoverable from ITRL. In the ratio of share in the ITRL (51% of Tea Board and 49% of HCI), these losses were to be written off by the respective partners, i.e. Rs. 4.36 crore by Tea Board and Rs. 4.18 crore by HCI. The HCI Board had written off Rs. 3.24 crore on 31.3.1997. The balance amount was to be paid to the Tea Board as the share of HCI's liability. The liability on the part of the Tea Board had to be written off by passing a resolution and its subsequent endorsement by the Ministry of Commerce. The Committee would like to be informed of the latest position in this regard.

65. The Committee observe that in terms of the projections made in the feasibility report of the project, it was envisaged that the company (ITRL) would start making profits from the second year onwards and would recoup its project cost at the end of five years from the date of inception. Ironically, the profitability projections turned out to be wrong not only wiping out the entire capital of the company but also creating heavy liability of Rs. 8.54 crore to the Government of India. The Committee feel that the decision taking process in the Tea Board as well as in the Ministry of Commerce in regard to the joint venture had been guided by neither prudence nor professionalism. Undoubtedly, these factors contributed significantly in collapse of the joint venture leaving a permanent scar in the form of heavy liability to the Government of India. The Committee deplore that at no stage, sincere or serious efforts were made either by the ITRL itself or by its promoting agencies namely, Tea Board and HCI which were having substantial stake in the company or by the administrative Ministries concerned, to analyse deeply the reasons for continuous deterioration in the sale of tea and consequent incurring of accumulated losses by the company, and to devise suitable remedial measures to minimise the burden on the

exchequer. The Committee, therefore, conclude that the joint venture not only caused economical and financial burden of high magnitude on the Government of India but also miserably failed in its basic objective of promotion of Indian tea abroad. While expressing their serious displeasure over the matter, the Committee recommend that the various aspects of the case and circumstances leading to heavy financial loss to the Government in the process of formation, operation, performance, rehabilitation, liquidation of ITRL and also the questionable role played by the Ministry of Commerce and Tea Board should be thoroughly looked into with a view to not only fixing responsibility for the various omissions/commissions, but also obviating recurrence of such costly misadventures in future.

66. The Committee note that quite a good number of officers visited London and Sydney in connection with the project of joint venture. The Committee regret to note that the Ministry failed to provide the Committee with the information relating to the specific purpose of these visits and also the total expenditure incurred thereon. The available information, however, reveals that substantial amount had been spent on foreign trips and the cost so incurred had been debited to the organisation concerned. The Committee therefore, desire the Ministry of Commerce/Tea Board/HCI to collect the entire data with regard to expenditure on these foreign visits and apprise them of the same.

67. Another disquieting feature which the Committee found during the examination of the subject is the lack of adequate professionalism in the functioning of the Tea Board. The Committee are surprised to note that an organisation dealing with a product which have a substantial stake in the country's earning of foreign exchange through export, is most of the times manned by officers of general administrative services having no adequate experience in the relevant field. The non-professional approach of Tea Board has indeed, contributed to the failure of joint venture in the case under examination. The Committee, therefore, are of the opinion that promotional organisations like Tea Board must be manned, particularly at the top level by competent professionals with proven track record and be not left at the mercy of the officers of general administrative services.

NEW DELHI;
4 November, 1997

13 Kartika, 1919 (Saka)

DR. MURLI MANOHAR JOSHI,
Chairman,
Public Accounts Committee.

APPENDIX-I

PARAGRAPH 7 OF THE REPORT OF C&AG OF INDIA FOR THE YEAR ENDED 31 MARCH, 1995 (NO. 3 OF 1996) UNION GOVERNMENT (OTHER AUTONOMOUS BODIES)

Heavy loss arising from Joint Venture Operation

Tea Board (Board) and the Hotel Corporation of India Limited (HCIL) set up jointly "India Tea and Restaurants Limited" (ITR) in 1981 in place of Tea Board's two tea centres at London and Sydney for running these as high class Indian restaurants on commercial basis. One of the objectives of the ITR was to undertake and carry on the business in all types of Indian Tea and with that end in view, to popularise and promote the consumption of Indian tea. The authorised share capital of ITR was Rs. 50 lakhs, which was subscribed by Tea Board, being 51 per cent share holder with Rs. 25.50 lakhs and the rest by HCIL being 49 per cent holder of its shares. ITR which was administratively controlled by HCIL, started two restaurants, viz. Mayur-Sydney in October 1982 and Mayur-London in October 1984.

The Board and HCIL had also stood jointly and severally guarantors for various loans amounting to Rs. 109.95 lakhs taken by ITR from Bank of Baroda from time to time. The ITR also took overdrafts amounting to Rs. 46.60 lakhs from Bank of Baroda at different times. The London restaurant was housed in a building rented by the Board. ITR was required to reimburse 70 per cent of rent, rates and service charges etc. paid by the Board. ITR did not, however, reimburse the same owing to its financial constraints. For the period April 1990 to July 1991 dues on this account amounted to Rs. 1.03 crores.

Both the restaurants suffered considerable losses since their inception and ultimately Mayur-London was closed in April 1990 and Mayur-Sydney in September 1990. The HCIL on whose expertise, the Board had depended for successful operation of the restaurants did not bear its share of liabilities when the ITR became financially bankrupt. The Board had to bear the liability of the interest burden in respect of loans and overdrafts taken by the ITR, which added upto Rs. 4.28 crores. In July 1992, the Board approached the Ministry for write off of said amount but Ministry has informed in February 1996 that the proposal for write off has not yet been agreed to.

The decision of the Board to enter into the aforesaid joint venture not only failed to serve the purpose of promoting Indian tea in the world market but also created a liability of Rs. 4.28 crores for the Board in addition to losing its own share capital of Rs. 25.50 lakhs, and thus the joint venture had turned into a costly misadventure. Apart from meeting

the Bank's demands as guarantor of loans to ITR, the Board had also been deprived of the use of space in the building hired by them but largely occupied by the ITR for over one year in London, the financial implications of which amounted to Rs. 103 crores.

APPENDIX-II

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Deptt. concerned	Conclusions/ Recommendations
1	2	3	4
1.	56	Ministry of Commerce	The Tea Board was set up for the purpose of development of Indian tea industry and promotion of exports of Indian tea. The activities leading to export-promotion of Indian tea are being carried out by the Tea Board's five overseas offices located at London, New York, Dubai, Moscow and Hemburg. These offices are to undertake various promotional measures to boost the export of Indian Tea. The Audit paragraph deals with a case of heavy loss incurred in the running of Indian restaurants at London and Sydney by the company — Indian Tea & Restaurants Ltd. (ITRL) which was formed jointly by the Tea Board and the Hotel Corporation of India (HCI) with the objective of popularising and promoting the consumption of Indian tea abroad. The various aspects of the case as emerged from Committee's examination have been brought out in the succeeding paragraphs.
2.	57	-do-	The Committee note that the overseas tea centres opened by the Tea Board during the period from 1961 to 1970 at Edinburg, Melbourne, Cairo, London and Sydney were functioning as tea promotion outlets under the control of Tea Board's foreign offices located at London, Sydney and Cairo. None of these Centres earned any profit during the years of its operation resulting in the closure of the Centres at Edinburg in 1970 and Melbourne in 1975. Concerns were expressed from various quarters from time to time and particularly from the year

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1977 in respect of the poor financial results of the Sydney Tea Centre. The High Commissioner of India at Australia wrote to the Chairman, Tea Board on 2 August, 1978 that the Centre had outlived its utility and that the expenditure on running it was unproductive and it should be closed down. The question of continuance of this Tea Centre in the context of mounting deficits was discussed in several meetings of the Export Promotion Committee (EPC) of the Tea Board who left the matter to the discretion of the chairman, Tea Board. Further, the Director, Tea Promotion, Sydney suggested closure as one of the options in regard to the fate of the Centre. However, a proposal for handing over the Sydney Tea Centre to the HCI was considered by the EPC for the first time on 19 January, 1980. In the agenda paper, it was indicated that the Tea Board had been in touch with the HCI and that the Board had felt that it would be in their interest to handover Sydney Tea Centre to HCI. Curiously enough, neither the Ministry of Commerce nor the Tea Board were able to apprise the Committee of the authority at whose instance the proposal was included in the Agenda. Surprisingly, the EPC which itself had earlier expressed serious concern time and again over the dire strait of the Centre and which was fully aware of its operational limitations and the viability, unhesitatingly approved the proposal for handing over the Centre to HCI. Subsequently, an inspection team of HCI was sent to Sydney, London and Cairo who did not stick to the initial proposal of "handing over" the Centres to HCI, but rather recommended for formation of a joint venture between Tea Board and HCI for running the Centres. Consequently, a feasibility report on the economic viability of the proposed joint venture was prepared by HCI. The feasibility report was later modified by the HCI which inexplicably showed substantial alterations in the profitability projections made earlier.

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Eventually, a new corporate entity in the name of the India Tea & Restaurants Ltd. (ITR) which was a joint venture of the Tea Board and HCI came into existence on 30 June, 1981 with an authorised share capital of Rs. 50 lakh divided in the ratio of 51 per cent and 49 per cent between Tea Board and HCI. After incorporation, the Company (ITRL) on 28 August, 1981 decided to set up a first class Indian Restuarant at Sydney and thereafter at London. The Committee regret to observe that despite their bitter experience from running the overseas tea centres, the Tea Board without analysing the viability of the project in all its ramifications, went ahead with the venture largely depending upon the judgement of the Hotel Corporation of India.

3. 58

Ministry of
Commerce

The Committee's examination revealed that though the Tea Board was the major shareholder in ITRL, yet the administrative control over it was given to HCI. The Ministry's argument that HCI was entrusted the job of running the management of the restaurants of ITRL because HCI had the requisite expertise and experience of running hotels/restaurants professionally is not only unconvincing but also, as the later events clearly showed, an exaggerated and misplaced perception. The Committee are unhappy to note that the Ministry of Commerce and the Tea Board did not analyse carefully the implications thereon before surrendering the administrative powers to HCI particularly considering the stakes of Tea Board in terms of investment and achievement of the objectives. The Committee expect the Ministry of Commerce and Tea Board to adopt a more alert and cautious approach in all such projects in future.

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The examination of the subject further revealed that for the entire operation and management of the restaurants, HCI was to be given a fee of two per cent of the gross income in addition to four per cent of gross

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profits from the two restaurants but the HCI did not give any guarantee that there would be profit from the project. Thus the operating contract was tilted in favour of HCI. The Committee observe that the Ministry of Commerce did not make any attempt to strengthen the rights of the owning company i.e. ITRL as well as of the Tea Board. Apparently, there was no clause in the operating contract which could have been enforced against operating company viz. HCI in case of their failure to operate and manage the restaurants properly. The Committee feel that for this lapse the Ministry of Commerce and Tea Board have to squarely blame themselves.

5. 60. Ministry of Commerce The Committee further note that though the ITRL was incorporated on 30 June, 1981, the two restaurants viz., Mayur, Sydney commenced its operation on 28 October, 1982 and Mayur, London on 23 October, 1984 thus after considerable delay. The delay in commencement of operation of these restaurants was attributed to factors such as problems in obtaining possession of the premises, delay in renovation work etc. which are not convincing. Significantly, the Tea Board quoted the delay in starting the restaurants as one of the major reasons for the failure of the joint venture in the ultimate analysis. The Committee are of the view that the Ministry did not take prompt action in the matter to persuade ITRL to perform its functions effectively and efficiently in the prescribed time schedule.
6. 61 -do- The Committee observe that the performance of these two restaurants did not keep in line with the projections made in the feasibility report. The losses which had started occurring almost from the inception kept on increasing endlessly. The financial performance of the restaurants had reached such a dismal stage that as against income of Rs. 23.13 lakh and
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Rs. 40,000/- earned by the Sydney and London restaurants in the year 1989-90, the expenditure incurred stood to the level of Rs. 62.11 lakh and Rs. 95.20 lakh respectively. Astonishingly, except formal expression of concern by ITRL, no concrete steps were taken in time to avoid recurrence of the accumulated financial burden on ITRL. Strangely enough, the Ministry of Commerce entrusted the job of rehabilitation of these two restaurants to the same company (ITRL) which was responsible for the mismanagement of the joint venture. However, the rehabilitation proposals did not yield any concrete result. Further, both the Ministry of Commerce and Tea Board failed to take effective steps immediately even after they had come to the definite conclusion in 1986 that revival was not possible and only closure was the best option. In the process, the precious time of two years from 1986 to 1988 was simply wasted in the name of exploring the alternatives and on the other side losses kept on accumulating by leaps and bounds. The Committee regret to conclude that neither the administrative Ministry viz. the Ministry of Commerce nor Tea Board, the majority shareholder evolved any mechanism to effectively monitor the performance of the restaurants. The Committee express their strong displeasure over the apathetic attitude of the Ministry towards such a costly project.

7. 62

Ministry of
Commerce

The Committee further note that though the decision was taken in principle in 1989 to close down the two restaurants, the actual closure took place only in April 1990 and September 1990. The Ministry failed to furnish any convincing reply to the Committee about the delay in closure of the restaurants. The Committee cannot but arrive at the inescapable conclusion that lack of sincerity was reflected by both the Tea Board and the Ministry of Commerce towards this project right from the commencement to the final closure of the restaurants.

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8.	63	Ministry of Commerce	<p>The Committee note that the ITRL failed to repay the loans of Rs. 109.95 lakh and overdraft of Rs. 46.60 lakh taken by it during its operation for which the Tea Board had provided guarantee to the Bank. ITRL also failed to reimburse major portion of the 70 per cent of rent, rates and sevice charges etc. amounting to Rs. 1.03 crore on account of its share in the premises hired by Tea Board. ITRL further failed to realise from the corporate clients Rs. 1,66,701 and Rs. 26,961 in respect of London and Sydney restaurants on account of credit sales. The Committee deplore that no concrete measures were taken by the Tea Board to persuade the ITRL in time to take effective steps in this regard. The Committee therefore, desire that Tea Board should enquire into the matter and take action against the officers responsible for such financial lapses.</p>
9.	64	-do-	<p>The Committee observe that the Union Cabinet approved the proposal for liquidating the joint venture (ITRL) on 19 February 1992. The proposal for writing off the dues as irrecoverable loss from ITRL was received from Tea Board in July 1992. A sum of Rs. 8.54 crore became recoverable from ITRL. In the ratio of share in the ITRL (51% of Tea Board and 49% of HCI), these losses were to be written off by the respective partners, i.e. Rs. 4.36 crore by Tea Board and Rs. 4.18 crore by HCI. The HCI Board had written off Rs. 3.24 crore on 31.3.1997. The balance amount was to be paid to the Tea Board as the share of HCI's liability. The liability on the part of the Tea Board had to be written off by passing resolution and its subsequent endorsement by the Ministry of Commerce. The Committee would like to be informed of the latest position in this regard.</p>

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10.	65	Ministry of Commerce	<p>The Committee observe that in terms of the projections made in the feasibility report of the project, it was envisaged that the company (ITRL) would start making profits from the second year onwards and would recoup its project cost at the end of five years from the date of inception. Ironically, the profitability projections turned out to be wrong not only wiping out the entire capital of the company but also creating heavy liability of Rs. 8.54 crore to the Government of India. The Committee feel that the decision taking process in the Tea Board as well as in the Ministry of Commerce in regard to the joint venture had been guided by neither prudence nor professionalism. Undoubtedly, these factors contributed significantly in collapse of the joint venture leaving a permanent scar in the form of heavy liability to the Government of India. The Committee deplore that at no stage, sincere or serious efforts were made either by the ITRL itself or by its promoting agencies namely, Tea Board and HCI which were having substantial stake in the company or by the administrative Ministries concerned, to analyse deeply the reasons for continuous deterioration in the sale of tea and consequent incurring of accumulated losses by the company, and to devise suitable remedial measures to minimise the burden on the exchequer. The Committee, therefore, conclude that the joint venture not only caused economical and financial burden of high magnitude on the Government of India but also miserably failed in its basic objective of promotion of Indian tea abroad. While expressing their serious displeasure over the matter, the Committee recommend that the various aspects of the case and circumstances leading to heavy financial loss to the Government in the process of formation, operation, performance, rehabilitation, liquidation of ITRL and also the questionable role played by the Ministry of Commerce and</p>

1	2	3	4
			Tea Board should be thoroughly looked into with a view to not only fixing responsibility for the various omissions/commissions, but also obviating recurrence of such costly misadventures in future.
11.	66.	Ministry of Commerce	The Committee note that quite a good number of officers visited London and Sydney in connection with the project of joint venture. The Committee regret to note that the Ministry failed to provide the Committee with the information relating to the specific purpose of these visits and also the total expenditure incurred thereon. The available information, however, reveals that substantial amount had been spent on foreign trips and the cost so incurred had been debited to the organisation concerned. The Committee therefore, desire the Ministry of Commerce/Tea Board/HCI to collect the entire data with regard to expenditure on these foreign visits and apprise them of the same.
12.	67	-do-	Another disquieting feature which the Committee found during the examination of the subject is the lack of adequate professionalism in the functioning of the Tea Board. The Committee are surprised to note that an organisation dealing with a product which have a substantial stake in the country's earning of foreign exchange through export, is most of the times manned by officers of general administrative services having no adequate experience in the relevant field. The non-professional approach of Tea Board, has, indeed, contributed to the failure of joint venture in the case under examination. The Committee, therefore, are of the opinion that promotional organisations like Tea Board must be manned, particularly at the top level by competent professionals with proven track record and be not left at the mercy of the officers of general administrative services.

PART II

MINUTES OF THE FOURTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (1997-98) HELD ON 6 JUNE, 1997

The Committee sat from 1100 hrs. to 1300 hrs. on 6 June, 1997 in Committee Room "B", Parliament House Annexe.

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Shri Nirmal Kanti Chatterjee
4. Shri Prithviraj D. Chavan
5. Smt. Meira Kumar
6. Smt. Sumitra Mahajan
7. Prof. Ajit Kumar Mehta
8. Shri Ganga Charan Rajput
9. Shri V.V. Raghavan
10. Shri Ishwar Dayal Swami

Rajya Sabha

11. Shri R.K. Kumar
12. Smt. Margaret Alva
13. Shri Surinder Kumar Singla
14. Shri Vayalar Ravi

SECRETARIAT

1. Shri J.P. Ratnesh — *Joint Secretary*
2. Shri P. Sreedharan — *Deputy Secretary*
3. Shri Rajeev Sharma — *Under Secretary*

OFFICERS OF THE OFFICE OF C&AG OF INDIA

1. Shri V.K. Shunglu — *C&AG of India*
2. Shri V. Srikantan — *Addl. Dy. C&AG*
3. Shri Vikram Chandra — *Pr. Director*
4. Shri T.K. Sanyal — *Principal Director*
5. Smt. Preeti Verma — *Director*
6. Shri Jayanti Prasad — *Director*

REPRESENTATIVES OF THE MINISTRY OF COMMERCE,
TEA BOARD AND DEPARTMENT OF CIVIL AVIATION

1. Shri Nripendra Mishra — Addl. Secretary,
Ministry of Commerce
2. Shri S.S. Ahuja — Chairman, Tea Board
3. Shri Anil Baijal — Joint Secretary,
Deptt. of Civil Aviation

2. At the outset, the officers of the office of the C&AG of India explained the salient points arising out of paragraph 7 of the Report of the C&AG of India for the year ended 31 March, 1995, No. 3 of 1996, Union Government (Other Autonomous Bodies) relating to "Heavy loss arising from joint venture operation." Thereafter, the representatives of the Ministry of Commerce, Tea Board and Deptt. of Civil Aviation were called and the Committee took their evidence on the said Audit paragraph.

3. A copy of the verbatim proceedings of the sitting was kept on record.

The Committee then adjourned.

certain modifications and amendments as shown in Annexures* I to IV respectively. The Members of the Committee appreciated the quality of the draft Reports.

4. The Committee authorised the Chairman to finalise these draft Reports in the light of verbal and consequential changes arising out of factual verification by Audit and present the same to Parliament.

The Committee then adjourned.

*Annexures I, III and IV not appended.

ANNEXURE-II

AMENDMENTS/MODIFICATIONS MADE BY THE PUBLIC
ACCOUNTS COMMITTEE IN THE DRAFT REPORT RELATING TO
HEAVY LOSS ARISING FROM JOINT VENTURE OPERATION

Page	Para	Line	Amendments/Modifications
1	1	15 to 18	<i>Delete the last sentence "Tea Board... tea."</i>
21	55	2	<i>Delete the remaining part of sentence after "whether"</i>
			<i>Add "their technical competence and experience in the relevant field were also taken into consideration" after "whether"</i>
26	61	13&14	<i>Delete "but without" after "venture"</i>
			<i>Add "However the rehabilitation proposal did not yield" after "venture".</i>

2000/LS-1000.

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Sl. No.	Name of Agent	Sl. No.	Name of Agent
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BIHAR		WEST BENGAL	
2.	M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).	13.	M/s. Madimala, Buys & sells, 123, Bow, Bazar Street, Calcutta-1.
GUJARAT		DELHI	
3.	The New Order Book Company, Ellis Bridge, Ahmedabad-380 006. (T.No. 79065)	14.	M/s. Jain Book Agency, C-9, Connaught Place, New Delhi, (T.No. 351663 & 350806)
MADHYA PRADESH		15.	M/s. J.M. Jaina & Brothers, P. Box 1020, Mori Gate, Delhi-110006. (T.No. 2915064 & 230936)
4.	Modern Book House, Shiv Vilas Place, Indore City. (T.No. 35289)	16.	M/s. Oxford Book & Stationery Co., scindia House, Connaught Place, New Delhi-110 001. (T.No. 3315308 & 45896)
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5.	M/s. Sunderdas Gian Chand, 601, Girgaum Road, Near Princes Street, Bombay-400 002.	18.	M/s. Rajendra Book Agency, IV-DR59, Lajpat Nagar, Old Dobule Storey, New Delhi-110 024. (T.No. 6412362 & 6412131).
6.	The International Book Service, Deccan Gymkhana, Poona-4.	19.	M/s. Ashok Book Agency, BH-82, Poorvi Shalimar Bagh, Delhi-110 033.
7.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-400 001.	20.	M/s. Venus Enterprises, B-2/85, Phase-II, Ashok Vihar, Delhi.
8.	M/s. Usha Book Depot, Law Book Seller and Publishers' Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400 002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, connaught Circus, New Delhi-110 001. (T.No. 344448, 322705, 344478 & 344508).
9.	M&J Services, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuele Road Nalgaum, Dadar, Bombay-400 014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Service India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay-400 001.	23.	M/s. Books India corporation Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110 052. (T.No. 269631 & 714465).
TAMIL NADU		24.	M/s. Sangam Book Depot, 4378/4B, Murari LaL Street, ansari Road, Darya Ganj, New Delhi-110 002.

