

COMMITTEE ON PUBLIC UNDERTAKINGS (1968-69)

(FOURTH LOK SABHA)

FIFTY-FIRST REPORT

**STATE TRADING CORPORATION OF
INDIA LIMITED**

(MINISTRY OF FOREIGN TRADE AND SUPPLY)



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1969/Vaisakha, 1891 (Saka)

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C O R R I G E N D A

Fifty-first Report of the Committee on Public Undertakings (1968-69) on State Trading Corporation of India Limited. presented on 30.4.69.

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**COMMITTEE ON PUBLIC UNDERTAKINGS
(1968-69)**

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Shri G. S. Dhillon

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- 2. Shri C. C. Desai**
- 3. Shri Surendranath Dwivedy**
- 4. Shri Bhogendra Jha**
- 5. Shri S. S. Kothari**
- 6. Shrimati T. Lakshmikanthamma**
- 7. Shri Krishnan Manoharan.**
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- 15. Shri D. Thengari**

SECRETARIAT

Shri S. C. Mookerjee—*Deputy Secretary.*

Shri M. M. Mathur—*Under Secretary.*

STUDY GROUP II ON FINANCIAL, PROMOTIONAL AND TRADING UNDERTAKINGS

**COMMITTEE ON PUBLIC UNDERTAKINGS
(1968-69)**

1. Shri S. S. Kothari—*Convener*
2. Shri Bhogendra Jha—*Alternate Convener*
3. Shri C. C. Desai—*Member*
4. Shrimati T. Lakshmikanthamma—*Member*
5. Shri Krishnan Manoharan—*Member*
6. Shri D. Thengari—*Member*

SECRETARIAT

Shri S. C. Mookerjee—*Deputy Secretary.*

Shri M. M. Mathur—*Under Secretary.*

INTRODUCTION

1. The Chairman, Committee on Public Undertakings, having been authorised by the Committee to present the Report on their behalf, present this Fifty-first Report on State Trading Corporation of India Ltd.

2. This Report is based on the examination of the working of State Trading Corporation of India Ltd. upto the year ending 31st March, 1968.

3. The Committee visited the Regional Office of State Trading Corporation of India Ltd. at Calcutta, the Wig Factory at Madras and Vegetable Oil Tank Farm at Bombay in connection with the examination of the State Trading Corporation of India Ltd. The Committee took evidence of the representatives of State Trading Corporation of India Ltd. on the 3rd and 10th March, 1969, and of the Ministry of Foreign Trade and Supply on the 11th March, 1969.

4. The material relating to State Trading Corporation of India Ltd. was processed at various stages by the Study Group II of the Committee.

5. The Report was adopted by the Committee on the 22nd April, 1969.

6. The Committee wish to express their thanks to the officers of the Ministry of Foreign Trade and Supply and State Trading Corporation of India Ltd. for placing before them the material and information they wanted in connection with their examination. They also wish to express their thanks to the non-official organisations, individuals who on request from the Committee furnished their views on the working of State Trading Corporation of India Ltd.

NEW DELHI;

April 26, 1969

Vaisakha 6, 1891 (S)

G. S. DHILLON,

Chairman,

Committee on Public Undertakings.

INTRODUCTORY

Short Background

The idea of setting up an agency to handle foreign trade was first initiated during the Second World War. It was felt that the foreign purchasing missions, then operating in India were canalising foreign trade into specific directions, depressed prices by their bulk purchases and prejudicially affected the interests of Indian traders. It was considered that a Government sponsored agency could most suitably deal with them when normal trade channels found it difficult to do so on account of the war.

1.2. In 1949, the Government of India constituted a Committee on State Trading to consider whether it would be advantageous to set up a State owned or State sponsored organisation for any sector of the foreign trade of the country. The Committee recommended that State Trading Corporation might usefully be set up:—

- (a) to take over the State Trading activities of Government departments such as the import of food-grains, fertilizers, steel and coal;
- (b) to take up in addition the import of East African cotton and the export of short staple cotton and cottage industry products; and
- (c) to sponsor negotiations on behalf of private importers and exporters with monopolies established in other countries.

1.3. Another three-man Committee was set up in 1953 to review the above recommendations. The Committee came to the conclusion that the circumstances did not warrant the entrusting of the business of exporting the articles to State Trading Corporation. They, however, conceded that such a body would constitute an additional weapon in the armoury of the State to give effect to its economic policies in matters other than trade.

1.4. Finally, the proposal to set up a Government Corporation was approved by the Cabinet in November, 1955. The State Trading Corporation of India Limited was registered under the Indian Companies Act as a Joint Stock Company on the 18th May, 1956, with a paid up capital of Rs. 1 crore. All the shares of the Corporation were wholly subscribed by the Central Government.

***Examination of STC by Parliamentary Committee—Estimates Committee
—Public Accounts Committee and Committee on Public Undertakings.***

1.5. Working of STC was first examined by the Estimates Committee in 1959-60 and Committee's recommendations are contained in their 86th Report (2nd Lok Sabha). The Action Taken by Government on those recommendations is contained in 149th Report (2nd Lok Sabha) of the Estimates Committee. In 1963-64, the Corporation was again examined by the Estimates Committee. The Committee's recommendations and the action taken by Government thereon are contained in 49th Report (3rd Lok Sabha) of the Estimates Committee and 32nd Report (3rd Lok Sabha) of Committee on Public Undertakings. In 1966-67, the Public Accounts Committee in its 64th Report examined specifically the purchase of tyres by the Corporation and action taken by Government is contained in the 4th Report (4th Lok Sabha) of the Committee. The Committee on Public Undertakings also in 1966-67 examined specifically the contract entered into by the Corporation for the import of Sulphur. The action taken by Government on the 4th Report of the Committee on Public Undertakings is still to be communicated by the Ministry.

1.6. In this Report the Committee have confined their examination to the last 4-5 years trading activities of the Corporation.

II

OBJECTS AND SCOPE

The objects of the Corporation contained in its Memorandum of Association, have been amended from time to time, as stated by Government to "enable the Corporation to carry on its business more efficiently and attain its main purpose." The date of registration and amendments are:—

1. Memorandum of Association as on 18.5.56, the date of registration of the Corporation.
2. Amendment to object clause of the Memorandum of Association as registered on 27.9.1958.
3. Amendment to object clause of the Memorandum of Association as registered on 19.2.62.
4. Amendment to the object clause of the Memorandum of Association as registered on 5.4.1965.
5. Amendment to object clause of the Memorandum of Association as registered on 21.10.65.
6. Amendment to object clause of the Memorandum of Association registered on 17.8.1967.

2.2. The main objects of the Corporation as laid down in its Memorandum of Association, in force from 17.8.1968, are as follows:—

1. To organise and undertake trade generally with State Trading countries as well as other countries in commodities entrusted to the Company for such purpose by the Union Government from time to time and to undertake the purchase, sale and transport of such commodities in India or anywhere else in the world.
2. To undertake promotion of exports generally including exports to existing markets whether of traditional commodity or any other, to explore new markets for traditional items of export and develop exports of new items with a view to maintaining, diversifying and expanding the export trade.

3. To undertake at the instance of the Union Government import and/or internal distribution of any commodities in short supply with a view to stabilising prices and rationalising distribution.
4. To generally implement such special arrangements for import, export, internal trade and/or distribution of particular commodities as the Union Government may specify in the public interest.
5. To barter, exchange, pledge, manipulate, treat, prepare and deal in merchandise, commodities and articles of all kinds and to carry on any kind of commercial and/or financial business as the Company may determine from time to time.
6. To buy, sell, exchange, instal, work, repair, alter, refine, improve, manipulate, prepare for market, let out on hire, plants, machinery, equipment, works, vehicles, apparatus and appliances, boats, barges, lighters, bulk carriers etc., which are necessary or convenient for carrying on any business which the Company is authorised to carry on or is required by any customers of or persons dealing with the Company and to experiment with and to render marketable, process, convert, fabricate and manufacture such articles, commodities and goods as may be necessary or may seem to the Company capable of being undertaken conveniently in furtherance of its objects or may be calculated directly or indirectly to enhance the value of such articles, commodities and goods.
7. To manufacture, store, maintain, sell, buy, repair, alter, exchange, let on hire, export, import and deal in all kinds of articles and things (including all kinds of conveyance and all component parts, fittings, tools, implements, accessories, materials, and all articles and things used or capable of being used in connection therewith in any way whatsoever) which may be required for the purposes of any business of the Company or are commonly supplied or dealt with by persons engaged in any such business and which may be capable of being profitably dealt with in connection with any of the business of the Company.

2.3. The above functions of the S.T.C. can be classified under the following main headings:—

1. Exports.
2. Imports.

3. Internal Trade.

4. Trade Promotion Agreements.

5. Export aid to small industries.

6. Participation in export oriented Corporations.

1. Exports

- (i) to promote export of traditional items, to introduce non-traditional items in the world markets and search out new avenues for export for Indian products.
- (ii) to facilitate and organise exports of difficult-to-sell items by linking essential imports with additional exports under special trade promotion agreements etc.
- (iii) to organise production to meet export demands and to help production units in overcoming difficulties of procuring raw materials and other essential requirements.
- (iv) to develop new lines of exports.
- (v) to ensure implementation of Trade Plans with State Trading countries.
- (vi) to help local producers by procuring at reasonable prices and to hold stocks to maintain ultimate production at optimum level, of commodities with high export potential, thus avoiding dislocation in production, maintaining adequate availability for exports and ensuring a fair price to the local producers, and
- (vii) to take part in fairs and exhibitions abroad in order to create atmosphere for expansion of exports and to introduce new products in foreign markets.

2. Imports

- (i) To import capital goods, industrial raw materials and certain scarce commodities required for the economic development of the country.
- (ii) to import items which were canalised by the Government through this Corporation in order to ensure that adequate supplies at the right time and at the most economical prices are made and are distributed to the industries and other users in a co-ordinated manner.

- (iii) to undertake import of commodities where bulk procurement is advantageous.
- (iv) to undertake imports from state trading countries or where monopolies are involved.
- (v) to import commodities which are in short supply in the country.
- (vi) to import speculative and high profit margin items with a view *inter-alia* to stabilise the prices and to do distribution of such commodities in an organised manner at fair prices, and
- (vii) to ensure implementation of trade plans with State trading countries and other special agreements.

3. Internal Trade

- (i) To undertake internal trade in certain commodities like imported cars, and
- (ii) to undertake price support and buffer stock operations in order to ensure fair prices to the growers of certain agricultural commodities, to stabilise internal production and to sustain foreign demand.

4. Trade Promotion Agreements

To arrange for essential imports against additional exports of traditional and non-traditional items which are specified in special agreements.

5. Export Aid to Small Industries

To assist the small scale manufacturers in exporting their products by giving wide publicity to their products abroad and by arranging attractive packing, providing credit facilities, helping them in matters of shipping and exploring possibilities of exporting their products to various countries.

6. Participation in Export-oriented Corporations

To lend increasing support by way of financial and organisational assistance to specialised export agencies like the Handicrafts and Handloom Export Corporation.

Scope of Activities

2.4. It was represented to the Committee that there was "need to define the scope of activities of Corporation because it was felt that

the Corporation had 'overstepped its functions'. The activities of the Corporation and the 'monopolistic position' enjoyed by it had resulted in 'displacing and disrupting normal trade channels without any special benefit to the country at large.'

2.5. The Committee, while taking the evidence of the representatives of the STC, enquired whether the respective areas of operation of the Corporation and of private agencies need be defined so that both could function on the basis of harmony and mutual trust. The Chairman, of the State Trading Corporation, stated that in its interim Report, the "Reviewing Committee", with which he was associated, had observed that the STC must be of service to those who import or export. It was also mentioned in the report that the S.T.C. must win the confidence of Industry—whether it was in private or public sector. He added that for the last few months he and his Directors has been regularly meeting all sections of industry once or twice a month to have a look at their problems. For example, they had been meeting Maharashtra Small Scale Industries and the Fertilisers Association of India every month "so as to build up the confidence and trust even more than the service that we can give them."

2.6. When pointed out that there was a feeling that S.T.C. was encouraging upon the private sector and that there was apprehension to canalise the import of industrial raw materials through the STC, the Chairman stated "we do not by ourselves decide that we would like to move into this area or that. This is the Government's policy and a decision has to be taken at their level." He added that when the Corporation was asked to move in any area, it tried to create confidence in the minds of those for whom it worked.

2.7. Citing an example he said, when the Corporation was asked to move into the area of imports of raw rubber, an association of importing interests was formed. He further stated "my feeling is that we would move into that area with their help and cooperation. We were able to convey to them that we are a service agency. Whether we have encroached on some body else's ground I am not in a position to discuss. But I can assure you that having associated ourselves with it, we would try to give them the best services."

2.8. The Chairman, STC, added "one is that quite honestly we say we have a concept of service. It is not that we were always able to give the best service but that is the concept that we are pursuing. There is room for improvement and it is our constant endeavour to improve our system."

2.9. The Committee enquired of the representatives of Ministry of Foreign Trade and Supply whether Government were aware of the com-

complaints that S.T.C. had "overstepped" its functions. Replying that the functions of S.T.C. were defined by its constitution and charter, the Secretary of the Ministry, stated that "S.T.C. has not, cannot and will not overstep its functions". He added "you will not find a single commercial activity on the part of S.T.C. which goes beyond its scope. It is functioning better. It is functioning over a larger field." In regard to the complaint that the S.T.C. enjoyed a monopolistic position the Secretary stated that the S.T.C.'s share in India's total export trade during 1967-68 was 2 per cent and in the imports 5 per cent. One would not describe that to be a monopolistic position in India's export and import trade.

2.10. The Committee enquired whether the original concept that STC would supplement and not supplant the private trade had undergone a change to meet social objectives. The Secretary of the Ministry stated that the policy of supplementing and not supplanting had not undergone any change. The policy remained what it was, but its actual implementation, was shifted from one point to another depending on the experience. He added, "the supplemental process is that at the control point it has been found by experience that if a public corporation is introduced then it enables us to achieve our commercial purposes better".

2.11. The Committee note that the Reviewing Committee on the STC, in its interim report, in connection with the Corporation's trade relations has observed:—

"Looking outwards, the Corporation should examine its relations with the trade. Is there an exclusiveness of interests or complementariness of roles? The Corporation's relations with the trade would be positive. The onus will lie in part on the Corporation itself to convey the impression of a helpful consultant, anxious to assist and provide services economically and efficiently. In a mixed economy the Corporation would best discharge its role if it learns to act as an efficient catalyst, a developer and a pace-setter."

2.12. The Committee agree that in a mixed economy, the STC would 'best discharge its role as an efficient catalyst, a developer, and a pace-setter'. The Corporation should also conduct its affairs as to earn the confidence of trade, whether in public or in private sector, by adopting a helpful attitude towards all engaged in common endeavour of boosting up India's developing economy. The Committee note the assurance given by the Secretary, Ministry of Foreign Trade and Supply, that 'STC has not, cannot and will not overstep its functions.' The Committee would also like the STC to examine carefully the criticism made by various interests about its working.

III TRADE ACTIVITIES

A. General

(i) *Total Export and Imports*

The STC has made exports and imports of the following value during the last five years:—

Year	Exports	Imports
	(Rs. in crores)	
1963-64	19·30	33·46
1964-65	10·51	33·93
1965-66	13·12	46·19
1966-67	30·99	67·85
1967-68	23·57	115·83
1968-69	29·83	70·90
(upto Dec. '68)		

3.2. The value of exports and imports made from the country during the last five years and the percentage of the exports and imports made by the STC to the country's exports|imports were as follows:—

EXPORTS

	Value of Exports made from India	Percentage of STC ex- ports to country's exports
	(Rs. in crores)	
1963-64	793·24	2·4
1964-65	816·30	1·3
1965-66	805·64	1·6
1966-67	1094·94	2·8
1967-68	1099·85	3·0
(April, 67-Feb. 68)		

IMPORTS

Year	Value of Imports made by India	Percentage of imports by STC to country's imports
	(Rs. in crores)	
1963-64	1222.8	2.9
1964-65	49.0	2.5
1965-66	1410.1	3.3
1966-67	1868.3	3.6

3.3. The above tables, thus reveal that the STC's share in the country's total exports has ranged during the last 5 years from 1.3 per cent to 3 per cent and in the case of imports from 2.5 per cent to 3.6 per cent. The Committee, during evidence of the representatives of the Corporation, enquired whether the Corporation was satisfied with its share in the country's foreign trade. The representative of the Corporation stated, in reply, that the above percentage was of the total exports of the country which included tea, coffee and a number of other items which contributed to total exports. He added that the Corporation was fairly satisfied with the rate of growth of its exports. The Corporation did not move into nearly 85 per cent of the commodities exported from the country. It had been exporting non-traditional items and only recently move into a few traditional items like textiles. He added "If we take the basic percentage as only 15 per cent of the total exports, our performance is 25 per cent. of the exports of these items by the country. We have every reason to be satisfied with the progress in the export trade." It was stated that viewed in actual terms there had been more than 300 per cent increase in the Corporation's trade. The Chairman of the Corporation informed the Committee that from the level of Rs. 23 crores in the year 1967-68 the Corporation was running at a rate of about Rs. 46 crores in the present year. It had nearly doubled. He added that the only thing for which the Corporation could take any credit was that it was trying to make contribution to the export field, not, merely by substituting certain items but by creating new exports.

3.4. Asked whether the increase in trade had been managed with the same staff if there had been 3 per cent increase in the staff also, the Chairman, STC, replied that there had been no increase in the staff since the middle of last year. He added that the present year's total increase in the Corporation's activities would also be with the same staff as before.

3.5. The Secretary of the Ministry, during his evidence before the Committee, stated that the performance of STC in the development of export trade in wagons and railway equipment had been catalytic. STC has taken the export trade of shoes from a low level to a higher level. In items like Nylon Yarn, the Corporation could operate as an efficient modern business. He added, "STC is a Public Sector organisation which has its record item by item, period by period, it gives to the Ministry in appraising the general complaint in regard to over-invoicing and under-invoicing, a wealth of data, which was not otherwise available." The Secretary of the Ministry claimed that the analysis showed that in whichever field STC had been able to operate, it had brought advantages to the foreign trade of the country, to the exporters, to the producers for export and to the end-users of imports.

3.6. In reply to Committee's query, what special measures had been taken by the STC in India and abroad during the last five years to increase the exports and what special steps it intended to take in the coming years in this regard, the S.T.C. has furnished the following information:—

"The special measures taken by the Corporation during the last five years to increase exports from the level of Rs. 8.8 crores in 1963-64 to Rs. 23.57 crores in 1967-68 include:—

1. Organising manufacturers in India and giving them assistance including finance for increasing exports;
2. Developing new items with export potential and assisting producing agencies to train personnel in specialised handling, packing and transportation of goods for export;
3. Giving export assistance to small manufacturers under the EAST Scheme;
4. Assisting exports through the mechanism of link and barter and allied deals;
5. Participation in international trade fairs and wholly Indian Exhibitions in foreign countries;
6. Establishing foreign offices abroad;
7. Negotiating sales with visiting foreign delegations in India negotiate and conclude business; and negotiate and conclude business; and

8. Participation in global tenders for rolling stock, equipment and turn-key jobs.

During 1968-69, exports of the Corporation are expected to increase to around Rs. 45 crores.

This year, the Corporation is engaged in reorganising itself. With introduction of new systems *inter alia* for regular and continuous consultation with trade and industry, backed by a reorganised framework of its foreign offices which would provide a service base to the Indian industry and trade and guarantee a marketing service to foreign buyers in regard to quality, delivery schedule and reasonable prices, it is hoped that the Corporation would be able to provide the requisite infrastructure for accelerated expansion of its exports in the future."

3.7 The Committee find that the STC is satisfied with its present trading activities, a view that they (Committee) are unable to share. Considering the large organisational set up of the Corporation and the capital employed by it, the present share of STC in the country's trade is only 3 to 4 per cent. Moreover the value of exports made by the Corporation in 1967-68 has fallen by Rs. 7.5 crores in comparison to the exports of the previous year (1966-67).

3.8. The Committee are of the view that the Corporation should enlarge its share in country's export trade. Apart from making concerted efforts to protect its past level of export, the Corporation should try to boost it up and give preference to develop new fields of exports. The Corporation should fix up an annual export budget for itself and strive to adhere to the target. The Committee note that the Corporation has introduced a regular and continuous consultation with trade backed by re-organised foreign offices to provide as service bases to Indian Industry and hope that they would continue a sustained effort to increase export of new items and to new areas.

3.9. The Committee note that a trend in the improvement of the STC export effort is in evidence (as per provisional figures of 9 months) and hope it will be followed up.

(ii) Canalisation of Exports and Imports

3.10. In addition to the participation in foreign trade on its own initiative the State Trading Corporation is used as an instrument to execute Government policies. Government of India had, from time to time, canalised certain items of import and export through the Corporation. For giving effect to canalisation of imports of certain items through the Corporation two devices had been adopted by Government. One

was the formal canalisation wherein the article was first brought in Part 'C' of Section 2 (ii) of Import Trade Control Policy, for the given period and then by a separate public notice Government orders were issued stating that the S.T.C. would be the approved agency for import of that item. The second device was that the item found mention in Part 'D' of Section 2 of the Import Trade Control Policy and was thus declared non-licenceable to both actual users and importers. Thus imports by STC fall under *two* categories. Explaining these categories the STC has, in its note, stated:

"In the first category are the items which are easily available from the rupee payment countries and, therefore, the STC can naturally and effectively act as the canalising agency for purchases from such sources. The other category consists of items of imports from the free foreign exchange areas, in respect of which, owing to certain vital considerations, the Government have deemed it fit to use STC as the importing agency."

Canalisation of Imports of Industrial Raw Materials

3.11. The Committee during evidence referred to the press reports that Government intended to entrust the entire import of industrial raw material to the STC and asked whether the STC had been consulted in this matter. The Chairman, STC, replied that whenever the Government wished the Corporation to move into an area it consulted the Corporation. Asked what criteria was followed in deciding whether the Corporation should move in a particular area, the Chairman stated that that was for the Government to decide. But when once the Corporation was asked by Government to move in, their reaction was "to study the subject, to organise the proper channel, to create confidence, to build up the expertise which is very important, and to so work with the importers as also with the exporters as to serve their interests best."

3.12. The Chairman, STC, added that in the case of soyabean Oil under P.L. 480 as also in the case of fertilisers and Chemicals, Government felt that one agency should import it altogether. The Corporation was also asked to move in when normal international buying mechanisms had broken down or when sellers had combined. In fertilisers, there was a large combine, called the NITREX, which controlled the marketing of production in the continent of Europe. Where there was single seller single buyer would, he said, be useful.

3.13. On being asked whether the STC was in a position to take over the entire foreign trade, the Chairman stated that the Corporation had not been asked at any time to undertake the entire foreign trade. He,

however, informed the Committee that a Study Group appointed to examine the question of import of "Industrial raw materials" had submitted an interim report to Government.

3.14. While examining the representatives of the Ministry of Foreign Trade the Committee enquired what were the major consideration for canalising exports and imports of certain commodities through the STC. The Committee also wanted to know whether the Government had satisfied itself before canalisation that the STC was fully equipped for the job being entrusted to it. The Secretary of the Ministry stated that canalisation fulfilled certain objectives. First, it enabled transfer of profit from a private individual to the STC. Secondly it enabled a bulk buyer to use the strength of a large buyer to pursue the commercial objectives of one's country. Thirdly, it helped to avoid overinvoicing of imports and foreign exchange leakages. Fourthly, a publically controlled organisation gave a more flexible operation to bring about the balance between the need to protect the indigenous manufacturer and to meet the legitimate interests of the producers. Fifthly, shifting of control from the Chief Controller of Imports to the STC gave the Government a flexible instrument for achievement of "diverse public ends or ends of public policy." He added that in each case, only two or three purposes may be fulfilled. Stating that the canalisation also helped in relation to some industrial intermediates for raw materials the Secretary added "we are able, for instance, sometimes to effect the price policy of end products or use this as a bargaining counter for increasing the export possibility of the end products".

3.15. The Secretary of the Ministry further stated that canalisation also led to some difficulties. First, shifting of imports from established importers to actual users had the effect of depriving the established importer and conferring the benefit on the actual users. Developing of production in the country and consequent reduction in the quantum of imports also took away the right of importers. He said, "it is now settled practice that Government had a right to interfere with these rights, of course, for purposes of public policies." The Secretary stated that "the other difficulty which arises is that the STC need not, from the beginning be the most efficient or be the most experienced importer of that product. Now, it may be that there are one or two very good officers in the STC who know something about raw wool. But, it will be too much for them to claim that they know as much about the qualities—the grades, behaviour of the wool market—as people who have spent their life time in it." This difficulty, he added, was overcome by the STC by "appointment of Advisory Committees or in the initial stages, by associating experienced importers with the work of import commodities." Thirdly, sometimes there was an error of judgement. For instance, the world market price of copper was so fluctuating that it

was difficult to make a precise forecast. The STC sold at "Pool price". Where the price was higher, people criticised the STC but when the price was less, nobody complimented the Corporation.

3.16. Asked whether the STC would consider establishing its own department or machinery to forecast or draw up estimates instead of depending on others, the Secretary stated "STC's forecasting will be as much liable to err as anybody else's". He said, "so I cannot guarantee that there will be no mistakes in future but there will be better forecasting. Even on the old forecast you will find if you go through the records that this complaint of over importation boils down to 2 or 3 products on two or three occasions over a period of 10 years of STC's existence."

3.17. The Committee pointed out that it was represented to them that it was inconceivable that an organisation could develop expertise in all commodities and enquired whether it was not a fact that centralised buying was an irresponsible buying leading to delays and disadvantages to the consumer. The Secretary stated, "I do not accept that buying through a centralised organisation like the STC is necessarily buying by an inexperienced or less experienced buyer. I recognise that when it is centralised, decision making is delayed."

3.18. He added, "STC may have made a wrong purchase but still, they learnt from that experience whereas an individual trader may have learnt for himself only, and not for the trade as a whole." He further stated, "It is not that mistakes are not there and delays are not there. On the whole if you compare, the STC has been more efficient." He claimed that in regard to raw wool, for the same amount of foreign exchange, STC had been able to buy a larger quantity.

3.19. When pointed out that the STC's handling of the sulphur trade was not a very happy experience because STC paid higher price for it than what the private trade was paying before the STC took over, the Secretary stated that no experienced importer was able to locate even those sources of supplies which the STC could find out through the method of trial and error. He claimed that "through the method of trial and error, it worked itself into a position that throughout the year the fertilizer industry had no trouble at all with the sulphur trade. From that period, the international trade in sulphur has begun to respect India and the STC as one of the major factors in international trade."

3.20. On being asked as to what measures the STC had adopted to ensure that the benefit of canalised imports went to the consumers and medium and small scale industries and was not exploited by the big

industrialists, the Secretary informed the Committee that canalisation itself was one such measure. Canalisation meant that one should be not able to exploit the other. He added that sometimes the other party might take undue advantage of STC's ignorance but it grew wiser by passage of time and experience.

3.21. The Committee agree that canalisation is no doubt a question of policy which Government was only competent to decide. They would, however, suggest that the canalisation of import of a commodity through STC may be done if it serves the public interest. They would also stress that before canalisation of import or export of commodities was decided upon all the important factors including the capacity of the Corporation should be taken into consideration. They recommend that after canalisation is decided upon, the Government must exercise vigilance to see that it served the purpose for which it was undertaken. The Committee would also like that the reasons leading to the decision for canalisation of import or export should be made public so that the traders belonging to Public and private sectors were fully informed of the Government's intention and no room for misunderstanding was left in the minds of public. The Committee feel that after canalisation through STC has been decided by the Government, greater responsibility devolves on STC to ensure that users' requirements were met satisfactorily, regularly, promptly and at competitive rates.

(iii) *Trade with East European Countries.*

3.22. The Memorandum of Association of the State Trading Corporation provides that one of the objects for which the Corporation was established is:

"To organise and undertake trade generally with State Trading countries as well as other countries in commodities entrusted to the Company for such purpose by the Union Government from time to time and to undertake the purchase, sale and transport of such commodities in India or any where else in the world."

3.23. Thus, one of the major aims of the STC was to develop trade with East-European countries. The Committee, during evidence, asked the Secretary of the Ministry whether the STC had been able to fulfill the Government's expectations in that regard. The Secretary of the Ministry stated that import trade from East European countries handled by the STC had increased from 11.3 per cent in 1966-67 to 18 per cent in 1967-68. When his attention was drawn to the representation received by the Committee that the items imported from East-European countries did not compare well in quality with goods, imported from

Western countries, the Secretary stated that the question really was whether one was "buying the right thing for the right price and from the right source." When deciding about the source, one had to see whether one had the necessary foreign exchange or not. For instance, in the case of zinc imported from Russia, India had to pay 25 per cent more than what would have been payable had India imported zinc from some other countries. But, he added, as free foreign exchange was not available, there was no other alternative.

3.24. The Secretary of the Ministry also informed the Committee that the trade with East-European countries had reduced India's debt burden. It had increased the availability of goods which were needed for developmental purposes. Experience gained by entering East-European markets had enabled India not only to expand trade with those countries but also to tap other foreign markets.

Diversion of Trade

3.25. The Committee enquired whether it had come to the Government's notice that some of the East-European countries were re-exporting the goods imported by them from India. The Secretary of the Ministry stated that "at the most today, one or two per cent of our trade was getting diverted." He added that sometimes, even diversion served the purpose. For instance, India could not export jute gunny bags directly to Western Europe because Pakistani competitors were able to underquote. Though India did not underquote, East European countries were prepared to buy from India at the prevailing prices for reasons of their commercial policy and sell a part of their purchases in West Europe at lower prices. India had, thus, been able to meet the Pakistani competition indirectly in the West European markets. The Secretary added, "So, in this particular case, it has enabled us to meet the Pakistani competition indirectly in the West European markets. But, by and large, if the diversion is practised on a wide-scale, it could lead to the erosion in the unit value of our exports. I am in a position to assure the Committee that the problem is completely under-control and diversion does not lead to erosion of our unit price in the case of any commodity and in the case of any market."

3.26. The Committee enquired whether diversion was an outcome of planning. The Secretary stated, "Limited diversions are incidental to international trade. Under the ordinary principles of international trading, it was quite open to a buyer of goods to sell it to whomsoever he wishes to". He observed that if diversion was practised on a wide scale, then the benefits of rupee trade could be eroded. He claimed that the STC had been able to keep diversion within tolerable limits by (i) taking up specific cases, which came to notice, with the Government concerned and (ii) through observation control at some ports in West Europe like Rotterdam and Hamburg. The Secretary admitted that "it

is quite possible that in tea and jute may be one or two cases—imports made for domestic consumption might have been exported. Sometimes they explain that they have made over imports—when they make over imports they export it elsewhere.

3.27. During evidence before the Committee it was mentioned that Indian goods exported to certain East-European countries got diverted to West European countries. The Committee trust that Government would take necessary steps to ensure that this type of re-export is 'limited' to the extent that is incidental to international trade and is carried out with the knowledge of Government.

Price for Exports ..

3.28. The Committee asked about the views of Government in regard to the representation received by them that the S.T.C. had not been able to obtain best price for Indian exports to the East European countries. The Secretary stated that the Corporation was in a better position than individual buyers to determine what was correct price and it had the power to influence or to pressurise the prospective sellers in reducing and fixing prices.

3.29. In reply to a similar question the Corporation stated in a written note as under:

"It is not correct that S.T.C. has not been able to obtain the best price for Indian exports even in trade with the East European countries. Indeed in a number of cases, for instance, grey cotton textiles, footwear and woollen knitwear, the Corporation has been able to obtain higher than international prices. The price at which export sales are concluded depend upon supply and demand position and other factors like quality specifications and delivery schedules and our commercial judgement as to the maximum level at which Indian goods can secure a foothold in those countries in competition with other suppliers."

3.30. Asked whether any special machinery had been set up to ensure that India got appropriate price for its exports and did not pay higher price for imports from East-European countries, the Corporation stated: "As far as we know no specific machinery has been set up merely to ensure that India gets appropriate price for its exports to, and does not pay higher price for import from East-European countries." The Corporation further stated that its share in the total foreign trade of the country is relatively small; nevertheless in order to ensure that most economic use was made of its resources, sales and purchases were made at reasonable prices and in regard to overall supply and demand position. The Corporation have also stated that they had recently set up

a Buying Committee which consisted of three Marketing Directors, one Finance Director and one Economist (who is expected to join shortly) with Divisional Heads and Marketing Managers in attendance. This Committee met every week and was expected to take decision in respect of purchases of the Corporation with reference to available resources, prices, timing etc.

3.31. In regard to exports it had been stated that where back to back contracts for supplies were entered into with parties in India against export contracts with foreign buyers, trade operations were conducted by the Marketing Divisions concerned under the overall guidance of the management so as to secure most attractive terms. In regard to other export contracts the Buying Committee would supervise purchases where:

"(i) For servicing export contracts raw materials have to be procured for processing or conversion into manufactured goods intended for export e.g. semi-tanned or tanned leather; or, where

(ii) Raw material has to be purchased for taking a position in the market either for stock, piling for price stabilisation or for eventual exports."

3.32. The STC further stated that export sales are made on a competitive basis having regard to the best obtainable price in all markets including East European countries.

3.33. The Corporation have made major exports to, and imports from East European countries during the years 1965-66 to 1967-68 of the following value:—

	(Rs. in lakhs)		
	1965-66	1966-67	1967-68
Exports	13,12	30,99	23,57
Imports	46,19	67,85	115,83

3.31. Whereas, the total exports to, and imports from, the East European countries and STC's share in that trade during 1967-68 were:—

	(Rs. in lakhs)		
	Total (from/to India)	STC's share	Percentage of STC's share
Exports	22458	1031	4.6
Imports	20301	3657	18

3.35. The Committee note that the imports from East European countries have increased from Rs. 46.19 lakhs in 1965-66 to Rs. 115.83 lakhs in 1967-68 and exports to those countries have gone down from Rs. 30.99 lakhs in 1966-67 to Rs. 23.57 lakhs in 1967-68. The Committee feel that this sudden set back in STC's trading activity with East European countries has produced considerable imbalance in the imports and exports and deserves prompt investigation by the Corporation. More vigorous and concerted efforts are needed on the part of STC to increase Indian exports to East European countries and also to explore new markets in that area for the various semi manufactured and manufactured Indian goods. The Committee suggest that the Corporation should ensure that the country obtains the appropriate price for its exports and does not have to pay higher price for imports from East European countries.

3.36. They appreciate the setting up of a 'Buying Committee' for the purpose of taking decision in respect of purchases of the Corporation with reference to available resources, price, timing etc., and hope that this Committee would also ensure that the country gets best price for exports and makes purchases of standard quality and specifications at the most competitive rates.

B. Exports

3.37. The export activities of the Corporation fall within the following main groups:—

1. Railway wagons and equipment;
2. Engineering goods, including machine tools and manufactures of small industries;
3. Chemicals including salt, drugs and pharmaceuticals;
4. Consumer goods, like (a) leather footwear and components, (b) wigs, wiglets and other human hair products and (c) knitwear, textiles and garments;

5. Agricultural products, like bananas, fresh fruit, fruit juices, rice and pulses; and

6. Cement.

(i) *Railway wagons and equipment*

3.38. The STC initially embarked on a scheme of export of railway wagons particularly to one of the East European countries was earlier mooted due to the fact that India have bilateral trade agreements provided for balanced trade and payment in non-convertible rupees. Subsequently activities were extended to cover export also to countries in Asia and Africa. The details of the contracts already secured by STC and their value are as follows:—

Sl. No.	Name of the country	Quantity & Quality	Value approx.
1	Hungary	500 Four Wheeled Flat wagons	Rs. 2.5 crores
2	Ceylon	40 Bogies petrol Tank wagons	Rs. 32 lakhs
3	S. Korea	600 Hopper Car 450 Tank Car	Rs. 7.56 crores
4	Burma	14 Oil Tank Wagons	Rs. 7.5 lakhs
5	Burma	5 Metre Gauge Locomotive Boilers	Rs. 41 lakhs
6	Burma	Loco Components	Rs. 32,000
7	Ghana	12 Vacuum Reservoirs	Rs. 2312
8	Nigeria	12 Injectors	Rs. 19,000

3.39. The Corporation have also signed a Protocol with USSR for supply of Gondola type wagons. The Protocol envisages supply of 2000 wagons in 1970 progressively increasing to 10,000 wagons per year in 1975. It has also submitted an offer to Uruguay for the renovation of 220 km. of track, regirding of bridges and supply of wagons. A tender for supply of Bailey bridges and erection equipment to Taiwan valued at Rs. 60 lakhs, has also been submitted by the Corporation.

3.40. The Committee noted that the supplies of wagons etc. to Hungary and S. Africa had been delayed. The Corporation explained that mostly the delays had been due to reasons "beyond the control of the manufacturers or ourselves, though every effort was made to minimise the effects to the extent possible. If strikes|lockouts take place in factories engaged on manufacture for exports, delays for such reasons are inevitable and nothing can be done by us. The manufacturers

have also to acquire greater experience so that the problems in the manufacture of sophisticated engineering equipment to foreign standards can be reasonably anticipated and delays avoided, by keeping a little margin in time in reserve. The STC has also had to make special efforts in chasing the steel manufacturers to ensure timely supplies of steel sections plates and sheets."

3.41. During evidence the Chairman, STC, informed the Committee that a STC tender for export of "Bailey Bridges" to Taiwan was sent through the Garden Reach Workshops, Calcutta, believing it was the lowest. On enquiry STC told the Taiwan authorities that their tenderers had "sufficient experience although they had not exported Bailey Bridges earlier." This contract was later given to another firm on the ground that the tenderer had no experience in this field.

3.42. The Committee were also informed that STC incurred a loss of Rs. 65,000/- on the export of Oil Tank wagons due to devaluation.

3.43. The Committee note that STC has been able to explore markets for the export of Railway Wagons, but they are concerned to find that supplies in respect of Hungarian and South Korean orders were delayed. Non-adherence to time schedule for delivery of goods may affect international goodwill affecting the Corporation's exports to new overseas markets.

3.44. The Committee feel that till such time as the manufacturers have acquired adequate experience of manufacture of sophisticated engineering equipments, it would be advisable to keep some margin of time in reserve for future contracts. For existing commitments, the Corporation should spare no pains to honour the existing time schedule, consistent with the required standard and specifications. They also feel that markets of developing countries in Africa and Middle East need be tapped to step up export of engineering products.

(ii) Engineering Products

3.45. During the years 1964-65 to 1967-68, the Corporation exported Engineering Products of the following values:—

	Rs.
1964-65	2,500
1965-66	33,000.00
1966-67	1,34,000.00
1967-68	7,720.00

3.46. In 1968-69, the Corporation hoped to export Engineering Products worth Rs. 39.29 lakhs. During evidence, the Chairman, STC, explained that the fall in value of exports in 1967-68 was due to a change in the system of accounting. He added "We do not take credit now in our figures for indirect trade. We take credit for only direct trade."

3.47. From the annual Report of the STC, for the years 1965-66, it was noted that the Corporation had drawn up a Five Programme to give a further fillip to the export of engineering goods. According to the programme, a target of about Rs. 2.70 lakhs was fixed for the year 1966-67 with an expectation to go up every year and rising up to Rs. 800 lakhs from the year 1970-71. Since the exports for the year 1966-67 were only of the value of Rs. 134 lakhs i.e. nearly half of the targetted figures, the Committee enquired on what basis the targets were fixed and what were the main reasons for the shortfall in actual exports. The Corporation has in a note explained that the estimated target figure of Rs. 2.70 lakhs was subsequently revised to Rs. 130 lakhs and hence there was no shortfall. The Corporation further stated: "STC is to step up exports of engineering goods which have good potential to earn much needed foreign exchange. Export of engineering goods is undertaken by the Corporation more from promotional angle than the profit angle as they are non-traditional items for exports. STC's service charges have, therefore, been kept as low as possible in order to maintain continuity of exports by making the prices competitive in the world markets."

3.48. In reply to a query, whether any complaint had been received about the quality etc. of the engineering goods exported during the last five years, the Corporation have stated that no complaints about the quality had been received.

3.49. The following statement indicates the number of engineering items exported and the countries to whom exported, from 1964-65 to 1967-68:

Year	No. of items exported	No. of countries to whom exported
1964-65	1	1
1965-66	6	5
1966-67	18	16
1967-68	3	4

3.50. Thus in 1967-68 the exports of engineering goods not only went down in value but also in items and to countries.

3.51. The Committee suggest that the State Trading Corporation should enlist the assistance of the Export Promotion Councils, leading manufacturer organisations and make greater use of the field services available to them through their show rooms and foreign offices and draw up a concrete programme for increasing exports. The emphasis should be to increase the exports in non-traditional items particularly engineering goods, in which the country has developed impressive capacity. Servicing facilities, particularly for engineering goods, should also be arranged so as to assure the customers of after sales service.

(iii) *Consumer Goods*

3.52. During the last four years there has been a sizeable increase in the export of consumer goods as is evident from the following figures:

Year	Value of Consumer Goods exported
1963-64	Rs. 140 lakhs
1964-65	Rs. 570 lakhs
1965-66	Rs. 740 lakhs
1966-67	Rs. 1183 lakhs
1967-68	Rs. 806 lakhs

3.53. For the year 1968-69 the Corporation has fixed a target for the export of consumer goods to the value of Rs. 20.68 crores.

Fall in the value of exports in 1967-68 had been explained by the Chairman, S.T.C., to be due to change in the system of accounting of the Corporation.

3.54. The consumer goods include footwear, textiles cotton and woolen, raw wool, wigs, wiglets etc.

(a) *Footwear*

3.55. S.T.C. has exported footwear during the last three years of the following value:—

1965-66	Rs. 155.1 lakhs
1966-67	Rs. 571.9 lakhs
1967-68	Rs. 515.0 lakhs
1968-69	Rs. 525.0 lakhs

3.56. Thus there was a decline of about Rs. 56.9 lakhs in the exports in the years 1967-68 and in 1968-69 of Rs. 46 lakhs as compared to the year 1966-67. Asked what were the reasons for this fall, the Corporation has stated:—

“As regards the comparison between the figures of 1966-67 and 1967-68, it may be pointed out that as a result of the change in parity rate of Indian rupee on 6th June, 1966, the contracts with USSR were automatically revalued by an enhancement of 47.5 per cent. This revaluation is reflected to a great extent in the figure of 1966-67. The year 1967-68 represents the first year after devaluation where the value of exports reflects the actually negotiated contract quantities and prices of our exports to the East European Countries”.

3.57. The Corporation has also stated that in 1966-67 M/s. Raznoexport, Moscow, who were by far the largest buyers of Indian footwear, had placed a repeat order for 3 lakhs pairs of shoes for supply in that year, besides their initial order for 10 lakhs pairs of shoes. They had also placed an order for 5.95 lakh pairs of chappals on S.T.C. in the same year. Expectation for getting a repeat order for shoes and chappals from these buyers in 1967-68 did not materialise.

3.58. The Corporation was, however, successful in finalising contract for the export of 2.20 lakh pairs of shoes to Bulgaria. This was the largest single order entered into by India with the Bulgarian buyers for the export of this item.

3.59. The above circumstances contributed to the shortfall of about Rs. 40 lakhs in 1967-68 compared to the exports in the preceding year.

3.60. In response to the Committee's query the Corporation furnished the following statement indicating the value of claims lodged by USSR buyers in regard to shoes exported to them during the last five years:—

Year	Value of contract	Amount of claim
1963-64 . . .	Rs. 153.4 lakhs	Rs. 59209
1964-65 . . .	Rs. 153.47 lakhs	Rs. 71400
1965-66 . . .	Rs. 153.02 lakhs	Rs. 319876
1966-67 . . .	Rs. 460.00 lakhs	23348 pairs*
1967-68 . . .	Rs. 375.00 lakhs	32343 pairs*

3.61. During evidence, asked whether there were any complaints about the quality of shoes exported, the Chairman, STC, stated that there were complaints about the shoes exported to USSR. He added that "complaints were to the effect that upper leather of the Indian shoes creased very quickly; soles were not water proof, stitching and workmanship was poor." He informed the Committee that as buffalo hide instead of cow hide was used, the sole was not wholly water proof. He, however, added that about 70 per cent water resistance had been achieved. Efforts were being made to improve the quality of upper leather stitching and workmanship. He disclosed that the Russians is made only a sample check in India and that they had "the right of final quality inspection at the time of delivery of goods". The Russians gave to their buyers the "wearing quality guarantee of 45 days." It meant that if the customers found fault they could return the shoes within that period. It was likely that some of the shoes might be returned to India though the Corporation was trying to persuade them to keep the goods at lower price.

3.62. It was added that Russians bought about 30 million shoes round the world. They were also going to West Europe, Britain, France and Italy. The Russians preferred mechanised shoes because they were cheaper and uniform in quality.

3.63. The Committee note that the complaints of the Russian users were to the effect that leather of the Indian shoes was not water proof,

*With the change in the terms of the contract from these years, the USSR buyers had indicated that they would return shoes to India.

stitching and workmanship was poor." As far as quality of leather and the water proofing are concerned, the Committee suggest that the assistance of the Central Leather Research Institute may be elicited. The Committee see no reason why it should not be possible to improve the quality of workmanship with the experience that the S.T.C. and its suppliers had gathered over the years. The Committee feel that since Russia offers a potentially promising market for export of shoes, no effort should be spared to organise the exports on sound basis to ensure supply according to specified quality so as not only to reduce to the minimum the rejection of shoes but also to win larger orders.

Mechanised Unit for Manufacture of Shoes

3.64. The Committee were informed that the Corporation intended to set up a mechanised foot wear-cum-tannery unit for the manufacture of shoes. The total financial outlay, including the working capital, for the project was placed at Rs. 2.15 crores. Out of which foreign exchange contribution would be to the tune of Rs. 58 lakhs. The Corporation also hoped to reduce the financial outlay by eliminating certain processes in the tannery.

3.65. The Committee enquired why it has been decided to set up a Mechanised Unit for the manufacture of shoes by STC. Was the industry in India not able to meet the requirements of the foreign buyers? The Ministry of Foreign Trade and Supply in their note stated:

3.66. "S.T.C. is the largest single exporter of shoes to USSR. It also exports footwear to other East European countries. The footwear industry in India, apart from one or two large units, consists of a large number of small units which are under-mechanised. The large units have not evinced adequate interest in the export of footwear. The footwear manufactured by the small fabricators do not compare favourably with the products of the highly mechanised units in countries like U.K., Italy and France. The cost of production of footwear at the mechanised units is also lower than that of footwear made by hand."

3.67. S.T.C.'s new marketing efforts in the U.S.A. had also emphasised the need for improving quality. In these circumstances it was considered advisable for the Corporation to open its own export-oriented mechanised units to cater to the Russian demands, and also break into new markets in the West.

3.68. The Committee are concerned to learn that the State Trading Corporation propose to go in for a manufacturing unit for shoes. The Committee feel that the main objective of the Corporation, as its name suggests, is trade and normally it should not on its own undertake manu-

facturing activities unless they were operating in exceptional circumstances. Moreover, the State Trading Corporation has been claiming over the years that it provided a much needed channel for small and medium scale manufacturers of shoes to market their products. The Committee would, therefore, suggest that the State Trading Corporation should enlist the support of Central Leather Research Institute as well and also of small scale service centres and other related organisations in order to bring about the desired improvement in the quality of manufacture. If the Soviet customers insist on having machine made shoes, the State Trading Corporation should examine how far the existing units who have experience of exporting quality shoes to Soviet Russia could be assisted to mechanise their production through the assistance of other Government organisations.

3.69. The Committee would like Government to give the matter serious consideration. As pointed out by the Committee later in the Report, the experience of State Trading Corporation in manufacturing line has not been a happy one.

(b) *Human Hair, Wigs*

3.70. Export of human hair product was formally canalised through the S.T.C. on the 19th August, 1966. In 1966-67 and 1967-68 the STC exported human hair of the following value:

Year	Value
1966-67	67,00 kg. Rs. 1.1 Crores
1967-68	121,000 kg. Rs. 1.46 Crores

3.71. The S.T.C. set up a wig factory in Madras in collaboration with a firm of wig manufacturer of Hong Kong. The Corporation also entered into a seven years agreement for the marketing of wig products with an American firm. The agreement with the latter provided for the purchases of about 22.5 million dollars during the period of the agreement.

3.72. Main terms and conditions of the Agreement with M/s. Lion Rock Trading Co., Hong Kong, and M/s. Fashion Tress Inc. U.S.A. were as under:—

(1) M/s. Lion Rock Trading Co. (LRTC) will render all assistance for setting up of a plant for the procession of human hair and the manufacture of wigs and other products made out of human hair and will also assist in selecting and procuring the necessary plant and machinery from abroad and installing the same.

(2) The Company will give all assistance in processing human hair in all colours and the manufacture of hair products—both machine made and hand made—according to the latest fashion prevailing in the world markets.

(3) The firm will disclose to the STC all necessary formulae, technical know-how, mystery of trade, secret process etc. in connection with the manufacture of finished products. The firm will depute to India five technicians for this purpose.

(4) The LRTC will render all assistance to the Corporation for marketing the Corporation's products in the world markets and will also make available all marketing intelligence required in this connection.

(5) In consideration of the assistance to be rendered by the Hong Kong firm, the STC shall pay a royalty of 5 per cent subject to Indian taxes on the export sales turnover and shall also bear the income tax, the house rent, other living expenses, travelling charges etc. of the technicians deputed by the Hong Kong firm to India.

Agreement with M/s. Fashion Tress Inc. USA.

(1) The Corporation shall grant exclusive right to the firm to import and distribute Wig India products in USA and Canada.

(2) Fashion Tress agreed to purchase goods of the value 1.5 million dollars in 1970 and 4 million dollars in each successive calendar year.

(3) In the Schedule to the agreement, the prices for Wig India products were stipulated.

(4) The agreement was valid for a period of 7 years commencing from 1967.

3.73. A non-official organisation represented to the Committee that "human hair and hair products were processed and manufactured by cottage industries. The devaluation of the rupee and the ban imposed by USA on import of hair products manufactured out of hair of Chinese origin had given a competitive edge to Indian manufacturers and exporters over their better placed and long established rivals in other countries. As a result of canalisation the private manufacturers and exporters were most adversely affected. STC has also set up factory in Madras with foreign collaboration. Unlike other items whole exports were canalised, the private exporters were not allowed to continue in business even as business associates, except for limited export of raw hair subject to approval of the Port Screening Committees. Thus the

canalisation has virtually amounted to nationalisation. It is not understood why private exporters of human hair products should not be allowed to continue their exports on equal terms especially when double drawn raw human hair, which constitute the basic material for wigs and wiglets, is being allowed exportation."

3.74. Asked about the comments of Government and the Corporation in this regard the Corporation stated: "While a few dealers and exporters were engaged in the manufacture and export of human hair and hair products prior to STC's entry into the trade, there was no organized wig industry in India at that time. The nature of the industry is such that the latest scientific processes are required to be employed in the chemical processing of hair etc., necessitating foreign technical collaboration. Since there were no wig manufacturing units employing up-to-date scientific methods, it has not been possible for Wig India to consider the enlistment of any local firms as their associates. However, in so far as the export of processed human hair is concerned, this is already canalised through the S.T.C. and the Corporation would welcome any request from the private trade for a closer association with themselves in this effort."

3.75. In regard to the manufacture of wigs undertaken by the Corporation, the Chairman, STC stated, during evidence, that it was a highly competitive market in which South Korea and Hong Kong had been entrenched for long. The STC, he added, took over manufacture of wigs in order to upgrade what was being exported as raw hair at the minimum price. The advisers taken from Hong Kong had given good service and the Corporation paid back only 5 per cent as royalty. So far as distribution arrangements in the USA were concerned, the witness stated that they let the Corporation down. He disclosed that the distributors had gone into liquidation and an officer of the Corporation was making new distribution arrangements in the USA. The witness also stated that it was proposed to diversify the distribution to Western European as well as American markets. He was confident that the Corporation would be able to get the business going well.

3.76. Asked whether any new markets had been tapped, the witness stated that recently there was an exhibition in Finland and it was found that there was a great demand for wigs. When pointed out that the Corporation had estimated to sell wigs worth 1.5 million dollars in 1968, 2 million dollars in 1969, 3 million dollars in 1970 and 4 million dollars in 1971, the witness stated that "the performance was nowhere near the estimates, partly because of quality problems and partly our party was not strong as we thought that they would be."

3.77. Asked about the financial position of the wig factory, a representative of the Corporation stated that in 1967-68 the factory made a nominal profit but in the current year, due to slackening in the external demand and the unsatisfactory marketing arrangements, the factory was likely to suffer a slight loss. The Chairman, STC, added that the factory was "over-staffed and their productivity was low". He added that he was looking into the question whether it was possible to diversify the production and take up the manufacture of ready-made garments for which there was a growing demand. In reply to a query, he, however, stated that the Corporation had no plans of rushing into ready-made garments. It had only started to take some interest in the field and was negotiating with one of the defence factories in Kanpur.

3.78. The Committee regret that the wig trade suffered set backs and its export performance was 'no where near the estimates.' The quality of exported product and the performance of the foreign firm as distributing agents were far from satisfactory and the firm went into liquidation. The Committee feel the proper assessment of the firms, financial standing and capacity to handle the business was obviously not made before the agreement was signed. The Committee also feel that the background under which agreement with the firm was signed, needs to be investigated. Moreover, STC is a trading Corporation which should normally refrain from indulging in the manufacture of products.

The Committee recommend that:—

- (i) the working of the wig factory should be revitalized with a view to explore the possibility of utilising its full capacity and diversification should be in a related line with assured market and without too much capital investment and overstaffing;
- (ii) strict inspection of quality of goods for export be enforced;
- (iii) assessment of financial stability and reputation of distributing agents abroad be effectively made before entrusting the distribution work in future.

The Committee note that the Corporation has attempted to find new markets by holding exhibitions etc., in Finland and hope they would succeed.

(iv) *Agricultural Products*

(a) *Export of Bananas*

3.79. The Committee noted that the Corporation suffered a loss of Rs. 24 lakhs on the export of bananas during the years 1965-66 to 1967-

68, as would be evident from the following yearly loss figures:—

	(Rs. in lakhs)
1965-66	6.50
1966-67	14.05
1967-68	3.17

3.80. The Committee, therefore, enquired whether a detailed investigation was made before the export of bananas was undertaken. The Corporation stated in reply thereto that the export of bananas was taken up by the STC after detailed investigations had been made by the Banana and Fruit Development Committee, regarding techniques of export and transport arrangements etc. It was fully realised that export of bananas was an organised process and every stage of export operation from plantation of bananas in the gardens to their final delivery to the overseas buyers required meticulous planning and coordination upon a time schedule for more precise than pertained to any other major commodity of the world trade. The Banana and Fruit Development Committee set up a Technical Panel to consider various technical aspects of export of bananas including packaging and antifungal treatment etc. in order that the consignments of bananas might be prepared on scientific lines and delivered to foreign buyers in completely green condition. The Technical panel of the Banana and Fruit Development Committee prepared a brochure entitled "Techniques of Banana Export", wherein time schedules for export operations had been laid down. Similarly a Study Group on Rail Transport was set up with the officers of the Railway Board, Railway Standards and Designs Organisation and CFTRI to lay down arrangements for mail transport of bananas. The time schedules were accordingly prepared for packing/cutting and transportation of bananas so as to co-ordinate them with the schedules laid down for Railway transportation and arrival of the ship at the docks. Detailed schedules of work, laying down time for each operation so that bananas could be loaded into the ship within 36 hours of cutting from plants, were prepared and circulated to the growers. Details of the programme were discussed with growers and demonstrations of the procedures to be followed were arranged with the assistance of the officers of the CFTRI and the State Departments of Agriculture.

3.81. The Corporation further stated that the export of bananas in experimental stage had been taken up by way of commercial research and various methods of packaging in wooden crates, polyethylene bags or card-

board cartons and transportation from producing centres to the port of shipment by trucks and by railway wagons etc., were tried during various shipments.

3.82. In reply to a question whether any analysis of the losses suffered had been made, it was stated: "Analysis of losses has shown that they not due to spoilage of bananas but mainly due to high cost of packaging and ocean freight. Efforts have since been concentrated on reducing the cost of the packaging and ocean freight. However, cost of packaging has increased during the last three years because the packaging pattern in the world banana market has been changing very rapidly and India had to spend more for meeting the requirements of highly sophisticated markets by switching on to carton from polyethylene tubes."

3.83. During evidence, Chairman of the Corporation stated that the STC began export of bananas by finding market in Russia. But when there was trouble in Suez, the Corporation tried to find market in Japan. Japan wanted bananas of specific length and weight. As the demand for bananas was enormous, the S.T.C. was examining the question from all angles.

3.84. While examining the Ministry of Foreign Trade and Supply, the Committee enquired was it not advisable, in view of huge losses suffered by the STC to entrust export of fresh fruits to a separate organisation. The Secretary of the Ministry replied that the Ministry had no settled views on that at the moment. There was a co-operative organisation which had done excellent work in the export of bananas to neighbouring countries and had made profits. He added that "the present thinking is that we will not canalise the export of bananas and we will maintain the present system".

3.85. The Committee note the efforts made to export bananas by way of 'commercial research' but are concerned over the heavy losses (Rs. 24 lakhs) this venture has suffered. They agree with the present thinking of the Government that canalisation of this item need not be undertaken for the present. For the existing trade, it would be advisable for the Corporation to bring down packing and freight expenses and ensure export of bananas of specified quality.

(v) *Losses on Exports*

3.86. The STC has suffered a loss of more than Rs. 1 lakh during the

years 1965-66 to 1967-68 on the export of 15 items as indicated below:—

(Rs. in lakhs)

Commodity Exports	Loss		
	1965-66	1966-67	1967-68
1. Bananas	6.50	14.05	3.17
2. Deoiled Cake	..	1.86	..
3. Coir Yarn	..	1.56	..
4. Cotton Belting	..	9.28	..
5. Refrigerators	..	2.34	..
6. Figured & Wired Glass	..	2.88	1.00
7. Tyres & Tubes	..	4.51	..
8. Walnuts	7.91	..	..
9. Gum Rosia	6.77	..	2.70
10. Raw Petroleum Coke	3.29
11. Art Silk Fabrics	11.44
12. Cotton textiles	3.05
13. Cotton Yarn	6.29
14. B. Twills/Jute Twine	4.44
15. Jute Bags	1.11

3.87. The Chairman informed the Committee that losses on exports were "developmental losses". He added that "our policy is to see if after the initial development, there is likelihood of making any profit then we can go in for it. But if we are going to go on incurring losses, year after year, then we leave it at that".

3.88. The Committee observed that during 1965-66 to 1967-68, STC had also suffered losses mostly on the export of non-canalised items. The representatives of STC stated that "these losses are really to our credit rather than to discredit". He added when STC entered new markets, they gave a little price support or under wrote the initial losses e.g. items like chloride hydrate, detergent powder, figured and wired glasses, brake lining etc. He further stated "we have by approaching the importers in other countries been able to improve the unit price and earn small profits. This we have done more effectively on canalised items. That is due to the fact that only one organisation has been exporting them."

3.89. The Chairman informed the Committee that while calculating the losses the cash subsidy was also taken into account. "Cash subsidy", he said, "went to the manufacturers through the STC": The representative of the STC added that "import incentive" also went to the manufacturers and not to the STC.

3.90. The Committee were told in this connection, that one of the main problems which the STC faced was "under cutting". As the Indian manufacturers quoted low, the buyers hesitated to give the contract because they also thought that manufacturers would not be able to supply the things in time.

3.91. The Ministry too, explaining the reasons for losses on exports, have stated:

"There were losses in the export of individual items as they were mostly in the nature of promotional or developmental efforts. STC had to assume responsibilities for the exports of a number of items even though it was clear to STC that initially they would result in losses. However, STC's efforts were to develop an export trade in these items on an economic basis in the long run. A typical case is that of the export of bananas. Export trade in this item had in the past been limited only to neighbouring countries in the Persian Gulf. STC stepped in to organise export of bananas to USSR and Japan on a experimental basis. It has acquired valuable experience in cutting packaging and transportation, and hopes to develop the export trade in bananas over a period of time on commercial basis."

"STC had to incur losses in some cases, where the items for exports were new or where there was wide disparity between internal and international prices. Examples are Gum-Rosin, figured and Wired Glass, refrigerators, Tyres and Tubes, etc. In some other cases STC had to incur losses to enter new markets."

3.92. The Ministry have also stated that while every effort would be made by STC to avoid losses in its trading activities, losses become inescapable when STC undertook exports which were of promotional or developmental nature.

3.93. The Committee feel that losses ranging from Rs. 5 lakhs to Rs. 11 lakhs on a single item cannot possibly be passed over as just 'promotional developmental' losses. They would like the Corporation and the Ministry to investigate into the losses mentioned above to find out real reasons behind them. They should also devise suitable measures to minimise, if not eliminate such losses in future.

C. Imports

3.94. The activity of STC in the field of imports falls under the following three categories:

1. Items whose imports are wholly canalised through STC.

2. Items which are imported by the STC in addition to the imports made by the established importers and actual users.
3. Indirect imports i.e., where imports are effected by Indian Agents or foreign suppliers.

Canalised Items

3.95. One of the objects of canalising imports through STC is to secure the advantages of bulk import and bring down prices for internal distribution.

Non-canalised Items

3.96. It has been said that under this head imports of such items are arranged which are highly speculative with the object of stabilising their price.

Indirect Trade

3.97. Indirect trade of STC represents trade undertaken by other parties under contracts entered into them with the foreign suppliers or buyers involving their own financial investment but with the approval or association of the Corporation.

3.98. The number of items (i) whose imports were who canalised through the STC, (ii) which were imported by the STC in addition to the imports made by established importers and actual users and (iii) which were imported through STC's associates in foreign countries or Indian agents; during the years 1964-65 to 1967-68 was as under:

		Number of items		
		1964-65	1965-66	1966-67
(i)	Canalised items . .	13	12	15
(ii)	Items imported by S.T.C. in addition to imports by established importers etc. .	13	15	2
(iii)	Indirect Imports . .	..	76	..
		(during the 4 years)		

3.99. In response to the Committee's query the Corporation has furnished the following statement in regard to some of the important

canalised and non-canalised items indicating (i) the price at which they were sold and (ii) the ruling price before their import by STC :
Canalised items

Sl. No.	Commodity	Price before canalisation per M/T	Price after canalisation
1.	Caustic Soda . . .	Rs. 1,000/-	Rs. 720/- per m/t
2.	Soda Ash Light Apps.	Rs. 585/-	Rs. 386
3.	Soda Ash Heavy . . .	Rs. 434/-	Rs. 398/-
4.	Sodium Nitrate . . .	Rs. 4.75 per kg.	Rs. 1.29 per kg.
5.	Mercury . . .	Rs. 5,200/-per flask ex-godown	(i) Upto Dce. 66 Rs. 5800/- per ask x-godown to (ii) Jan. 67 /- Feb. 69—Rs. 5800/per flask ex-godown (iii) **
6.	Coconut oil	Rs. 4370/- per tonne	Rs. 3900 per tonne
	Copra Oil	Rs. 4000 per tonne	Rs. 3260 per tonne
7.	Palm Oil . . .		
8.	Art Silk Synthetic . .	Nylon yarn 15 denier 2nd quality Rs. 141.48 per kg. Nylon Yarn 20 denier 2nd quality Rs. 124.96 per kg.	Rs. 88.00 per kg. Rs. 79.00 per kg.

**From 1st March 69—Rs. 5,900/- per flask ex-godown

<i>Non-canalised</i>			
Sl. No.	Commodity	Ruling Prices before STC imported (in Rs.)	STC's selling price (in Rs.)
1	2	3	4
1.	Calcium Carbide . .	1300 per M/T	1150 per M/T
2.	Urea Technical . . .	950 per M/T	895 per M/T
3.	Sodium Nitrate . . .	2280 per M/T	1500 per M/T
4.	Do.		
	(after devaluation)	3800 per M/T	1700 per M/T

1	2	3	4
5.	Aniline Oil . . .	5100 per M/T	3700 per M/T
6.	Acetone . . .	5120 per M/T	3800 per M/T
7.	Phthalic Anyhydride	5500-6000 per M/T	5000 per M/T
8.	Titanium Dioxide .	7100 per M/T	6500 per M/T
9.	Buryl Alcohol .	5350 per M/T	5250 per M/T
10.	Tallow 1964-65 .	*	2100 per M/T (in drums)
	1967-68		
	Extra Fancy . . .		2200 per M/T (in bulk) 2500 per M/T (in drums)
	Bleachable	}	2150 per M/T (in bulk)
	Fancy		2450 per M/T (in drums)
(The above prices were subject to rebate of Rs. 200/- per M/T for the allottees who lifted the goods within 7 days of the notice given to them of the readiness of goods for delivery and of Rs. 100/- per M/T if lifted within 15 days of such notice of readiness).			

3.100. The Committee note that by and large the Corporation has been able to supply the items imported by it (canalised and non-canalised) at prices not more than the ruling prices.

(i) *Mercury*

3.101. Import of Mercury was canalised through STC in 1961. Main reasons for canalisation were (i) to check the unhealthy tendency of raising internal prices, (ii) to make the mercury available to essential consumers at a reasonable price (iii) to make imports on rupee payment from East European countries (iv) to import from General Currency Area at the most favourable terms and (v) to have the imports

† Since there is an insignificant production of tallow, market prices are not quoted anywhere. However, the internal prices for the tallow in the Bombay Market when STC imported their material was being quoted as follows :

U.S.A Origin 3300 per M/T (in drums) Australian 3500 per M/T (in drums) varieties.

under link/barter deal i.e., on the basis of self generating foreign exchange.

3.102. Profit/loss made on the import of mercury during the years 1964-65 to 1967-68 was as under:

Unpriced and Restricted Publications

(Rs. in lakhs)			
1964-65	1965-66	1966-67	1967-68
17.15	20.76	(—)28.73	6.56

3.103. It was represented to the Committee that the landed cost of mercury imported by STC was Rs. 1000 per flask, whereas its market price was Rs. 6,900. The Committee, therefore, enquired under what circumstances the STC suffered a loss of Rs. 28.73 lakhs in 1966-67.

3.104. The Corporation in a written note explained as under:

"It is not correct that the landed cost of mercury per flask was Rs. 1000. The facts are that in July 1965 taking into consideration the urgent requirements of various actual users STC purchased 2000 flasks of mercury @\$733.60 (£262) per flask CIF Indian Ports. This price was quite attractive taking into consideration the tight position of availability of mercury at that time in the international market and their prevailing international price of mercury. At that time we were importing mercury against funds generated under various barter/link deals. Due to certain reasons the availability of funds was delayed and 1300 flasks out of the above purchase of 2000 flasks could be imported only from middle of 1966 onwards. By that time the international prices of mercury had crashed unexpectedly and at one time were as low as £105 per flask. Moreover various bulk purchasers had been given free foreign exchange licences for import of Mercury after devaluation of Indian Rupee and they were asking STC to supply the mercury at prevailing international prices. It was in these circumstances that STC suffered a loss of Rs. 28.73 lakhs on mercury in 1966-67."

3.105. The Committee during evidence, enquired whether the Corporation tried to get some price concession from the suppliers, in view of the fall in price of mercury in international market. A representative of the Corporation stated that the Corporation had already contracted for about 2,000 flasks of mercury and the suppliers had produced

the mercury. It was, therefore, not possible to ask him to reduce the price. The STC had to fulfil its obligation and for that reason it suffered a heavy loss. In reply to a query, it was stated that the import of mercury was contracted through a bartering agent and that the prices were reasonable and according to the ruling price.

3.106. The Chairman, STC, informed the Committee that in 1967-68, a profit of Rs. 6 lakhs was made whereas in the current year the Corporation hoped to have a profit of about Rs. 15 lakhs on the import of Mercury.

3.107. Asked whether the Corporation did not have an escalation clause that in case international prices went up the local people or actual users would have to pay extra, the Chairman, STC, stated that it was a very important point and it was being discussed with the Ministry and by the Reviewing Committee. It, in fact, concerned the Corporation's pricing policy. He, however, added that on such occasions, it would be a good policy to supply the goods to consumers at a reasonable price rather than at a price the STC bought. He, added "my own opinion is that the Corporation should in most cases take the risk of ups and downs but assure the market a ruling price to keep them competitive."

3.108. While examining the Ministry, the Committee drew attention of the Secretary to the fact that actual users, like the Fertilisers and Chemicals Travancore Ltd., were not getting adequate supply of mercury. The Secretary admitted that "complaint of insufficient supply of mercury was correct." He, however, explained that the period of short age was small. The shortage was due to the fact that no foreign exchange was available during that period. STC, therefore, obtained mercury on a barter or link deal. Secretary added that but for that deal, the period of shortage would have lasted longer.

3.109. The Committee are not satisfied with the explanation given by the Corporation for the loss of Rs. 28.73 lakhs suffered on the import of mercury in 1966-67. They are unable to understand that when mercury was needed to meet urgent requirements in the country, its import was delayed as the funds could not be released in time. The Committee is of the view that the agreement for such heavy imports should not have been agreed to without assuring the availability of required foreign credit/exchange. The Committee also feel that the STC should have explored all means to see how best they could retrieve the position in order to reduce the losses to the minimum. The Committee suggest that:—

- (i) The provision of this agreement should be thoroughly examined and defects or lacunae noticed should be noted to avoid recurrence of such a situation in future;

(ii) The foreign exchange in such imports of urgently needed items should be allocated on priority basis and no delay should be allowed in importing the goods after a contract has been signed;

(iii) Price variation clause may be incorporated in the contracts with international firms which may be invoked in the event of sharp variation in price;

(iv) Timely supply of such imported items should invariably be ensured by the Corporation.

(ii) *Muriate of Potash*

3.110. The import of Muriate of Potash had been canalised through STC since 1957. The imports started from 12,000 tonnes in 1957-58 and had risen to 3,71,860 tonnes during 1967-68. The imported Potash was distributed to consumers through Indian Potash Supply Agency, Madras.

3.111. At the instance of the Committee the Corporation has furnished the following statement giving the quantity of Muriate of Potash imported and disposed off during each of the last five years:—

Sl. No.	Year	Commodity	Qty. imported (in M.T.)	Qty. disposed of (in M.T.)
1.	63-64	Muriate of Potash	90692.00	80546.00
2.	64-65	Do.	79757.00	108916.00
3.	65-66	Do.	142083.00	124312.19
4.	66-67	Do.	181531.261	177761.991
5.	67-68	Do.	372190.525	260477.135

3.112. Asked to indicate the quantity of Muriate of Potash which remained unsold for more than six months, alongwith its value and expenditure incurred on storage etc., the Corporation stated that stocks of Muriate of Potash started accumulating from October, 1967 as was evident from the dates given below:

April—1967	.	.	.	.	.	.	12411 M.T.
May	.	.	.	.	.	.	18981 M.T.
June	.	.	.	.	.	.	19677 M.T.
July	.	.	.	.	.	.	22602 M.T.
August	.	.	.	.	.	.	21013 M.T.
September	.	.	.	.	.	.	34920 M.T.

October	64693 M.T.
November	79204 M.T.
December	91042 M.T.
January—1968	93385 M.T.
February	120334 M.T.
March	125356 M.T.
April	129483 M.T.
May	127208 M.T.
June	133353 M.T.
July	143719 M.T.
August	148018 M.T.
September	175079 M.T.
October	192400 M.T.

3.113. As regards the expenditure incurred on storage etc. it was stated that the incidence on storage rent was estimated at an average of Rs. 3.25 per tonne in 1964, on the assumption that the average monthly carry-over stocks would not exceed 20,000 tonnes at any given time and the period of storage would not exceed three to four months. Until September, 1967 imports and sales were going at a balanced pace. Since October, 1967 however, the position changed. Not only unsold stocks but also the average period of storage got extended beyond 6 to 9 months or more. This was due to the fact that additional imports were arranged by the Ministry of Food and Agriculture without at the same time curtailing imports being arranged by the STC. As a result imports started exceeding consumption and stocks piled up. Stocks by the end of October amounted to more than 1,90,000 tonnes (valued at Rs. 7.60 crores and incidence on storage amounted to Rs. 6,17,500 @ Rs. 3.25 per tonne).

3.114. The Ministry of Foreign Trade & Supply were asked whether it was brought to their notice that the stock of Muriate of Potash had started accumulating from October, 1967 because the Ministry of Food & Agriculture arranged additional imports without curtailing imports being made by STC and if so, what measures did they propose to take to avoid such instances in future. The Ministry in reply, furnished the following note:

“The STC had made representations to the Ministry of Food & Agriculture about the accumulation of stocks. Imports of Muriate of Potash was made by that Ministry through the Department of Supply and the STC. The Corporation was making representations about the accumulation of stock. It was, therefore, decided that imports will be made only by one agency, that is the STC.

The Corporation is now developing its own systems of demand evaluation. It is also instituting an appraisal system where

results and progress can be reviewed every month and every quarter. This measure will pinpoint unnecessary accumulations of stocks and blockage of funds so that timely remedial action can be taken. With the new system being developed by the Corporation it is hoped that instances of this type can be avoided in future."

3.115. The Committee are unhappy to note that simultaneous import of muriate of Potash by two Government agencies without proper co-ordination led to heavy accumulation (1.90 lakhs tons) of the items valued at Rs. 7.60 crores besides storage expenses. They regret that the Ministry of Food and Agriculture did not curtail its imports inspite of representations made by STC about the accumulation of stocks.

3.116. The Committee hope that the decision to import through one agency, namely STC, and with introduction of Appraisal System for demand evaluation evolved by the Corporation will obviate unnecessary accumulation and avoid such a situation in future.

(iii) Nylon/Art Silk Yarn

3.117. Import of nylon yarn was canalised through STC with effect from 5th November, 1966. In its note STC stated that "with the assistance of consultative panel of the industry it has been able to finalise and conclude business with all the suppliers in their countries on very satisfactory terms. The industry has been kept fully in the picture and the distribution of the goods so regulated as to find its way to actual users according to their needs. A happy feature of this programme has been the complete sense of understanding which has been built up between the Corporation and the weavers' association with whose active consultation and approval purchase|distribution arrangements have been made."

3.118. But the views of non-official organisations were quite different to what STC held in the matter of nylon yarn import. In a representation to the Committee it has been stated that "in the import of nylon yarn the Corporation has made large profits but these have not been used for promoting export of art silk and nylon fabrics. The quality of yarn imported and supplied has not been of the requisite standard. Besides, as is evident from the fact that the price of imported supplies had to be brought down, the Corporation could not properly assess the demand."

3.119. In another memorandum it has stated:

"It is reported in the Economic Times of 14th July, 1967, that the STC has bungled in the import of Nylon Yarn and the

nation has to pay for it dearly in foreign exchange. In its anxiety to arrange early import of yarn, the STC seems to have accepted the goods offered to it by the foreign suppliers instead of securing the requirements of the industry. The foreign suppliers have taken undue advantage of lack of expertise about the commodity STC is importing."

"It is common knowledge that different lots of yarn bear different dyeing affinity and cannot be fixed while producing textiles. The STC authorities have displayed a total ignorance on this point."

3.120. The Committee enquired about the comments of the STC on the above representations to which the Corporation replied:

"The Indian Art Silk Industry has been importing in the past only 2nd quality for substandard yarn. The first quality yarn is only used by a few Warp, knitting and Hosiery units. The entire powerloom sector has been consuming 2nd quality yarn and the bulk of imports under old export promotion licences were also for 2nd quality. After STC secured import licences, we had sought advice of the Advisory Committee and Consultative Panel, which represent various interests of trade and industry, and their specific and categorical advice was to import only 2nd quality yarn. In order to make bulk discounts, nylon factories of the world over have a tendency to down grade what is virtually first quality yarn as second quality yarn. We have also imported first quality nylon yarn where advised by the consultative panel. In some press reports it was reported that the yarn imported by the Corporation was not of good quality. The Weavers' associations on the other hand in the most unequivocal terms have complimented the Corporation on the quality of yarn imported by the STC."

"The yarn was imported after making a proper assessment. The prices of the imported yarn have not been reduced to dispose of the stocks. In pursuance to Government directives, we are to fix selling prices of imported nylon yarn at Rs. 1 or 2 below the prices of nylon yarn produced indigenously. The indigenous manufacturers have reduced their prices thrice and STC has, in conformity with Government directives, also reduced the prices."

"As indicated, STC, has constituted an Advisory Committee and a Consultative Panel to advise STC on various matters connected with import of nylon yarn and its distribution to actual users. The members of this panel|committee are knowledgeable persons of the industries concerned representing various interests such as Powerloom, Handloom, Hosiery and Warp knitting sectors. These members advise STC on various matters connected with securing of supplies of proper quality, varieties, types, quantity and prices etc. As a matter of fact the members of the Panel|Committee have from time to time given expression to general sense of satisfaction at the arrangements made by the STC in this regard."

3.121. The STC has further stated: "Nylon Yarn has been imported from four countries namely, USA, Japan, Italy and West Germany under the canalised scheme. It is a technical fact that different lots of nylon yarn have got their own dyeing affinity allowing mixing and dyeing within their own particular ranges. This is true for nylon yarn—imported as well as indigenous. STC has procured bulk quantities from different sources since it is not possible to procure from one source. No complaints regarding dyeing have been received from the trade associations so far."

3.122. The Committee drew the attention of the representatives of the Corporation to the representations made in the Press by the Silk and Art Silk Mills Association, Bombay, that the weaving industry was working on an uneconomical footing and there was no surplus available with the industry which could be ploughed back for modernisation, and asked their opinion in the matter. The Chairman, STC, replied that the Corporation had been misunderstood. He stated that there was internal production and also art silk yarn was being smuggled into the country. With the prices having gone very high at the time of devaluation, in 1966, and the incentive scheme stopped, the STC imported yarn as a balancing factor to meet the demand. He added "The Indian production has been going on very well. It is now running at the rate of 19 tons per day and it will go up to 25 tons per day in a year. We have slackened our imports because there is no need to import that much while the Indian production is going up." He disclosed that the yarn position was now reasonably stable. He further stated: "The real answer would be more and of Indian production." It was added that the STC was in touch with the weavers and spinners and had meetings with them every month.

3.123. As regards the claim of the Silk and Art Silk Mills Association that the production could be raised up to Rs. 20 crores within a period

of five years, the witness stated that it was really a matter of opinion. Estimate of Rs. 20 crores was "over optimistic." During the current year the production was likely to reach Rs. 5 crores which could be raised to Rs. 12 to 14 crores in future.

3.124. When the same question was put to the Secretary Ministry of Foreign Trade and Supply during evidence, he stated: "I think there was a difference of more than 100 per cent., and therefore, it was thought that the best thing to canalise this unforeseen or unintended profits into public channels would be for the STC to charge a higher price." The Secretary added "of course the net result has been that the weaver is deprived of profit. Now the weaver's contention is deprived of profit. Now the weaver's contention is that if he had the profit he would have used it for the good purpose of modernising his weaving unit."

3.125. The Committee are concerned to note the widespread criticism about STC's handling of the import of Nylon yarn and that there were also complaints about the quality of imported yarn. The Committee suggest that the commodities imported to supplement the indigenous production should only be imported after taking into account the indigenous production.

(iv) *Copra and Tallow*

3.126. STC undertook import of copra|tallow in 1967-68. In 1967-68 the world witnessed shortage of copra due to damage caused to copra crop in Ceylon and Phillipine, on account of cyclone and other natural factors. The Corporation, therefore, organised purchases of copra and imported 24,440 tonnes worth Rs. 4.53 crores. During the current year the Corporation expects to import 20,000 tonnes of copra worth Rs. 4 crores. Whereas 38.136 M|T tallow of the value of approximately Rs. 5.02 crores was imported in 1967-68 and in the year 1968-69, it is expected that 3000 tonnes worth Rs. 3.50 crores will be imported.

3.127. It was represented to the Committee that "the soap industry has been obliged to pay higher prices for import of items like tallow, copra and palm oil than would have been the case if the actual users procured supplies directly."

3.128. The Committee, therefore, called for the comments of Government on the above views expressed by a non-official organisation. The Corporation in reply thereto stated:

"It is true that the tallow imported by STC has been realised to the Soap Industry at prices higher than they would have had

to pay for direct imports. The STC's release prices are fixed on the recommendations of a Committee of Exports set up under the Chairmanship of Dr. G. P. Kane, Ministry of Industry. Since there is a high margin of profit available on this item, the Committee fixes the STC's release prices, with reference to the prevailing market prices for indigenous substitute oil, with a view to ensure that while the allottees receive the material at reasonable prices the surplus profit available is mopped up by a governmental agency. The latter criterion not only reduces scramble for a larger and larger imports but also leave surplus profits with the STC which could be used for stepping up exports of 'difficult-to-sell' items. The material imported during 1968-69 was also distributed at the same prices as during 1967-68.

3.129. As regards price at which tallow was being imported by private parties before STC took up the import, it was stated that it was understood to be about Rs. 1225 per m.t. c.i.f.

3.130. The Corporation has further stated that before purchases were made, the quality-wise and portwise requirement of the different allottees were ascertained through the Regional Advisory Committees set up for the purpose. The material was released in accordance with the allocations made by the competent authorities, i.e. office of the Development Commissioner, Small Scale Industries in the case of small scale sector and Directorate General of Technical Development in the case of Organised Sector and at prices recommended by the Committee of Exports.

3.131. The Committee referred to the above statement that "with a view to ensure that while the allottees receive the material at reasonable prices the surplus profit available is mopped up by a governmental agency", and asked did this not lead to a higher prices of manufactured products, and was it not the policy to pass on to the consumer/actual users the benefits of lower prices of imported commodities? The STC in reply stated: "Release price of Tallow, including STC's margin, ranges between Rs. 2,000/- and Rs. 2,500/- per ton. No other substitute material is available to the soap industry at prices around these levels; groundnut oil prices have ranged between Rs. 3,800/- and Rs. 4,200/- per ton during March, 1969. While fixing release prices of material like Tallow a balance has to be arrived at between the interests of the consumer/actual user on one hand and sharing of the profit by the community by mopping up at least a part of the gap between landed cost and the market prices of similar or substitute material."

3.132. It has been further stated that "by fixing the release price at a lower level, the advantage would have accrued to soap manufacturers but was likely not to have been passed on to the consumers."

3.133. The Ministry also in reply to the Committee's above query stated: "During 1967-68 and 1968-69, the STC imported the following quantities of tallow:

<i>Year</i>	<i>Qty. in Tonnes</i>	<i>Value (Rs. in lakhs)</i>
1967-68	38,162	526.49
1968-69	39,206	440.00

The tallow imported by the STC is distributed among soap units in the organised and unorganised sectors (including fatty acid manufacturers) in accordance with the recommendations made by the Directorate General of Technical Development and Development Commissioner for Small-Scale Industries respectively. The release price is fixed with reference to the prevailing market prices for indigenous substitute oil. Further while the allottees receive the material at reasonable prices, the surplus profit available is mopped up by a Government Agency, which uses such profits for promotion of exports of "difficult to sell" items."

3.134. The release price of STC for tallow was fixed at Rs. 2200 per metric tonne for extra fancy grade and Rs. 2150 per M[tonne for bleachable fancy grade including a rebate of Rs. 220]- for quick lifting in each case. As against the price fixed for the sale of tallow, the ruling prices in the internal markets for ground-nut oil were as follows:—

<i>Month</i>	<i>Prices at the end of month per M. tonne</i>
	<i>Rs.</i>
August 68	3825
Sept. 68	3775
Oct. 68	4040
Nov. 68	3320
Dec. 68	3171
Jan. 69	3370
Feb. 69	3650
March 69	4000

3.135. The Ministry explaining that the price at which tallow was released to the actual users was quite reasonable and fair added: "While the Government's policy is to pass on to the consumers|actual users the benefits of lower prices of imported commodities, Government have to keep in view various other considerations as indicated above. In the larger interests of trade, it becomes sometimes necessary to fix higher prices for certain materials and tallow is one such example."

3.136. The Committee are unable to appreciate the Corporation's view that 'since there is a high margin of profit available' on tallow, with reference to the prevailing market prices for substitute oil, its release price was fixed 'with a view to ensure that while the allottees receive the material at reasonable prices the surplus profit available is mopped up by a governmental agency' for stepping up exports of difficult-to-sell items. The Committee feel that one of the objects of canalising imports through STC is to ensure supply of raw materials at reasonable price so that the consumer is not adversely affected. They think that in this case interest of the consumer has not been protected, as the high release price of tallow to soap manufacturers was bound to be reflected in the ultimate product. The Committee recommend that the Government/STC should keep its pricing policy of imported items under periodical review with a view to avoid overburdening the concerned industry and consumer.

IV

MACHINERY & POLICY FOR DISTRIBUTION OF IMPORTS

The STC has informed that the distribution of certain commodities was made by it in accordance with the instructions of the Government (CCIE) which were communicated to the Corporation at the time of allocation of foreign exchange by them.

4.2. The Corporation has recognised various Associations of manufacturers representing the trade through whom certain imported commodities were distributed. The Associations have also been duly sponsored and recognised by the State Departments of Industry or competent authorities.

4.3. It was represented to the Committee that the distribution policy, in regard to imported commodities, pursued by the Corporation had led to 'chaos and confusion thereby unsettling the normal conditions of the markets.' The Committee, therefore, asked the Corporation how far these allegations were justified. The Corporation replied thereto:

"No. The allegations are unjustified. As far as we are aware the distribution policy pursued by STC has not led to confusion. Nevertheless it is Corporation's constant endeavour to improve its services to the industry and trade."

4.4. The Committee enquired of representatives of the Ministry whether any complaint had been made to the Ministry about the distribution policy of the STC in regard to imported commodities and if so, what was the nature of allegations and what action was taken by Government on those complaints. The Secretary of the Ministry stated that the distribution policy varied from item to item. Considerations of community as well as needs were taken into account. He added by and large the distribution policy was not which was evolved by the STC. It was evolved by the Ministry in consultation with other Ministries who had experience of the users of that commodity. Citing an instance he said that in the case of coconut oil, policy was evolved through the Advisory Committee which was set up in the Ministry of Commerce. That Committee advised at what point of time and on what basis to allocate and to whom. He added that the policy of distribution was laid by the Ministry and it varied with the needs of that commodity.

4.5. In regard to complaints he said that some complaints were made by those who did not benefit from that policy. He added: "sometimes the complaint is right when we amend the policy but sometimes it is wrong and we turn down the representation."

4.6. The Committee feel that it is essential for the Corporation to have a sound distribution policy, which should be subject to continuous review, to see that it is working satisfactorily. There should be a closer liaison between the Ministry/Departments, users and representatives of associations. The Committee suggest that the Corporation should make sustained efforts—

- (i) to ensure timely supplies of requisite quantities of goods;
- (ii) to bring down prices particularly for basic raw materials for industries working in key sectors, and
- (iii) to gather information primarily about market condition etc., so that distribution policy could be modified when necessary.

IV

QUALITY CONTROL MACHINERY

In response to a Committee's query whether any machinery has been set up by STC to exercise quality control over the items exported by it, and if so what is its set up and how far it has been effective in exporting quality goods or goods of required standard, the Corporation submitted the following note:—

"The responsibility for quality entirely is that of the manufacturers, although there is pre-shipment inspection under the Government rules. In some cases, the goods are got inspected by 'quality control' authorities on adhoc basis, where necessary. Apart from this STC's officers also occasionally supervise and inspect goods during the course of manufacture. In some cases international agencies like M/s General Superintendence Co., of India are appointed to inspect the consignment before shipment by arrangement."

"In case of export of Cement, it has to conform to the British Standard Specification No. 12 of 1958 which is internationally recognised. In regard to export of various organic chemicals, STC offers for exports the products manufactured by producers known to them after the samples of goods for exports have been found by the foreign buyers in accordance with the specifications mentioned by them. So far as export of salt is concerned the Salt Commissioner exercises quality control. For ensuring quality control in respect of footwear, technically qualified persons have been posted at various footwear centres and at headquarters, who exercise control on the production, both during processing and finished stages. Patterns for footwear, last used and designs to suit the requirements of foreign buyers are prepared by Corporation's personnel. The 'in-progress Control' embraces the check-up of material and components used by footwear fabricators by Corporation's technical staff. At the finished stage, the Corporation has multi-tier system for inspection and quality control before they are exported. At this stage, initially there is 100 per cent inspection by the Inspectors, than 25 per cent sample inspection by junior

Field Officers, followed by 10 per cent inspection by Deputy Managers to ensure that the same conform to the quality requirements of foreign buyers. Thereafter, the Inspectors of foreign buyers usually inspect 10 per cent of the quality. Before the shoes are packed there is again 100 per cent check by an officer incharge of packing department. The Export Inspection Agency of Government of India carries out inspection according to statutory regulations. In respect of exports to USSR and other East European countries handled by our associates, STC has no direct control of its own over such production. The types of controls exercised by associates are almost on the same lines as mentioned above.

"All these methods have been effective in exporting quality goods of required standard."

5.2. During evidence the Committee were informed by the Chairman, STC, that in regard to the quality control exercised by the STC on the goods exported and imported, the Corporation owed three responsibilities to the Indian Industry when it imported and to the foreign buyers when it exported. Those were quality, price and delivery schedule. So far as quality was concerned the witness stated that a Quality Control Department had been created in STC and it was headed by a Chemical Engineer. The witness, however, added that the Corporation had to take responsibility of quality at two ends. One, in Western Europe, America and Russia, where it purchased the goods, to make sure that the goods ordered were of a right quality. At the other end, there should be a periodical check to know that the consumers got what they need in right quality.

5.3. Asked whether there were rejections on the grounds of quality of the goods exported by STC, the Chairman replied: "Occasionally Yes". He added that quality control was an international problem. There was differences in the Indian standards and the foreign standards. Steps were to be taken to see that the quality standards were laid down by the industries that needed goods and the industries to whom the STC exported.

5.4. Asked whether the Corporation was satisfied with the quality Control Organisations of Government, the Chairman stated that the Export Promotion Councils were there which we thought were 'good'. He, however, stated that there was nothing more important than for the STC to have its own Quality Control. It could specialise in the products which were exported and imported. He informed the Committee that an official had been appointed and the Corporation wanted to develop its own quality control department.

5.5. The Committee pointed out that it had been represented to them that the Ball Bearings imported by the Corporation from rupee area were not of superior quality and that they were out quickly. The Chairman, STC, stated that the Corporation must take responsibility for quality and added that it was wrong to think that merely because it was rupee purchase it must be inferior. He stated that the ball-bearings were also supplied by the Corporation to the Indian Railways, Bharat Heavy Electricals and Directorate General of Supply and Disposal. No complaints were received from them.

5.6. The Committee further pointed out that it had been represented to them that the STC was helping in the import of sub-standard and non-standard products which were unwanted by the Indian Industry. The Chairman stated "I do not think it is fair to say that the STC is importing sub-standard item if we have done occasionally it was a mistake."

5.7. It is also understood from the Ministry that the STC under the direction of the Review Committee was going to open a Special Quality Control Department which would organise quality control both abroad and in India through independent inspection Agencies and other means.

5.8. The Committee asked the Corporation to furnish details of goods which were exported by it, but were rejected on the ground of quality during the last three years and the value of goods rejected. The Corporation has submitted the following statement:—

Year	Country	Export	Claims	Remarks
1	2	3	4	5
		Rs. in lakhs	Rs. in lakhs	
<i>Leather ware</i>				
1965-66	USSR	153.02	3.2	
1966-67	USSR	460.00	10.00	
1967-68	USSR	375.00	12.18	
1966-67	Poland	12.45	0.44	
1967-68	Poland	6.18	0.01	This claim is in respect of 30,100 pairs out of 110,000 pair shipped till Apr. 68. Shipments are continuing.

1	2	3	4	5
1967-68	Bulgaria	7900	0.18	Value of claim not indicated by the foreign buyers. However, the same may work out to about Rs. 18,000.
1966-67	USA	76,000	0.28	Taking into account total export of Kolhapuri Chappals to USA during the year 1966-67 & 1967-68 amounting to Rs. 76 lakhs, the claim preferred is only 5%.

Rosin

D Grade				
1967-68	UK	11,200 lbs	0.01	

5.9. The Committee note that a regular and well established quality control department did not exist in the Corporation. STC can earn a name and win standing as an exporter only by ensuring export of guaranteed quality of goods. The STC being a State owned Corporation, owes greater responsibility for enforcing quality both in exports and imports. The Committee note that the Corporation has since set up a special quality control department. They would, however, suggest that the STC should take advantage of the experience of industry and trade associations and other statutory Government agencies in taking decision with regard to quality etc., of the goods to be exported and imported.

VI

INDIRECT TRADE

In cases, where the nature or magnitude of business was such as not to make it possible or advisable for STC to make direct imports, importation was allowed to be effected by other parties under the letter of authority procedure. The STC has stated that instances of this kind were imports of sera and vaccines which were fragile and perishable goods or laboratory chemicals. Other instances were where actual users were permitted to import their own requirements against import licences issued in the name of STC.

6.2. In the case of export items, STC effected business, wherever possible, as direct trade by means of export contracts with the manufacturers/suppliers. In other cases, however, STC arranged for export through associates whom it might help in various ways, e.g. by supply of raw materials or extending financial accommodation or locating foreign buyers or in cases where the export item was canalised through STC, by permitting exports to be effected by approved associated who had the necessary capability for undertaking the exports and had been able to obtain orders which in terms of price and other respects were considered reasonable by STC.

6.3. It had been stated that the Associated/Agents were appointed only when the Corporation satisfied itself about the standing of the party as to whether he was the agent of foreign suppliers, has rate of production, previous import/export performance, whether he possessed proper after-sales service arrangements, where necessary, bank reports, total assets, his sale and distribution arrangements and capacity to export etc.

6.4. Asked whether it was necessary to have approval of STC in the cases of trade agreement entered into by private traders with the buyers/suppliers in other countries, the Corporation had stated that it was not necessary to have approval of STC except in cases where the item to be imported/exported was either canalised through STC or specially entrusted to it under some arrangement made or approved by the Government.

6.5. The Commission which STC normally charged in respect of imports/exports through associated/agents varied from 1 per cent to 3 per cent of cif/fob price depending on the nature of the item.

6.6. STC exercised control over the distribution of items imported by its associated/agents in India. By way of agreement STC found its associated/agents to distribute the goods imported by them like tractors to agriculturists; certain goods to actual users on the recommendations of individual Ministries, DGT, Directors of Industries in States etc., or on the basis of set order of priorities communicated to STC by competent authorities etc.

6.7. In all cases where goods imported by associates/agents were allowed to be sold by them the selling prices within which all sales were to be effected were prescribed or approved by STC. By means of distribution agreements entered into by STC and its associates (distribution) it was provided that all such sales would be liable for inspection by any officials or authorities nominated by STC. As the goods were released by STC in favour of actual users recommended by the certifying authority, the parties in whose favour releases were made while being informed of the quantities being released to them were also advised of the prices which the distributors could charge so that the question of their paying any excessive prices through ignorance did not arise.

6.8. The total commission charged by STC on the indirect trade for the years 1964-65 to 1967-68 (last four years) has been stated to be as under:—

Year	(in lakhs of Rs.)
1964-65	116.15
1965-66	47.09
1966-67	51.05
1967-68	45.07

6.9. While taking evidence of the Ministry, the Committee pointed out that there had been criticism that on certain items STC earned commission without rendering any service. The Secretary of the Ministry replied that there was no gratuitous income to the STC. He added that every indenting house charged commission for his service and the Corporation also did so. He said there should be no complaints on that score. The Secretary added that "the charges by STC are the lowest. No indenting house would serve on the indenting fees at which the STC does the job. The service that STC renders in this field is that first it pressurises that country which did not wish to export a particular item, secondly it goes into the pricing pattern and tries to reduce the prices as much as it can".

The Committee pointed out that it was not the STC but the private party which fixed the prices and the terms and, therefore, there was hardly any justification for charging the commission. The Secretary stated that he could only say that parties were not making full use of the services offered by STC.

6.10. The non-official organisation also represented to the Committee that in many items, the STC is not doing any thing except as an intermediary Licensing Agency i.e. securing import licences and passing them on to various importers. This is being done to control distribution at fair prices but in actual practice the imports through STC have increased the prices besides creating procedural delay in imports, clearance of consignments and sale of goods. When there is heavy recession the high service charges of the STC are creating unnecessary difficulties in the economy.

6.11. The Committee note that the Corporation is functioning as an intermediary licencing agency with a view to control distribution of goods at fair and reasonable prices. The role played by the Corporation in actual practice should not stand in the way of speedy clearance of goods and their distribution and lead to excessive profits. The Committee, therefore, suggest that instead of engaging in indirect trade as an intermediary agency, the Corporation should enlarge its own independent channel of trade and allow the small traders to carry on independently.

6.12. The Committee find that the Corporation appoints its associated agents for its indirect trade after satisfying itself about their standing, experience etc. They would, however, like to draw the attention in this regard to the following recommendation of the Public Accounts Committee, contained in para 1.80 of their 4th Report (Fourth Lok Sabha):—

"The Committee consider that as far as possible, the State Trading Corporation should invite public offers so as to get most experienced and reliable distributors at the least margin of profit for the import and distribution of their goods".

VII

INTERNAL TRADE

A. Price Support Operations

(i) *Price support operations for lemon grass Oil, cotton, etc.*

In pursuance of Government's policy to ensure fair prices to the growers of certain agricultural commodities and to maintain internal production at rising rate, the Corporation have been called upon from time to time to undertake price support operations. So far the Corporation had taken price support measures in respect of raw jute, seed-lac, lemon grass oil, tobacco and cotton. In 1964, the Corporation was asked to purchase tobacco and help the stock holders. In 1966, it was asked to undertake price support operations for raw cotton. Whereas in 1967-68 when the prices of raw-jute fell below the minimum prices fixed by the Government, the Corporation was directed to assist the farmers|growers by buying jute at a fixed minimum price.

7.2. The Corporation suffered a loss of Rs. 42.30 lakhs in 1963-64 and 1964-65 in the case of lemongrass oil operations whereas it suffered a loss of Rs. 21.1 lakhs in the cotton operations in the year 1966-67. Explaining the reasons for losses on lemongrass oil operations the Corporation had stated that by the very nature of commodity which was liable to constant deterioration in quality during storage and a very narrow margin between the purchase and sale prices loss was inevitable. In regard to the losses suffered on cotton, it was stated that Japan, the main consumer of Indian cotton kept itself away from the market after having met its requirement from Pakistan and, therefore, there was no foreign market for Indian cotton. The Corporation had ultimately to sell to private parties and cotton mills in India at a loss ranging from about 6 per cent to 8 per cent.

7.3. During evidence when asked whether it was not possible for the Corporation to withdraw itself from the purchase of cotton to avoid the loss of Rs. 21.1 lakhs, the Chairman, STC, replied that it was a price support operation and the Corporation was asked to support the sagging prices internally. The Corporation was only to carry out a general desire of the Government to support prices.

7.4. While taking the evidence of the Ministry, the Committee enquired whether the Government's expectations in regard to the price support

operations undertaken by the STC had been fulfilled. The Secretary of the Ministry stated that "this is one of the fields where we have been experimenting through an *ad hoc* organisation like STC. The STC is not really organised to deal with the problems of this nature." But he added, Government did not have at their disposal a better organisation than the STC for the purpose. It was not a continuing problem from year to year. Therefore, it was not thought necessary to set up an organisation of that nature. He added, for instance there was a problem of tobacco this year in between there was no problem. Whenever such a situation arose, the STC was asked to go into the market with its financial strength and with its commercial strength to lift off the market its certain quantity, hold it in storage and then export it or make it available to the local industry when conditions were not as pernicious. He added that in the case of tobacco, the Corporation's interventions had been reasonably successfully. In the case of raw-jute the problem was much too big. The STC was asked to undertake to support the price of raw jute in three States and over a hundred markets. The only way in which the Corporation could organise it, was to go to the State Governments and ask their cooperative organisations to make purchases on its behalf. The Corporation made its funds, technical know-how etc., available for a period of 15 days. He added that during that period of 15 to 20 days the prices went below the 1940 level. The Secretary claimed that by and large, the STC rendered service and it was incidentally that it derived certain advantage because it got the raw jute at a time when the price was low and it was able to sell at a time when the price was high. The Secretary informed the Committee that the Government had come to the conclusion that if prices of raw jute have to be stabilised we will have a separate organisation to deal with the problem. It was not fair to give that type of job to the STC. The witness added that a Committee had been appointed which was going into that matter. There were two kinds of views before the Committee. One, that the Governmental organisation on the basis of 12 months employment so far as its personnel were concerned and on the basis of 3 to 4 months once in two or three years of actual functioning would be wasteful operation. The second view was that it should be entrusted to an organisation which commanded the confidence of the cultivators. The Secretary stated that the Committee's report had not yet been received, but he added the Government would do their best to be ready with mechanism before the next crop came in the market.

7.5. In regard to the cotton operations undertaken by the Corporation it had been represented to the Committee that there was a great ~~dis-satisfaction~~. The Corporation adopted strictly legalistic attitude and did not conduct the operations in accordance with accepted trade practices and rejected offers for sale of cotton on flimsy grounds.

7.6. The Committee regret that the price support operations (Lemon grass oil, jute tobacco etc.) were entrusted to the Corporation for which it was neither equipped nor had the requisite experience. "This was one of the fields where Government had been experimenting through an ad hoc organisation like STC." The Corporation not only suffered heavy loss (Rs. 63.40 lakhs on lemon grass and cotton) in those operations but also failed to give satisfactory service to the trade.

7.7. The Committee are unhappy with the decision of the Government to hand-over such an important operation (price support operation) to STC without assessing its capacity and experience. They note that the Government have realised the need of a separate organisation to deal with the problem and have appointed a Committee to go into the matter. It is hoped that the Government would expedite the decision of the Committee for setting up of a separate organisation at an early date.

(ii) *Price Support Operation for 'Bleeding Madras'.*

7.8. The Committee having noted that the STC had agreed to bear the losses on special marketing arrangements for "Bleeding Madras" undertaken by the Handicrafts and Handlooms Export Corporation, enquired what were the special circumstances which impelled the STC to agree to that. The STC in a note has stated:—

"The demand for Bleeding Madras in the United States started in 1959. It was to a major extent linked up with the drive and publicity undertaken by the Handloom Export Organisation (of which HHEC is the successor organisation). The demand steadily increased except for a fall in the years 1960-1961. To ensure an organised expansion and export of Bleeding Madras fabrics, Government of India introduced certain measures such as compulsory pre-inspection, floor and ceiling prices and export quotas. The exports of Bleeding Madras from the year 1959 to 1965 are as follows:—

year		Value of exports (Rs. in lakhs)
1959	..	169.24
1960	..	47.77
1961	..	47.74
1962	..	191.48
1963	..	296.08
1964	..	411.09
1965	..	615.85

"Total foreign exchange earned by these exports amounts to Rs. 17.77 crores. By the middle of 1965, there was a sudden shrinkage of orders from overseas. This was mainly due to (i) the export of large quantity of garments manufactured out of Bleeding Madras from India at low prices, (ii) the production in the United States market of Bleeding Madras fabrics by US mills, and (ii) a sudden change of fashion. By the end of 1965 there was a sharp crash witnessed in Bleeding Madras market with a massive accumulation of stock. Even though some efforts were made to try to get the handloom weaver to stop further production of Bleeding Madras, the production processes which were in the pipeline led ultimately to the accumulation of 8 million yards of cloth by early 1966.

"The accumulation of stock of over 8 million yards of the value of nearly Rs. 2 crores resulted in grave distress among all sectors of the industry and created major unrest among the weaving community, and Government received a very large number of representations for the introduction of adequate relief measures to mitigate the distress. A meeting was called on 21st January, 1966 by the Commerce Minister which was attended by the Secretary, the Additional Secretary, and the Joint Secretary of the Ministry of Commerce, the Chairman, STC, Financial Adviser, STC and the Executive Director, HHEC, where various proposals for relief were discussed. It was suggested that the HHEC might undertake a special Marketing Scheme for Bleeding Madras. The Executive Director of HHEC who was present at the meeting, made it very clear that large losses were involved in any such scheme and that the HHEC was not willing to undertake any measures which would result in such losses unless the losses were guaranteed. It was ultimately decided that the STC would make the required finance available to HHEC, bear all establishment and other expenditure and meet the loss arising from this transaction. Accordingly, a Special Marketing Arrangement was introduced, under which HHEC would buy all exportable quality of Bleeding Madras after due inspection by the Textiles Committee, the price to be paid being Rs. 2.05 per yard for washed and export-packed goods and Rs. 1.95 per yard for loomstate and loose goods. Under this scheme, a quantity of over 7 million yards was offered to HHEC. The Textile Committee inspected and passed a quantity of 4.27 million yards in

washed finish and 0.21 million yards in loomstate finish. Accordingly HHEC brought 4.48 million yards valued at Rs. 91.69 lakhs, besides shipment samples of the value of Rs. 0.14 lakhs.

Various measures were undertaken by the Government and the HHEC to revive the export market for Bleeding Madras. A delegation headed by Shri Venkataraman, the then Minister of Industries, Madras, visited Europe and the United States and HHEC undertook several other measures through advertisements, promotions in department stores, etc., to recreate interest in this fabrics. Unfortunately the export market did not revive. From 1967, efforts were made to sell the fabrics in the internal market.

"M/s. Mulraj G. Dungarsey and Co., Bombay offered to buy the entire quantity at 32 cents per yard FOB. They also offered to realise a minimum of Rs. 1.75 per yard in foreign exchange provided out of the foreign exchange earned, they were allowed to utilise 75 per cent value to import polyester fibre or any other raw material cleared by the Ministry by mutual consent. This proposal was not acceptable to the Government.

M/s. Mulraj G. Dungarsey and Co., approached us again offering that they were agreeable to purchase the stock at Rs. 1.25 a yard less $3\frac{1}{2}$ per cent commission and that against the value of their export; they should be allowed to import chemicals required into the country. This offer was referred to the Ministry but the offer was turned down.

Another offer for barter was received from M/s. M. H. Mehta and Co., Bombay. It was decided by Government that we should not go in for any barter deals or arrangements with private parties.

By this time the goods had been under storage for two years and it was apprehended that continued storage might result in thorough deterioration of the goods, resulting in a complete loss. A further effort was made to find out whether we could find buyers abroad at the reduced price for the stocks, but no buyers were forthcoming. At the end of financial year 1967-68, the stocks of goods, under authorisation by the STC, were revalued on the basis of prevailing market price.

The loss as a result of this revaluation amounted to Rs. 42.13 lakhs. This loss was reimbursed by the STC. STC had also previously borne all the establishment expenditure as well as interest charges on stocks held by the HHEC. As there was danger of stocks deteriorating and as no export orders were forthcoming, it was decided, in consultation with the STC at every stage, to sell the goods in the local market in small lots through open advertisements. Small lots were sold by advertisement and negotiation, and a quantity of 1.63 million yards was sold and delivered. A further bulk sale for the balance stocks of 2.85 million yards was then made by negotiation, in consultation with the STC. The party concerned has been given time up to end of March, 1969 for payment and lifting.

"The financial implementation of these relief measures is a net loss to the STC of Rs. 61.42 lakhs.

Although HHEC at the time of the meeting held by the Commerce Minister on 21st January, 1966 expressed its unwillingness to undertake the scheme unless (i) the finances were made available, (ii) all establishment costs were borne, and (iii) all losses met, the scheme in itself was urgently necessary because of the grave problems faced by one of the weakest sectors of industry in India. The handloom industry is a dispersed cottage industry which had shouldered a major burden and showed great initiative by production of fabrics conforming to specifications laid down by Government and had built up production to 3 million yards per month. Foreign exchange earnings over a brief period of six years amounted to Rs. 18 crores out of this one single cloth. It may also be added that the export incentive on this item was the lowest amongst all the varieties of handloom fabrics and incomparably lower than the incentives allowed on mill-made fabrics during the same period. Therefore, if the relevant authorities had not come forward with adequate relief measures, the consequences would have been very grave. It is in the context of this that the loss mentioned above has to be viewed."

7.9. The Committee are unable to appreciate why the Handlooms and Handicrafts Exports Corporation and the State Trading Corporation were saddled with the responsibility for carrying out price support operations for Bleeding Madras which have resulted in a loss of over Rs. 61.42 lakhs so far. The Committee consider that if Government felt that there was a case for affording relief to the handloom industry engaged in the manufacture of Bleeding Madras it would have been better to come forward with a well-considered scheme before Parliament and taken approval to the grant of subsidy in the special circumstances of the case.

7.10. The Committee need hardly point out that if the trade and Government had shown vigilance and assessed properly the trends of demand in the foreign market, they would not have found themselves in the unhappy position of accumulation of large stocks with hardly any export demand.

7.11. The Committee would like Government to derive the necessary lesson from this costly lapse and ensure that the State Trading Corporation or its subsidiary are not saddled with financial burdens against their better commercial judgement.

B. Purchase and Sale of Imported Cars

7.12. STC purchased used imported cars brought into the country by foreign diplomats and others and sold the same to the following categories and users:—

1. Tourist Promotion.
2. Rashtrapati Bhavan.
3. Raj Bhavan.
4. Defence Requirements.
5. Central Government, State Governments.
6. Public Undertakings.
7. Sale to the public through tenders.

7.13. Government of India recently (12th November, 1968) modified the system of allotment and sale of imported vehicles as follows:—

- (i) Except for the categories of users mentioned in para (ii) below vehicles from STC's stock, irrespective of the size, horse power or the type, the vehicles would be sold only at the

market price on tender basis. If, however, a Government department or a public sector undertaking at the Centre or State wanted a particular make or model of vehicle from the stock available with STC for special purposes, such as VIP escort, border patrol, defence duty, anti-smuggling duty, etc., they might make such requests direct to STC and STC will sell such vehicles to the Government Department/Public Undertaking concerned at the Reserve Market price without placing such vehicles for sale on tender basis.

(ii) The following categories of users were eligible for allotment of cars by placing their indents direct with STC:—

- (a) Tourist Promotion.
- (b) Rashtrapati Bhavan.
- (c) Vice-President of India.
- (d) Raj Bhavan in the various States.
- (e) Minister of Cabinet Rank of Central Government.
- (f) Chief Ministers of the State Governments.

7.14. The following elements were taken into account in determining the price of the vehicle when the same was sold to priority users:—

Purchase price plus custom duty plus $2\frac{1}{3}$ per cent of incidental charges on the actual i.e., garage repairs transfer fee, maintenance whichever was higher plus 10 per cent to Corporation's service charges. In case of sale of cars to Rashtrapati/Vice-President and Raj Bhavan the element of custom and excise duty was not taken into account as they were exempted from payment of custom duty.

7.15. Commission charged by STC on the sale of such vehicles was 10 per cent.

7.16. Asked the main reasons for which the sale and purchase of foreign cars was entrusted to the STC., the Ministry had stated that the foreign cars sold in India fetched very high prices in view of the general ban on imported of foreign cars into the country. Before the sale and purchase of foreign cars was entrusted to the STC., diplomats and other privileged persons could sell them to local buyers at prices which were considerably higher than the c.i.f. prices. Since these persons were allowed to repatriate their earnings when they left India, in foreign exchange this involved an unavoidable drain of foreign exchange.

Moreover, blackmarketing in cars was also rampant. It was, therefore, decided that those who imported cars into India should sell them only to the STC at prices which were arrived at according to a fixed formula. When STC sold cars in open auction, the profits accrued to a Government undertaking and this profit could be utilised with advantage in the promotion of 'difficult sell' items where promotional losses were unavoidable.

7.17. The profit/commission earned by the Corporation during the last 5 years on the purchase and sale of foreign cars was as follows:—

	Profit (Rs.)
1963-64	27,43,577.28
1964-65	28,24,016.66
1965-66	38,01,055.96
1966-67	52,49,851.27
1967-68	38,33,729.93
	<hr/>
	1,84,52,231.10

7.18. Asked about the expenses incurred on the staff employed by the Corporation for the purpose, the Corporation had stated that until September, 1968 the Imported cars Cell was part of the Administration Division, thereafter the Cell was transferred to the Engineering Division; in either case, separate account of administrative expenses incurred on the Imported Cars Cell was not maintained. With the reorganisation of this Cell and the introduction of system of performance budgeting separate account will be maintained with effect from 1st April, 1969.

7.19. In reply to another query, the Corporation had stated that the annual expenses incurred on this business was approximately Rs. 33 lakhs towards customs duty, godown rent and insurance, establishment and other expenses. The total staff employed for the purpose was 46.

7.20. The Chairman, STC, informed the Committee during evidence, that a radical change in the system had been introduced. Some facilities had been introduced for the customers. The cars were not being sold now on 'as is where is basis'. Customers could start the engines themselves and have another trial and could also have a look inside. Asked about the payment made for the cars, the witness stated that the diplomats duty on that was worked out and paid to the cus-

toms. In regard to the profit earned on the sale of these cars it was stated that the Corporation made a profit of Rs. 38 lakhs last year on a total turn over of Rs. 1 crore.

7.21. The Committee note that the Corporation has effected latest improvements in the sale of imported cars by allowing more facilities to the customers. They would suggest that the Corporation should introduce better auctioning arrangement to draw more bidders from all over the country and should attempt to reduce the time lag in the disposal of the imported vehicles. STC may consider raising its percentage of commission on the sales of such vehicles from 10 per cent to a higher figure to enable it to raise more margin of profits to be diverted to the sale of 'difficult to sell' items:

VIII

PRICING POLICY

In response to the Committee's desire, the State Trading Corporation has furnished the following note on its present and future pricing policy in regard to imported items:—

"The Reviewing Committee is examining this question in depth.

In its interim report it referred to three schools of thought in respect of import and STC's margin; social benefit and therefore, no profit; strictly commercial functioning and therefore maximum profits; and the middle course, the Corporation acting as an instrument of Government policies—economic, social or/and commercial; profitability being determined by Government at its discretion or at least guide lines given as to the level of profits or losses it should make on given transactions.

The import items for which prices are fixed for release to actual users|consumers could be categorised as follows:—

Category A—Items canalised through STC where there is little or no indigenous angle.

Items like Nitrogenous Fertilizers and Muriate of Potash carry a pool price fixed by Government (Ministry of Food and Agriculture). In the case of other items like Chilean Nitrate and Rock Phosphate STC's release prices are fixed in relation to the actual cost of import.

Category B.—Items canalised through STC but there is also indigenous production of same or substitute materials.

In such cases like Caustic Soda, Soda Ash light and Soda Ash heavy Synthetic Yarn, Soyabean oil or Tallow, the selling price is fixed taking into account the import costs as well as the selling price of the indigenous or alternative materials.

Category C.—Items not formally canalised but Corporation asked to import on a continuing basis to fill the gap between requirements and indigenous production or imports through other channels.

In these cases imports are made on assessment of demand at a workable selling price covering actual import cost and a margin of profit for STC. Examples of such imports are Sulphur, Sodium Nitrate and Sodium Sulphate.

Category D.—Import of items in respect of which the market is speculative and private imports are likely to involve large profits for middle-men.

Instances of such items are Camphor, Menthol, Cloves etc. Price of such commodities are fixed in relation to market prices and other factors.

Category E.—Other imports; On these the Corporation makes generally a service charge of half per cent to three per cent; Example of such imports are: News Prints, woodpulp etc.

Government laid down certain guidelines for pricing policies of public enterprises in December, 1968 for manufacturing enterprises. It was indicated that pricing of their products should be within the basis of the landed cost of comparable imported goods, prices so fixed should be operative for a period of two to three years exception being made in cases where the imported f.o.b./c.i.f. price is artificially low or our own cost of production is very high; the latter case would be fixed after reference to the administrative Ministry concerned for examination in depth in consultation with Ministry of Finance, Bureau of Public Enterprises etc. In regard to trading organisations like the STC or MMTC, it was indicated that it may not be necessary to prescribe any guideline".

8.2. During evidence, the Committee asked whether it was not possible for the STC to have an escalation clause that in case international prices went up, the local purchasers and actual users would have to pay extra. Chairman, STC, replied that it was a very important point and was being discussed with the Ministry and by the Reviewing Committee. It, in fact, concerned the Corporation's pricing policy. He, however, added that on such occasions, it would be a good policy to supply the goods to consumers at a reasonable price rather than at a price the STC bought. Expressing his opinion, the Chairman, STC, stated that the Corporation should in most cases take the risk of ups and downs to assure the market a ruling price to keep them competitive. Asked how it was possible to make the imports for the country on the lowest prices, the witness stated that in some cases joint buying was useful because when four or five queries, went from India, the market abroad was likely to flare up. He added that sales in the world were getting combined.

8.3. The Committee understand that the recommendations of the Reviewing Committee, on the pricing policy are still awaited. They hope that the Reviewing Committee would give its best attention to this subject and formulate its opinion as early as possible.. It need hardly be stressed that on the pricing policy depends the result of the trading activities of the Corporation.

IX

EXPORT AID TO SMALL INDUSTRIES (E.A.S.I.) SCHEME

The E.A.S.I. Scheme initiated by STC aims at fostering direct business relationships between the Indian manufacturers and foreign importers. It attempts to remove the difficulties which might prevent the smaller manufacturers from entering the export field.

9.2. The number of industries applied for assistance and those who got assistance during the years 1964 to 1967 was:—

	1964	1965	1966	1967
No. of Units applied under EASI Scheme .	1295	1580	1855	2103
No. of Units assisted under EASI Scheme .	705	760	835	878

9.3. The Corporation has stated that the assistance rendered under EASI Scheme had proved quite effective in as much as the exports had increased year after year. The year-wise export figures under EASI Scheme together with the progressive total was as under:—

	Rs.
1. 1963-64	2,28,363·03
2. 1964-65	13,85,616·98
3. 1965-66	27,01,663·27
4. 1966-67	33,82,432·89
5. 1967-68	61,02,474·04
TOTAL	1,38,21,350·21

9.4 From the beginning of EASI Scheme upto March, 1968, the Corporation had exported 67 items to 49 countries on behalf of 84 participants.

9.5. It has been stated that in order to devise ways and means to improve the working of the scheme, a Consultative Panel had been set up. The Panel was considering various aspects of the scheme and

would suggest method to improve its working. The deliberations were continuing.

9.6. In reply to a query whether it would be better if the Export Aid to Small Industries scheme was entrusted to an organisation such as National Small Industries Corporation which is more attuned to the needs of the Small Industries than the State Trading Corporation, the latter stated:

"No. In our view, the services of the Corporation's foreign offices and export marketing in different products, also manufactured in the small sector, should be available to the small manufacturers in the country. The Corporation is accordingly developing regular consultation arrangements with representatives of small manufacturers and Small Industries Corporation in the different States".

"Accordingly, EASI Division has been re-organised by linking the small scale industries directly, on the basis of commodities, with the Commodity Division in order to strengthen the export effort of the small scale industries sector. Overall co-ordination and general servicing of this sector and a further tie-up with the State Small Scale Industries Corporation wherever they exist is being developed as a part of the servicing divisions".

9.7. Whereas the Government in reply to the same question has stated: "We consider that the export aid to small sectors scheme should continue to be operated by the STC as it is better equipped than the National Small Industries Corporation to promote exports. STC has already developed an expertise in the promotion of exports of small producers as it has been implementing the scheme for about seven years. Further STC has better financial resources compared with N.S.I.C. and is, therefore, in a stronger position to provide financial assistance to small exporters. STC is already engaged in organising exports of a wide variety of goods produced in the country, and any scheme of special assistance to small exporters is only a logical extension of the activities of STC in its export efforts. STC's efforts however need not prevent N.S.I.C. in having its own programmes of assistance to small exporters".

9.8. The Committee feel that export aid to small Scale Industry Scheme should continue to be with STC as 'it is better financially equipped to provide assistance to small scale industry and has developed an expertise in the promotion of exports.' The Committee are of the view that a closer co-ordination and concerted efforts between STC and NSIC are needed to increase the exports of small scale industry. They feel that the reorganisation of EASI division of the STC undertaken recently is a step in the direction.

X

ORGANIZATION

(a) *Board of Directors*

The Committee having noted that there were no non-official members on the Board of Directors of the State Trading Corporation, enquired whether there was not a need to have non-official members from business-community on the Board in view of the present functions of the Corporation. The Ministry in reply stated:—

"The Board of Directors of STC consists of a full-time Chairman, three full-time Directors and four other Directors who are officials representing the MMTC and the Ministries of Foreign Trade & Supply, Finance, and Food & Agriculture. As a Trading organisation, the Board of Directors has to take decisions on a day-to-day basis on several commercial transactions and such responsibilities can be discharged effectively only by full-time Directors. The association of officials on part-time basis as members of the Board is intended to enable the Board to have the benefit of the views of the Ministries directly concerned with STC's business. There can be no such justification in having non-officials on a part-time basis. Further, it may not be advisable to have on the Board non-officials who are actively engaged in business, as STC may be dealing with items in which such business men are also interested."

"It may, however, be pointed out that STC's policy has been to associate members of the business community, wherever possible, in its trading activities. Examples are, the consultative panels for art silk yarn, wool etc. STC proposes to associate representatives of industry and trade in all its major trading activities in consultative and advisory capacities in future."

10.2. The Committee hope that the association of representatives of industry and trade with all the major trading activities of STC, as is proposed to be done, would help the Corporation to take advantage of

views and experience of the private bodies and thus serve the interests of both private and public sectors industry effectively.

(ii) Administrative set up

10.3. The Reviewing Committee on STC appointed by Government in April, 1968, had given an interim Report. In its Report the Committee had made certain recommendations on the administrative set up of the Corporation. The Committee on Public Undertakings during evidence enquired what were the main changes that had been introduced in the administrative set up of the Corporation in pursuance of the Reviewing Committee's recommendations. The Chairman STC stated that the Corporation wanted to introduce into the Corporation an "industrial culture—the methods of working and approach—in a way that the system is industrial and not purely administrative." He added that "we have flattened the pyramid of delegations in the organisation."

10.4. Giving details of the reorganisation plan, the Chairman enumerated various steps taken by them in this regard. (1) The structure was proposed to be divisionalised. There will be three marketing divisions, fourth division to look after services and the fifth to look to the financial affairs. Each Division will be headed by a Director. (2) The Board worked as a Committee, meeting every week, to discuss problems both individually and jointly. (3) Details of delegations at all levels were being gone into (4) the principle of Accountability had been introduced. By 12th or 13th of the following month, complete set of records and accounts of the activities of the organisation in the previous month including profit and loss account, together with their stocks was being prepared. By the end of 1969, the Chairman, STC, hoped to have even a weekly profit and loss account. The Chairman further stated that from 1969-70, it was contemplated to start "performance budgeting system".

10.5. The Committee observed that essence of efficiency lay in quick decision and upholding of those decisions by the higher-ups. The Chairman, STC, informed the Committee that he and his Directors, General Managers and functional Managers met weekly to expedite matters. He stated that they had gone a step further as, "the Chairman decides nothing by himself, he decides with the Directors. They put it up before the Committee of Management, where the Directors are sitting together and decide. At least I myself have a feeling that they should have my full support.

10.6. The Chairman also revealed that a series of Committees to bring in younger managers into decision-making had been appointed.

107. The Committee asked whether accounts would be prepared Division-wise or Commodity-wise. The Chairman explained while it was difficult to allocate small commodities but each Division would have its own profit and loss account and within each Division major commodity-wise could be high lighted.

(iii) *Reviewing Committee*

10.8. Reviewing Committee was set up in July, 1968, to make the review of the trading techniques and methods of the STC and its present organisational structure with a view to take necessary steps for further strengthening and improving its operational efficiency.

10.9. The Committee has been asked to review:

- (i) The trading techniques and practices of STC in relation to such items of trade as have been canalised for exports and imports through the Corporation;
- (ii) The organisation, programme and method of work of the foreign offices of the Corporation; and
- (iii) The administrative and organisation arrangements at the headquarters and regional offices of the Corporation.

10.10. In the light of this review, the Committee will submit its conclusions and recommendations on matters which require urgent decision and action within three months.

10.11. The Committee are happy that the Government have taken such urgent steps to assess the functioning of the Corporation with a view to reorganise its activities and its organisational set up and hope that the Reviewing Committee will produce very fruitful results.

Interim Report

10.12. The Reviewing Committee was asked to produce the interim report in three months. The Interim Reviewing Committee has given priority to the subject of the Corporation's structure and system because these are its urgent needs. The other subjects like objectives, role, operations, canalisation, associates, agents etc. The detailed examination has been left for the final report.

10.13. Main changes made in the Corporation in pursuance of the recommendations of the Reviewing Committee are:—

1. *Expanded structure of the Board*

The Reviewing Committee recommended that the Board should be expanded to consist of Chairman and five working Directors; three Marketing Directors, each with a more compact group of products; one Director in charge of Planning and Services; and a Finance Director, who should be "playing member" of the Board team, by upgrading the post of Financial Adviser.

Government accepted these recommendations; and placement of one Marketing Director and that of the Finance Director is being processed.

2. *Constitution of a Committee of Management*

For enabling the Board of Directors to have time at their monthly meetings to review accountability reports covering the trading activities and financial results of the Corporation during the month, and thereafter to give it policy direction, guidance and advice, the operating function of running the organisation day-to-day have been entrusted to the Working Board (Committee of Management—COM). The COM consists of Chairman and all the working Directors; it is expected to meet weekly or more frequently if required. The COM started functioning on the 27th August, 1968.

3. *Setting up of permanent and temporary Committees*

To widen responsibility for decision making by associating and involving both line and staff management at different levels, the reviewing Committee had suggested that more use should be made of both *ad-hoc* and permanent Committees. A number of Committees were appointed e.g. for reorganisation of the Library; Imported car Cell; Mail and Correspondence; Corporation Building.

The three permanent Committees constituted by the Corporation are:—

- (i) *Buying Committee*: This consists of the three Marketing Directors, Finance Director and an Economist with concerned Divisional Heads and Marketing Managers in attendance. This Committee would be responsible for the entire buying operations undertaken by the Corporation, particularly in view of the increasing responsibilities devolving upon it; this would enable quick and timely decisions being taken after a careful survey of available sources, prices, appraisal of market trends, production and consuming patterns, availability within the country and needs of the industries.
- (ii) *Finance Committee*: This Committee consists of Finance Director, three Marketing Directors, Legal Adviser, Credit

Services Manager, two Chief Marketing Managers by rotation and the concerned Marketing Managers and Finance Officer in attendance. This Committee would consider various proposals for financial assistance to associates and suppliers, examination of the position of debtors outstanding, inventories and over-all employment of working capital and other allied problems which the Management may entrust to it.

- (iii) *Personnel Committee*: A Personnel Committee consisting of the Personnel Director, three Marketing Directors, Personnel Manager and two Chief Marketing Managers by rotation. This Committee would review the utilisation of man-power, training, and all matters pertaining to personnel such as recruitment, training promotion, transfer welfare and development.

These Committees were set up in February, 1969

4. *Re-organisation of Divisions*

The allocation of work amongst various Divisions has been reorganised in the light of the recommendations of the Reviewing Committee. As a result of this re-organisation some of the main changes are:—

- (a) Abolition of three posts of General Managers.
- (b) EASI Division has been reorganised by linking the small scale industries directly, on the basis of commodities, with the Commodity Divisions in order to reinforce and strengthen the development of small scale industries sector. The overall co-ordination and general servicing as well as liaison with the State Small Scale Industries Corporations, would be undertaken by a separate cell as a part of the Services Division.
- (c) The creation of Textiles & General Products Divisions, as recommended by the Reviewing Committee.

5. *Flattening of structural pyramid and Market Oriented Designations*

As recommended by the Reviewing Committee the multiplicity of designations and grades have been simplified operationally at three levels and new 'marketing-oriented' designations have been adopted; i.e. Chief Marketing Manager, Marketing Manager and Deputy Marketing Manager.

With the changing of the designations and reduction in the number of levels, as particular sub-division can now function under the charge

of a Marketing Manager authorised to take decisions at his level, where necessary, and report directly to the Management.

6 Modern Personnel Management Policies

As a part of the programme for developing scientific personnel managerial policies and practices, an inventory of the managerial talent has been prepared; man-power planning is being attempted to meet the long term requirements of the Corporation in the light of individual Managers' performance and his potential for growth. Managers are being encouraged to participate in different Management and Marketing Seminars; the Corporation has itself organised one seminar on Financial Management and two others are scheduled to be held in April, 1969. The rules of the Corporation for recruitment, promotion and retirement are under review and service Divisions are being reorganised and separate Units for Quality Control, Transport and Economics and Statistics are being developed.

7. Reorganisation of foreign offices

Foreign offices are being reorganised primarily with a view to making them a focal point for facilitating exploration of export potential not only in the country where the offices are located but also in the neighbouring markets. In order to strengthen the functioning of these offices, suitable technical assistance e.g. Engineer is being provided to give proper and quick after-sale services. The working of the foreign offices is being reviewed and unproductive expenditure is being curtailed including withdrawal of unnecessary staff.

8. Control on Overheads—Establishment Expenditure

The Reviewing Committee commented upon over-employment in the Corporation. There was an intake of about one hundred persons recruited during April 1968 to August 1968 but since then there has been a "freeze" on fresh intake except at the specialists level and no fresh appointment is being made without examining the possibility of meeting the requirements by internal adjustments. An improvement is, therefore, being pursued to ensure that staff are more usefully employed, where there is need, such as in accounts, in expansion of exports and in view projects are providing requisite support to the new Service Units being developed within the Corporation. Revised systems of delegation of authority are being introduced with built-in control to ensure over-all economy, efficiency and speed.

9. *Periodical formal consultations with industry and trade, foreign representations and Government*

The Corporation is developing a system of regular consultations with representatives of industry and trade, foreign representations and Government. This consultation system is being placed on a formal basis so that in respect of its operations, free and frank discussion is possible to secure guidance and advice in implementing its policies and improving its services to the industry and trade as well as to the customers abroad.

10. *Performance Budgeting and System of Accountability*

The Corporation has introduced a system of Performance Budgeting, spreading a sense of financial discipline in its operations, the Corporation's management carefully examining and quantifying its intentions and, through follow-up action, to maximise output and minimise imports. This is an exercise in self-examination through planning and appraisal and gives to the Corporation and to the Share-holders a valuable instrument of control, as it spells out the Corporation's intention in terms of sales, expenditure, cash, manpower and resources employed leading up to profit and loss for the year.

The Corporation has already organised a system of accountability whereby progress of its operations is watched through a process of regular, indeed, continuous reporting, weekly, monthly and quarterly.

11. These measures have helped in the increased participation of the working Directors and line and staff management at different levels in the process of decision making which, it is hoped, has improved qualitatively as well as in speed."

10.14. The Committee are happy to learn that the Corporation has recently introduced a system of preparing monthly and quarterly report of the activities of the Corporation and propose to introduce 'performance budgeting system'. Results of the periodical activities would enable the Corporation to spot out the areas of weakness and suggest prompt remedial measures. Such Reports, the Committee feel, should serve as a model to other Public Undertakings and they should adopt 'management accountancy' in their undertakings also to direct their activities. Apart from this, STC have enunciated more delegation of powers and have decided to bring younger managers into 'decision making functions. This is a welcome feature.

(iv) *Regional Offices*

10.15. The Corporation has three Regional Offices at Bombay, Madras and Calcutta. During the last four years (1964-65 to 1967-68) the

establishment expenses and sales (turn over) of each office were as under:—

(in Rs.)

	Bombay	Madras	Calcutta	
1964-65				
Establishment	4,11,408	3,93,598	6,24,795	
Sales (turnover)	4,72,70,949	1,87,14,300	93,36,614	
1965-66				
Establishment	5,84,887	5,87,984	5,39,738	
Sales (Turnover)	6,46,09,312	1,77,78,370	66,80,134	
1966-67				
Establishment	8,85,409	11,82,245	6,03,191	Wig Ind
Sales (turnover)	21,40,86,240	7,12,88,006	4,43,97,967	7.54
1967-68				
Establishment	11,16,830	7,00,324	6,91,100	1,69,94
Sales (turnover)	38,49,38,519	10,83,923	16,63,18,938	

10.16. The Corporation has also stated that the Reviewing Committee was seized of the matter and the final report of the Committee was awaited shortly.

(v) *Foreign Offices*

10.17. The Corporation has 11 foreign offices at Bangkok, Beirut, Berlin, Budapest, Lagos, Montreal, Moscow, Nairobi, Prague, Rotterdam and Tehran.

10.18. Expenditure incurred by the 10 foreign offices during the years 1964-65 to 1967-68 was as under:—

(Figures in Rupees)

Sl. No.	Location of Office	1964-65	1965-66	1966-67	1967-68
1	2	3	4	5	6
1.	Rotterdam	4,25,191.00	3,15,799.65	4,64,762.51	4,75,474.60
2.	Berli	..	..	27,306.04	2,31,003.71

1	2	3	4	5	6
3.	Prague	1,60,459·82	93,757·33	1,92,477·38	1,97,612·22
4.	Budapest		35,478·60	1,59,849·64	1,69,246·98
5.	Beirut				2,30,158·05
6.	Tehran				97,432·61
7.	Lagos				1,82,005·57
8.	Bangkok				94,492·41
9.	Moscow	2,66,029·08	2,84,569·37	3,49,677·19	3,81,071·06
10.	Nairobi			2,14,162·28	4,46,259·30

10.19. In reply to the Committee's questions (a) whether the work done by the foreign offices could not be entrusted to the Indian missions abroad and (b) has the Government ever assessed the utility of having these independent offices? If so, with what results, the Ministry have stated:—

"The Missions abroad cannot be expected to render the type of service that the foreign offices of STC render to the importers and exporters in India. STC's officers are often called upon to enter into direct commercial transactions like buying and selling on behalf of the Corporation, while such responsibilities cannot be undertaken by the Government officers working in the embassies. The officers of the embassies cannot also be expected to devote full time attention to the problems of STC's trade in view of their other duties and responsibilities.

"The STC is reviewing the working of its offices abroad with a view to strengthening it and also making it more service-oriented. Such economies as are possible will also be effected after this review is over. Government will take such action as is necessary after the results of the Review are known."

10.20. During evidence the Committee were informed that the foreign offices of the Corporation were being re-organised to make them service bases. The Corporation also intended to open more offices as the foreign offices had proved to be a very valuable instrument of trade not only for the public sector but also for the private sector. In reply to a query it was stated that the heads of the foreign offices were rotated in a period of three years.

10.21. The Committee hope that with the implementation of the suggestion of the Reviewing Committee the Regional Offices and foreign offices would be organised into efficient units of the Corporation. The foreign offices should serve as centres of information and service agency for the Indian exports.

XI

FINANCIAL MATTERS

(f) Inventory and Sales

The following table indicates the comparative position of the inventory at the close of the last three years:—

	(Rs. in lakhs)		
	1965-66	1966-67	1967-68
(i) Stock-in-hand; . . .	585.45	1,438.41	3,474.50
(ii) Goods-in-transit . . .	306.52	814.32	522.87
(iii) Work-in-progress . . .	..	1.23	11.23
(iv) Raw material . . .	—	25.13	68.33
(v) Premia on import entitlements in hand . . .	2.84	..	..
(vi) Stores, etc. . .	0.51	4.59	10.04
	<u>895.32</u>	<u>2,284.18</u>	<u>4,086.97*</u>

11.2. The stock in hand including goods-in-transit at the end of 1967-68 represented $3\frac{4}{10}$ months' sales as compared with $2\frac{7}{10}$ months' during 1966-67 and $1\frac{7}{10}$ months' during 1965-66.

11.3. The Committee find that the Reviewing Committee has noticed the following stocks of certain commodities as alarmingly high:—

Muriate of Potash	Rs. 6.00 crores
Nylon & Cupramonium Yarn	Rs. 5.96 crores
Raw Jute	Rs. 1.68 crores
Soyabean Oil	Rs. 7.13 crores
Sulphur	Rs. 1.62 crores
	<u>Rs. 22.39 crores</u>

*At the time of factual verification STC submitted the following figures:—
Rs. crores

Opening Stock 1st Oct., 1968	15.67
Receipts (at cost price)	21.66
Sales (at sale price)	26.52
Closing stock (27-3-1969)	10.73

11.4. The Reviewing Committee has also stated that 'a total of Rs. 22 crores is tied up at a monthly interest of Rs. 16.5 lakhs.'

11.5. The Committee would like to draw attention in this regard to the following observations of the Reviewing Committee:—

"In a trading concern it is yet more significant because its needs are liquid and not fixed funds and unless there is care exercised, funds in stocks can be tied up unproductively. There are many instances of this in the Corporation, where for one reason or another the stocks of certain commodities are alarmingly high."

11.6. The Committee are highly disappointed to find that stores worth Ra. 40.87 crores have been locked up in 1967-68 involving loss of interest amounting to Ra. 3.67 crores (approximately) per annum, excluding additional cost of storage, deterioration, supervision etc. The Committee urge on the Corporation and the Government to take some remedial measures without any more loss of time.

(ii) *Sundry Debtors and Turnover*

11.7. The following table indicates the volume of book debts and sales for the last three years:

(Rupees in lakhs)

Total Book Debts				
As on	considered good	considered doubtful	Sales	Percentage of Debtor to sales
31st March 1966 .	1,114.02	8.71	6,154.57	18.2
31st March, 1967 .	2,778.79	8.68	10,148.18	27.5
31st March, 1968 .	3,306.99	18.97	14,123.13	23.5

11.8. The Sundry debtors represented $2\frac{8}{10}$ months sales in 1967-68 against $3\frac{3}{10}$ months in 1966-67 and $2\frac{8}{10}$ months, in 1965-66.

11.9. The following table indicates the details of debts outstanding for more than one year as on 31st March, 1968*:-

(Rupees in lakhs)

	Government Departments	Private parties
(i) Debts outstanding for more than 1 year but less than 2 years	9.27	96.57
(ii) Debts outstanding for 2 years and more but less than 3 years	0.39	9.67
(iii) Debts outstanding for 3 years and more	3.13	12.56

*At the time of factual verification STC submitted the following latest figures:-

(Rs. in crores)

On 1st April, '68	33.26
On 1st January, '69	17.54
Repaid this quarter (ending March '69).	2.18
On 31st March, '69	15.36
Less deferred payments not due .	9.65
Net due	5.71

11.10. The Committee are perturbed to note the value of doubtful debts has gone up from Rs. 8.7 lakhs on 31st March, 1967 to Rs. 18.97 lakhs on 31st March, 1968. They are also concerned to find that the percentage of debtors to sales has gone up in the years 1966-67 and 1967-68 as compared to the year 1965-66. They would urge upon the Corporation to take effective measures to recover the outstanding debts.

(iii) Profitability

11.11. The table below indicates the gross profit, net profit after taxation and the net profit before tax earned by the Corporation in the last 10 years.

(In crores)

Year	Turn-over	Gross Profit in crores	% of Gross Profit	Net Profit after taxation in crores	% of net profit	Net Profit before taxation in crores	% of Profit before taxation
1958-59	35.95	3.33	9.2	1.34	3.7	2.82	7.8
1959-60	42.82	3.13	7.3	1.41	3.3	2.65	6.2
1960-61	64.69	3.81	5.9	1.44	2.2	2.85	4.4
1961-62	77.39	3.80	4.9	2.02	2.6	3.64	4.7
1962-63	86.81	5.23	6.0	1.41	1.6	4.30	4.9
1963-64	55.998	3.48	6.4	0.60	1.1	2.22	3.9
1964-65	40.46	4.81	10.4	1.74	3.7	4.77	10.2
1965-66	61.55	5.20	8.6	1.59	2.6	4.24	6.9
1966-67	101.48	4.86	4.8	0.87	0.9	2.34	2.3
1967-68	141.23	11.67	8.26	2.31	1.64	7.67	5.4

11.12. The Committee during evidence pointed out that the S.T.C.'s percentage of net profit from the year 1967 had ranged between 0.9 to 3.7 and had in fact gone down from 3.7 in 1958-59 to 0.9 in 1966-67 and asked whether this percentage of profit of a trading concern like S.T.C. was not too low? The Chairman, S.T.C., stated that in fact, this was the whole basis of pricing policy. It was for the first time that expenditure of the Corporation had gone down over previous years in spite of the escalation of 8 per cent or 10 per cent. The Corporation was bringing down the expenditure further. But he added that the Corporation had to perform many services and on some it lost. On many products the Corporation, being a service organisation, rendered services without recovering anything from private industries. He added for example the foreign offices of the Corporation were at the disposal of private industry also. They did a lot of useful work. The Secretary of the Ministry during the evidence on this point stated: "The best way to judge the

profitability will be on the basis of capital employed and not on the basis of turn-over." He added that was the ordinary commercial practice. Expressing his opinion in regard to the profitability of S.T.C. the Secretary stated, "Government are satisfied in relation to dividend and in relation to capital employed." But if the S.T.C. can do better we shall be happy. He added that profit was a matter of "efficiency of organisation" and "efficiency of purchase". It was also a question of pricing policy. Efficiency of S.T.C. could be, he said, judged from the fact that it had been able to bring down its cost by 6 per cent this year. As far as the pricing policy was concerned, it was dictated not by the profit, but by "Public considerations of policy." Public considerations sometimes dictated a high level of profit *e.g.* rayon yarn. On the other hand, if an item was going into costly production, consideration of public policy would dictate the loss. For example, on rockphosphate or sulphur no private party was prepared to work at $\frac{1}{4}$ per cent commission. Before the S.T.C. came into the field of these items, private trade had been charging commission of 2 per cent and that too "for doing no more than obtaining a licence from the Chief Controller of Imports". It was thus evident that STC was a better buyer.

11.13. The Committee enquired whether Government proposed to set up any machinery to evaluate the performance of STC transaction by transaction. The Secretary stated it would be difficult to develop such organisation. It would be set up on business like practice. He, however, added that Government would see whether they could make random cross checks of some of the transactions or not.

11.14. The Committee suggest that the Ministry of foreign Trade and Supply should have a Cell for undertaking a meaningful analysis of the periodical reports which are received from the public undertakings under their charge with a view to focus attention on significant developments requiring Government direction. This would enable Ministry to keep not only contemporaneous watch over the working of the undertakings, but also initiate corrective action, where called for.

11.15. The Committee were also informed that in 1966-67 STC paid dividend of 10 per cent on Rs. 2 crores of capital employed. In the year 1967-68 there was an increase in dividend from 10 per cent to 15 per cent. The Corporation capitalised Rs. 2 crores, in 1968-69, to reserves and increased the capital from Rs. 2 to Rs. 4 crores by issuing bonus shares. It was added that on the new capital of Rs. 4 crores dividend of 15 per cent was proposed to be maintained. It stated further that it was for the first time that the STC declared an interim dividend.

11.16. The Committee appreciate the efforts of the Corporation to improve its financial position by issue of bonus shares and by capitalising reserves. The Corporation have been able to enhance the percentage of dividend from 10 per cent to 15 per cent in 1967-68 and has declared interim dividend in current year, which are welcome features. The Committee hope the Corporation's financial position will continue to improve.

NEW DELHI:

April 26, 1969.

Vaisakha 6, 1891 (Saka).

G. S. DHILLON,

Chairman,

Committee on Public Undertakings.

APPENDIX

Summary of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Fifty-first Report.

S. No.	Ref. to para No. in the Report	Summary of Conclusions/Recommendations
1	2	3
1	2.12	The Committee agree that in a mixed economy the STC would best discharge its role as an 'efficient catalyst, a developer, and pace setter'. The Corporation should also conduct its affairs as to earn the confidence of trade. Whether in public or in private sector, by adopting a helpful attitude towards all engaged in common endeavour of boosting up India's developing economy. The Committee note the assurance given by the Secretary, Ministry of Foreign Trade and Supply, that ' STC has not, cannot and will not overstep its functions. ' The Committee would also like the STC to examine carefully the criticism made by various interests about its working.
2	3.7	The Committee find that the STC is satisfied with its present trading activities, a view that they (Committee) are unable to share. Considering the large organisational set up of the Corporation and the capital employed by it, the present share of STC in the country's trade is only 3 to 4 per cent. Moreover the value of exports made by the Corporation in 1967-68 has fallen by Rs. 7.5 crores in comparison to the exports of the previous year (1966-67).
	3.8	The Committee are of the view that the Corporation should enlarge its share in country's export trade. Apart from making concerted efforts to protect its past level of export, the Corporation should try to boost it up and give preference to develop new fields of exports. The Corporation should fix up an annual export budget for itself and strive to adhere to the target. The Committee note that the Corporation has introduced a regular and continuous consultation with trade backed by re-organised foreign offices to provide as service bases to Indian Industry and hope that they would continue a sustained effort to increase export of new items and to new areas.
	3.9	The Committee note that a trend in the improvement of the STC export effort is in evidence (as per

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provisional figures of 9 months) and hope it will be followed up.

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3.21

The Committee agree that canalisation is no doubt a question of policy which Government was only competent to decide. They would, however, suggest that the canalisation of import of a commodity through STC may be done if it serves the public interest. They would also stress that before canalisation of import or export of commodities was decided upon all the important factors including the capacity of the Corporation should be taken into consideration. They recommend that after canalisation is decided upon, the Government must exercise vigilance to see that it served the purpose for which it was undertaken. The Committee would also like that the reasons leading to the decision for canalisation of import or export should be made public so that the traders belonging to Public and Private sectors were fully informed of the Government's intention and no room for misunderstanding was left in the minds of public. The Committee feel that after canalisation through STC has been decided by the Government, greater responsibility devolves on STC to ensure that users requirements were met satisfactorily, regularly, promptly and at competitive rates.

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3.27

During evidence before the Committee it was mentioned that Indian goods exported to certain East European countries got diverted to West European countries. The Committee trust that Government would take necessary steps to ensure that this type of re-export is 'limited to the extent that is incidental to international trade' and is carried out with the knowledge of Government.

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3.35

The Committee note that the imports from East European countries have increased from Rs. 46,19 lakhs in 1965-66 to Rs. 115,83 lakhs in 1967-68 and exports to those countries have gone down from Rs. 30,99 lakhs in 1966-67 to Rs. 23,57 lakhs in 1967-68. The Committee feel that this sudden set back in STC's trading activity with East European countries has produced considerable imbalance in the imports and exports and deserves prompt investigation by the Corporation. More vigorous and concerted efforts are needed on the part of STC to increase Indian exports to East European countries and also to explore new markets in that area for the various

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semi manufactured and manufactured Indian goods. The Committee suggest that the Corporation should ensure that the country obtains the appropriate price for its exports and does not have to pay higher price for imports from East European countries.

3.36

They appreciate the setting up of a 'Buying Committee' for the purpose of taking decision in respect of purchases of the Corporation with reference to available resources, price, timing etc., and hope that this Committee would also ensure that the country gets best price for exports and makes purchases of standard quality and specifications at the most competitive rates.

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3.43

The Committee note that STC has been able to explore markets for the export of Railway Wagons, but they are concerned to find that supplies in respect of Hungarian and South Korean orders were delayed. Non-adherence to time schedule for delivery of goods may affect international goodwill affecting the Corporation's exports to new overseas markets.

3.44

The Committee feel that till such time as the manufacturers have acquired adequate experience of manufacture of sophisticated engineering equipments, it would be advisable to keep some margin of time in reserve for future contracts. For existing commitments, the Corporation should spare no pains to honour the existing time schedule, consistent with the required standard and specifications. They also feel that markets of developing countries in Africa and Middle East need be tapped to step up export of engineering products.

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3.51

The Committee suggest that the State Trading Corporation should enlist the assistance of the Export Promotion Councils, leading manufacturer organisations and make greater use of the field services available to them through their show rooms and foreign offices and draw up a concrete programme for increasing exports. The emphasis should be to increase the exports in non-traditional items particularly engineering goods, in which the country has developed impressive capacity. Servicing facilities, particularly for engineering goods, should also be arranged so as to assure the customers of after sales service.

1	2	3
8	3.63	<p>The Committee note that the complaints of the Russian users were to the effect "that leather of the Indian shoes was not water proof, stitching and workmanship was poor." As far as quality of leather and the water proofing are concerned, the Committee suggest that the assistance of the Central Leather Research Institute may be elicited. The Committee see no reason why it should not be possible to improve the quality of workmanship with the experience that the STC and its suppliers had gathered over the years. The Committee feel that since Russia offers a potentially promising market for export of shoes, no effort should be spared to organise the exports on sound basis to ensure supply according to specified quality so as not only to reduce to the minimum the rejection of shoes but also to win larger orders.</p>
9	3.68	<p>The Committee are concerned to learn that the State Trading Corporation propose to go in for a manufacturing unit for shoes. The Committee feel that the main objective of the Corporation, as its name suggests, is trade and normally it should not on its own undertake manufacturing activities unless they were operating in exceptional circumstances. Moreover, the State Trading Corporation has been claiming over the years that it provided a much needed channel for small and medium scale manufacturers of shoes to market their products. The Committee would, therefore, suggest that the State Trading Corporation should enlist the support of Central Leather Research Institute and also of small scale service centres and other related organisations in order to bring about the desired improvement in the quality of manufacture. If the Soviet customers insist on having machine made shoes, the State Trading Corporation should examine how far the existing units who have experience of exporting quality shoes to Soviet Russia could be assisted to mechanise their production through the assistance of other Government organisations.</p>
	3.69	<p>The Committee would like Government to give the matter serious consideration. As pointed out by the Committee later in the Report, the experience of State Trading Corporation in manufacturing line has not been a happy one.</p>
10	3.78	<p>The Committee regret that the wig trade suffered set backs and its export performance was no where</p>

near the estimates. The quality of exported product and the performance of the foreign firm as distributing agents were far from satisfactory and the firm went into liquidation. The Committee feel the proper assessment of the firms' financial standing and capacity to handle the business was obviously not made before the agreement was signed. The Committee also feel that the background under which agreement with the firm was signed, needs to be investigated. Moreover, STC is a trading Corporation which should normally refrain from indulging in the manufacture of products.

The Committee recommend that:—

- (i) the working of the wig factory should be revitalized with a view to explore the possibility of utilising its full capacity and diversification should be in a related line with assured market and without too much capital investment and overstaffing;
- (ii) strict inspection of quality of goods for export be enforced;
- (iii) assessment of financial stability and reputation of distributing agents abroad be effectively made before entrusting the distribution work in future.

The Committee note that the Corporation has attempted to find new markets by holding exhibitions etc. in Finland and hope they would succeed.

11 3.85 The Committee note the efforts made to export bananas by way of 'commercial research' but are concerned over the heavy losses (Rs. 24 lakhs) this venture has suffered. They agree with the present thinking of the Government that canalisation of this item need not be undertaken for the present. For the existing trade, it would be advisable for the corporation to bring down packing and freight expenses and ensure export of bananas of specified quality.

12 3.93 The Committee feel that losses ranging from Rs. 5 lakhs to Rs. 11 lakhs on a single item of export cannot possibly be passed over as just 'promotional developmental' losses. They would like the Corporation and the Ministry to investigate into the losses on the export of 15 items mentioned under para 3.86 of the

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		Report to find out real reasons behind them. They should also devise suitable measures to minimise, if not eliminate such losses in future.
13	3.100	The Committee note that by and large the Corporation has been able to supply the items imported by it (canalised and non-canalised) at prices not more than the ruling prices.
14	3.109	<p>The Committee are not satisfied with the explanation given by the Corporation for the loss of Rs. 28.73 lakhs suffered on the import of mercury in 1966-67. They are unable to understand that when mercury was needed to meet urgent requirements in the country, its import was delayed as the funds could not be released in time. The Committee is of the view that the agreement for such heavy imports should not have been agreed to without assuring the availability of required foreign credit/exchange. The Committee also feel that the STC should have explored all means to see how best they could retrieve the position in order to reduce the losses to the minimum. The Committee suggest that:—</p> <ul style="list-style-type: none"> <li data-bbox="431 908 987 1014">(i) The provision of this agreement should be thoroughly examined and defects or lacuna noticed should be noted to avoid recurrence of such a situation in future; <li data-bbox="431 1044 987 1173">(ii) The foreign exchange in such imports of urgently needed items should be allocated on priority basis and no delay should be allowed in importing the goods after a contract has been signed; <li data-bbox="431 1203 987 1308">(iii) Price variation clause may be incorporated in the contracts with international firms which may be invoked in the event of sharp variation in price. <li data-bbox="431 1338 987 1418">(iv) Timely supply of such imported items should invariably be ensured by the Corporation.
15	3.115	The Committee are unhappy to note that simultaneous import of muriate of Potash by two Government agencies without proper coordination led to heavy accumulation (1.90 lakh tons) of the items value at Rs. 7.60 crores besides storage expenses. They regret

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that the Ministry of Food and Agriculture did not curtail its imports in spite of representations made by STC about the accumulation of stocks.

3.116 The Committee hope that the decision to import through one agency, namely STC, and with introduction of Appraisal System for demand evaluation evolved by the Corporation will obviate unnecessary accumulation and avoid such a situation in future.

16 3.125 The Committee are concerned to note the widespread criticism about STC's handling of the import of Nylon yarn and that there were also complaints about the quality of imported yarn. The Committee suggest that the commodities imported to supplement the indigenous production should only be imported after taking into account the indigenous production.

17 3.136 The Committee are unable to appreciate the Corporation's view that 'since there is a high margin of profit available' on tallow, with reference to the prevailing market prices for substitute oil, its release price was fixed 'with a view to ensure that while the allottees receive the material at reasonable prices the surplus profit available is mopped up by a governmental agency' for stepping up exports of difficult-to-sell items. The Committee feel that one of the objects of canalising imports through STC is to ensure supply of raw materials at reasonable price so that the consumer is not adversely affected. They think that in this case interest of the consumer has not been protected, as the high release price of tallow to soap manufacturers, was bound to be reflected in the ultimate product. The Committee recommend that the Government/STC should keep its pricing policy of imported items under periodical review with a view to avoid overburdening the concerned industry and consumer.

18 4.6 The Committee feel that it is essential for the Corporation to have a sound distribution policy, which should be subject to continuous review, to see that it is working satisfactorily. There should be a closer liaison between the Ministry/Departments, users and representatives of associations. The Committee sug-

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suggest that the Corporation should make sustained efforts:—

- (i) to ensure timely supplies of requisite quantities of goods;
- (ii) to bring down prices, particularly for basic raw materials for industries working in key sectors, and
- (iii) to gather information primarily about market condition etc., so that distribution policy could be modified when necessary.

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3.9

The Committee note that a regular and well established quality control department did not exist in the Corporation. STC can earn a name and win standing as an exporter only by ensuring export of guaranteed quality of goods. The STC being a State owned Corporation, owes greater responsibility for enforcing quality both in exports and imports. The Committee note that the Corporation has since set up a special quality control department. They would, however, suggest that the STC should take advantage of the experience of industry and trade associations and other statutory Government agencies in taking decision with regard to quality etc. of the goods to be exported and imported.

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6.11

The Committee note that the Corporation is functioning as an intermediary licencing agency with a view to control distribution of goods at fair and reasonable prices. The role played by the Corporation in actual practice should not stand in the way of speedy clearance of goods and their distribution and lead to excessive profits. The Committee therefore suggest that instead of engaging in indirect trade as an intermediary agency, the Corporation should enlarge its own independent channel of trade and allow the small traders to carry on independently.

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6.12

The Committee find that the Corporation appoints its associates/agents for its indirect trade after satisfying itself about their standing, experience etc. They would, however, like to draw the attention in this regard to the following recommendation of the Public Accounts Committee, contained in para 1.80 of their 4th Report (Fourth Lok Sabha):—

“The Committee consider that as far as possible, the State Trading Corporation should

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invite public offers so as to get most experienced and reliable distributors at the least margin of profit for the import and distribution of their goods."

22 7.6 The Committee regret that the price support operations (Lemon grass oil, jute, tobacco etc.) were entrusted to the Corporation for which it was neither equipped nor had the requisite experience. "This was one of the fields where Government had been experimenting through an *ad hoc* organisation like STC. The Corporation not only suffered heavy loss (Rs. 63.40 lakhs on lemon grass and cotton) in those operations but also failed to give satisfactory service to the trade.

23 7.7 The Committee are unhappy with the decision of the Government to hand-over such an important operation (price support operation) to STC without assessing its capacity and experience. They note that the Government have realised the need of a separate organisation to deal with the problem and have appointed a Committee to go into the matter. It is hoped that the Government would expedite the decision of the Committee for setting up of a separate organisation at an early date.

24 7.9 The Committee are unable to appreciate why the Handlooms and Handicrafts Exports Corporation and the State Trading Corporation were saddled with the responsibility for carrying out price support operations for Bleeding Madras which have resulted in a loss of over Rs. 61.42 lakhs so far. The Committee consider that if Government felt that there was a case for affording relief to the Handloom industry engaged in the manufacture of Bleeding Madras, it would have been better to come forward with a well considered scheme before Parliament and taken approval to the grant of subsidy in the special circumstances of the case.

7.10 The Committee need hardly point out that if the trade and Government had shown vigilance and assessed properly the trends of demand in the foreign market, they would not have found themselves in the unhappy position of accumulation of large stocks with hardly any export demand.

7.11 The Committee would like Government to derive the necessary lesson from this costly lapse and ensure

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		that the State Trading Corporation or its subsidiary are not saddled with financial burdens against their better commercial judgement.
25	7.21	The Committee note that the Corporation has effected latest improvements in the sale of imported cars by allowing more facilities to the customers. They would suggest that the Corporation should introduce better actioning arrangement to draw more bidders from all over the country and should attempt to reduce the time lag in the disposal of the imported vehicles. STC may consider raising its percentage of commission on the sales of such vehicles from 10 per cent to a higher figure to enable it to raise more margin of profits to be diverted to the sale of 'difficult to sell' items.
26	8.3	The Committee understand that the recommendations of the Reviewing Committee, on the pricing policy are still awaited. They hope that the Reviewing Committee would give its best attention to this subject and formulate its opinion as early as possible. It need hardly be stressed that on the pricing policy depends the result of the trading activities of the Corporation.
27	9.8	The Committee feel that export aid to small scale industry Scheme should continue to be with STC as 'it is better financially equipped to provide assistance to small scale industry and has developed an expertise in the promotion of exports.' The Committee are of the view that a closer coordination and concerted efforts between STC and NSIC are needed to increase the exports of small scale industry. They feel that the reorganisation of EASI division of the STC undertaken recently is a step in the right direction.
28	10.2	The Committee hope that the association of representatives of industry and trade with all the major trading activities of STC, as is proposed to be done, would help the Corporation to take advantage of views and experience of the private bodies and thus serve the interests of both private and public sectors industry effectively.
29	10.11	The Committee are happy that the Government have taken such urgent steps to assess the functioning of the Corporation with a view to reorganise its activities and its organisational set up and hope that the

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Reviewing Committee will produce very fruitful results.

30 10.14 The Committee are happy to learn that the Corporation has recently introduced a system of preparing monthly and quarterly report of the activities of the Corporation and propose to introduce 'performance budgeting system'. Results of the periodical activities would enable the Corporation to spot out the areas of weakness and suggest prompt remedial measures. Such Reports, the Committee feel, should serve as a model to other Public Undertakings and they should adopt 'management accountancy' in their undertakings also to direct their activities. Apart from this, STC have enunciated more delegation of powers and have decided to bring younger managers into 'decision making functions'. This is a welcome feature.

31 10.21 The Committee hope that with the implementation of the suggestions of the Reviewing Committee the Regional Offices and foreign offices would be organised into efficient units of the Corporation. The foreign offices should serve as centres of information and service agency for the Indian exports.

32 11.6 The Committee are highly disappointed to find that stores worth Rs. 40.87 crores have been locked up in the 1967-68 involving loss of interest amounting to Rs. 3.67 crores (approximately) per annum, excluding additional cost of storage, deterioration, supervision etc. The Committee urge on the Corporation and the Government to take some remedial measures without any more loss of time.

33 11.10 The Committee are perturbed to note that the value of doubtful debts has gone up from Rs. 8.7 lakhs on 31st March, 1967 to Rs. 18.97 lakhs on 31st March, 1968. They are also concerned to find that the percentage of debtors to sales has gone up in the years 1966-67 and 1967-68 as compared to the year 1965-66. They would urge upon the Corporation to take effective measures to recover the outstanding debts.

34 11.14 The Committee suggest that the Ministry of Foreign Trade and Supply should have a Cell for undertaking a meaningful analysis of the periodical reports which are received from the public undertakings under their charge with a view to focus attention on significant

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		developments requiring Government direction. This would enable Ministry to keep not only contemporaneous watch over the working of the undertakings, but also initiate corrective action, where called for.
35	11.16	The Committee appreciate the efforts of the Corporation to improve its financial position by issue of bonus shares and by capitalising reserves. The Corporation have been able to enhance the percentage of dividend from 10 per cent to 15 per cent in 1967-68 and has declared interim dividends in current year, which are welcome features. The Committee hope the Corporation's financial position will continue to improve.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI			33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
24.	Jain Book Agency, Connaught Place, New Delhi.	11	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
25.	Sat Narian & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	98
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	36.	Hind Book House, 82, Janpath, New Delhi.	99
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28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	MANIPUR		
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annex, Imphal.	77
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	AGENTS IN FOREIGN COUNTRIES		
31.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON—W.C.—2.	99
32.	Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.	66			

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