

**FIFTY-SIXTH REPORT**  
**PUBLIC ACCOUNTS COMMITTEE**  
**(1986-87)**

**(EIGHTH LOK SABHA)**

**LOSS ON PROCUREMENT OF LAC**

**MINISTRY OF COMMERCE**



Presented in Lok Sabha on 13.8.1986

Laid in Rajya Sabha on 13.8.1986

**LOK SABHA SECRETARIAT**

**NEW DELHI**

*August, 1986/Sravana, 1908 (Saka)*

*Price : Rs. 1.90*

CORRIGENDA TO 56<sup>TH</sup> REPORT OF PAC (8TH LOK SABHA) PRESENTED ON 13 AUGUST, 1986

| <u>Page</u> | <u>Para</u> | <u>Line</u> | <u>For</u>                             | <u>Read</u>                         |
|-------------|-------------|-------------|--|-------------------------------------|
| (v)         | 3           | 13          | again t                                | against                             |
| 1           | 4           | 8           | to                                     | of                                  |
| 2           | 6           | 7           | measure                                | measures                            |
| 4           | 12          |             | Insert at the end of line              | (In M <sup>2</sup> T <sub>2</sub> ) |
| 5           | 14          | 1           | declinining                            | declining                           |
| 6           | 15          | 1           | Insert , after Seedlac                 |                                     |
| 6           | 16          | 23          | outline                                | outlined                            |
| 7           | 18          | 1           | the                                    | this                                |
| 7           | 18          | 1           | Insert , after Additional<br>Secretary |                                     |
| 10          | 23          | 2           | Remove , after price                   |                                     |
| 11          | 27          | 6           | where as                               | whereas                             |
| 11          | 29          | 8           | produce                                | procure                             |
| 13          | 31          | 17          | 2x1009 z                               | 2x1009 =                            |
| 14          | 34          | 1           | Audit                                  | Audit                               |
| 17          | 38          | 9           | Nill                                   | Nil                                 |
| 18          | 40          | 3           | year                                   | years                               |
| 19          | 42          | 6           | oa                                     | on                                  |
| 19          | 42          | 7           | stocikng                               | stocking                            |
| 19          | 42          | 7           | accoout                                | account                             |
| 21          | 50          | 12          | in                                     | on                                  |
| 22          | 53          | 4           | ofinc reased                           | of increased                        |
| 22          | 53          | 10          | miantenance                            | maintenance                         |
| 23          | 54          | 14          | thongh                                 | through                             |
| 24          | 54          | 4           | Finanee                                | Finance                             |
| 25          | 57          | 1           | 1978-79,                               | 1978-79.                            |
| 27          | Appendix I  | 5           | Mach                                   | March                               |
| 27          | Appendix I  | 12          | Bundun                                 | Bundu                               |
| 28          | "           | 9           | 1.56                                   | 1.65                                |
| 28          | "           | 21          | undu                                   | Bundu                               |
| 28          | "           | 21          | 1.20                                   | 1.25                                |
| 32          | 54          | 1           | agencis                                | agencies                            |
| 33          | 55          | 9           | infrastrucrture                        | Infrastructure                      |
| 34          | 58          | 2           | lukhs                                  | lakhs                               |

## C O N T E N T S

|  | PAGE  |
|--|-------|
| COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1986-87)   | (iii) |
| INTRODUCTION . . . . .   | (v)   |
| REPORT . . . . .   | 1     |
| APPENDIX I Growers price of sticklac in Rs. / kg. in<br>the important centres of different lac<br>growing States . . . . . | 27    |
| APPENDIX II Statement of observations and recom-<br>mendations . . . . .   | 30    |

### PART II\*

Minutes of the sitting of the Public Accounts  
Committee (1985-86) held on 13 February,  
1986 (FN) and sitting of the Public Accounts  
Committee (1986-87) held on 31 July,  
1986 (AN)

---

Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(1986-87)**

**CHAIRMAN**

**Shri E. Ayyappu Reddy**

**MEMBERS  
*Lok Sabha***

2. **Shri J. Chokka Rao**
3. **Shri Amal Datta**
4. **Shri Ranjit Singh Gaekwad**
5. **Shrimati Prabhawati Gupta**
6. **Shri G.S. Mishra**
7. **Shri Vilas Muttemwar**
8. **Shri G. Devaraya Naik**
9. **Shri Rameshwar Neekhra**
10. **Shri Rajmangal Pande**
11. **Shri H.M. Patel**
12. **Shrimati Jayanti Patnaik**
13. **Shri S. Singaravelivel**
14. **Shri Simon Tigga**
15. **Shri Girdhari Lal Vyas**

***Rajya Sabha***

16. **Shri Bhuvnesh Chaturvedi**
17. **Shri K.L.N. Prasad**
18. **Shri Ghulam Rasool Kar**
19. **Shri A.K. Antony**
20. **Shri Nirmal Chatterjee**
21. **Shri M.S. Gurupadaswamy**
22. **Shri Virendra Verma**

**SECRETARIAT**

1. **Shri N.N. Mehra—*Joint Secretary***
2. **Shri K.H. Chhaya—*Chief Financial Committee Officer.***
3. **Shri Brahmanand—*Senior Financial Committee Officer.***

## INTRODUCTION

1. the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf, this 56th Report on Paragraph 12 of the Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government (Civil) relating to loss on procurement of lac.

2. The Report of the Comptroller & Auditor General of India for the year 1983-84, Union Government (Civil), was laid on the Table of the House on 16 May, 1985.

3. In this Report, the Committee have observed that the scheme of maintenance of buffer stock of sticklac as a price support measure was initiated without any pioneering study with the result that it was entrusted to the State Trading Corporation (STC) which lacked infrastructure required for such operations. STC continued to procure seedlac (an intermediate product) rather than sticklac (the basic material marketed by the growers) from the State Government nominated agencies during the entire period of operation of the scheme. Since sticklac was not purchased from the growers directly, the prices of sticklac often prevailed lower than the minimum procurement price offered by the STC thus frustrating the very objective of providing a remunerative market to the growers. The Committee have therefore, recommended that responsibility in this regard should be pinpointed and suitable action taken again t those found responsible. The Committee have considered discontinuance of the scheme at this juncture unfortunate and have observed that the scheme could be effectively implemented through the medium of Integrated Rural Development Programme. The Committee have also desired that the cooperative infrastructure in the states should be strengthened if the producers are to be helped effectively.

4. The Committee have pointed out that the reimbursement of losses of Rs. 94.25 lakhs to STC in 1978-79, on the ground that the buffer stock was maintained on Government account, was hardly justified as these losses actually related to the stocks procured before the operations were undertaken on Government account. The Committee have expressed concern that the service charges earned by STC as canalising agency in 1978-79 were not set off against the reimbursement of Rs. 94.25 lakhs in contravention of the decision taken by the Ministry in this regard. The Committee have desired to be apprised of the considerations on which the decision of setting off the service charges against the losses was reversed and the amount of Rs. 94.25 lakhs ultimately paid to STC.

5. The Public Accounts Committee (1985-86) examined Paragraph 12 at their sitting held on 13 February, 1986. The Public Accounts Committee (1986-87) considered and finalised this Report at their sitting held on 31 July, 1986 based on the evidence taken and the written information furnished by the Ministry of Commerce. The Minutes of the sittings form Part II\* of the Report.

6. A statement containing conclusions and recommendations of the Committee is appended to this Report (Appendix II). For facility of reference these have been printed in thick type in the body of the Report.

7. The Committee would like to express their thanks to the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

8. The Committee also place on record their appreciation of the assistance rendered to them in the examination of this Paragraph by the Office of the Comptroller and Auditor General of India.

NEW DELHI :  
August 11, 1986  
Sivarana 20, 1908 (Saka)

E. AYYAPU REDDY,  
*Chairman,*  
*Public Accounts Committee*

---

\*Not printed. One cyclostyled copy laid on the Table of the House and five cyclostyled copies placed in the Parliament Library.

## REPORT

### AUDIT PARAGRAPH

1. Stick lac, a forest produce, provides a supplementary source of employment and income to a large number of tribals and adivasis in the forest/rural areas of Bihar, Madhya Pradesh, West Bengal, Uttar Pradesh, Orissa, Maharashtra, etc. Through washing etc. by hand/machine process, stick lac is converted into seed lac and thereafter shellac is manufactured from seed lac.

2. In order to arrest the declining trend in export of lac and the exploitation of tribal growers engaged in the cultivation/collection of stick lac by the middlemen, the Ministry of Commerce decided in June, 1975 to canalise the export of lac through the State Trading Corporation of India (STC). The STC was to undertake maintenance of buffer stock of stick lac as a price support measure. Public notice for canalising export of shellac, seed lac, etc. through the STC was issued on 10th June, 1975 and came into force with immediate effect.

3. In April 1978, Government decided that the STC should take up procurement and buffer stock programme for seed lac involving procurement of 5500 tonnes during 1978-79 for which a loss of about Rs. 2 crores was estimated.

4. Though the programme of procurement and buffer stock was undertaken on Government account during 1978-79 as a price support measure with a view to ensuring tribal welfare, the minimum procurement price of stick lac was fixed only at Rs. 2.25 per kilogram (kg.) as against Rs. 3 per kg. during 1977-78. As the STC could not procure any quantity of stick lac from the tribal cooperative agencies during 1978-79 and 1979-80 at the minimum price of Rs. 2.25 per kg. due to failure of lac crop, buoyant market conditions and higher market prices, the object to tribal welfare for which the scheme was originally evolved was defeated. The STC, however, made releases of seed lac from existing stock of 5858 tonnes with it as on 1st April 1978 to the exporters and traders.

5. Again, the release price of seed lac to exporters during 1977-78 was Rs. 650 per bag of 75 kgs. which was reduced to Rs. 500 per bag during 1978-79 to encourage exports and face competition from a foreign country 'A' where the prices were very low. The Ministry, however, did not review

*the reduced release price of Rs. 500 per bag when the crops failed in 1978-79 and there existed a huge demand for the material.*

6. The Ministry stated (August 1984) that since the domestic demand for shellac was limited, there was urgent necessity to dispose of the stocks held with the STC for export production as stick lac/seed lac could not be stored for long without serious deterioration in its quality and, therefore, a conscious decision was taken to reduce the issue price to Rs. 500 per bag. According to the Ministry the tribal growers did benefit from the increased market prices as any scheme for price support measure would arrest the prices going below a prescribed minimum. The Ministry, however, failed to review the reduced release prices and increase the same when the market was buoyant due to crop failure and exporters were able to get better prices for their exports. As a result, the entire benefit of reduced issue prices passed on to the exporters rather than to the tribals.

7. The STC incurred losses of Rs. 94.25 lakhs during 1978-79 on account of release of 5,528 tonnes of seed lac at Rs. 500 per bag as against their procurement price of Rs. 640 per bag. During 1979-80, there was a further loss of Rs. 5.17 lakhs on this account. The loss of Rs. 99.42 lakhs had been reimbursed to the STC by the Ministry. The relevant sanctions were not, however, endorsed to Audit in contravention of the General Financial Rules.

8. During 1978-79 and 1979-80, the STC had earned profit of Rs. 17.15 lakhs and Rs. 14.00 lakhs respectively by way of service charges on canalised export of shellac. However, these were not adjusted against the loss of Rs. 99.42 lakhs reimbursed to the STC on the consideration that the STC had suffered further loss of Rs. 70.35 lakhs (interest : Rs. 38.80 lakhs and carrying/operational charges: Rs. 31.55 : lakhs) during 1978-79 and 1979-80.

The Ministry stated (August 1984) that Rs. 31.15 lakhs realised by the STC from the shippers of shellac by way of service charges could not appropriately be regarded as profit earned by it.

9. The following are the main points that emerge : The Ministry did not review and increase the release price when the market was buoyant and exporters were able to get better prices for their exports in the foreign markets. When the STC could not make any procurement through tribal cooperative agencies in 1978-79 and 1979-80 and continued to release seed lac out of old stocks at the reduced rate, it resulted in losses to STC but profit to the exporters and the entire concept of tribal welfare measure, for which the scheme was originally evolved was thus defeated. Profit of Rs. 31.15 lakhs earned by the STC during 1978-79 and 1979-80 as service

charges from shippers were not adjusted against the loss suffered by it, whereas the entire loss of Rs. 99.42 lakhs was reimbursed to it. Sanctions for reimbursement of losses were not endorsed to Audit.

[Para 12 of the Report of the C&AG of India for the year 1983-84,  
Union Government (Civil)]

10. Lac is a forest produce. It is grown as a subsidiary crop and is a supplementary source of income to the people, a large number of whom are tribals. Most of them grow lac on trees around their dwellings. The lac growers collect lac as a part-time avocation and their other activities vary from farming to collection of other forest seeds/products. As such, it is difficult to assess the exact number of tribals engaged in lac growing. However, it is estimated that about 2 million persons are actively associated with lac production. The main lac growing States are Bihar, Madhya Pradesh, West Bengal, Uttar Pradesh, Orissa, Gujarat and Maharashtra.

11. The Committee enquired whether any incentives were available to growers to produce more. The Ministry have stated that no direct incentive are given to the growers to increase production of lac. However, during the last few years, the Shellac Export Promotion Council has been providing broodlac free of charge to the selected growers in the lac growing States of West Bengal, Bihar and Madhya Pradesh so as to ensure an increased production of lac for which a demand in the international market exists at present. During 1983-84, the Council distributed 105 quintals of broodlac worth Rs. 1.72 lakh amongst 2400 needy growers. Since 1983-84 onwards so far the Council has distributed broodlac worth Rs. 3.50 lakhs from which about 10,000 persons would have been benefited.

12. A statement indicating the quantum of production of stick lac, Statewise and yearwise during 1975-76 to 1984-85 is reproduced below:

*Statement Showing Production of Sticklac in the Country State wise and Year-wise*

The production of sticklac in the country in respect of main lac growing States, State-wise was as under :—

| State                    | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1. Bihar                 | 13,852  | 15,559  | 13,790  | 5,905   | 9,979   | 13,553  | 15,510  | 9,657   | 7,915   | 8,025   |
| 2. Madhya Pradesh        | 3,818   | 3,330   | 3,223   | 1,362   | 2,197   | 2,533   | 2,560   | 2,270   | 2,375   | 3,295   |
| 3. West Bengal           | 2,547   | 2,456   | 2,194   | 606     | 769     | 1,512   | 2,357   | 523     | 532     | 1,025   |
| 4. Gujarat & Maharashtra | 97      | 130     | 148     | 114     | 85      | 95      | 75      | 265     | 360     | 95      |
| 5. Uttar Pradesh         | 1,060   | 2,000   | 1,250   | 1,000   | 2,035   | 2,630   | 450     | 550     | 370     | 325     |
| 6. Orissa                | 194     | 235     | 56      | —       | —       | —       | —       | —       | —       | 10      |
| 7. Assam                 | —       | —       | —       | —       | —       | —       | —       | —       | —       | —       |
| 8. Other States          | 198     | 159     | 238     | 132     | 188     | 160     | 513     | 155     | 53      | 180     |
| All India Total :        | 21,766  | 23,869  | 20,899  | 9,119   | 15,253  | 20,483  | 21,465  | 13,420  | 11,605  | 12,955  |

\*The value of production of stick lac is not available

Source :—Shellac Export Promotion Council, Calcutta

13. As would be seen from the above Statement, the production of stick lac in the country greatly varied in each year during the period 1975-85 and was the least during the year 1978-79. Variation in production of stick lac is attributable to the susceptibility of lac to climatic conditions.

14. In order to avert the declining trend in export of lac and the exploitation of tribal growers engaged in cultivation and collection of stick lac by middlemen the Ministry of Commerce decided in June 1975 to canalise the export of lac through the State Trading Corporation of India. The scheme of canalisation of exports was outlined in the following D.O. letter dated 6.6.75 from the Joint Secretary, Ministry of Commerce addressed to the Chairman, S.T.C. :

"As you may be aware Shellac export has been passing through difficult times since early this year and the flow of new orders has thinned out. Sometime back Government took a decision to reduce MEP by 15% for machine made grades and 22% for hand made grades but this reduction has not provided the desired stimulus to the importers in foreign countries. While there is reduced off take by way of exports, there has been increased production in the country. This has resulted in the prices of sticklac crashing, causing distress to the tribal growers. In view of this situation Government have taken the following decisions :

- (i) Export of Shellac and seeded lac will be canalised through S.T.C.
- (ii) STC will undertake buffer stock operations for sticklac. This price support measure should be implemented immediately and in any case before the Baisakhi crop passes over from the growers' level to the traders level.
- (iii) As STC does not have a ready infrastructure for the above purchase operations it may enter into working arrangements with State Government Organisations and utilise their net work at the field level.
- (iv) While the minimum export price in force will cease to operate STC will nevertheless have to exercise its commercial judgement to ensure maximum realisation....."

15. The above scheme was notified vide the Ministry of Commerce public notice dated 10.6.75 reproduced below :

#### "EXPORT TRADE CONTROL

**PUBLIC NOTICE No. 27/ETC(PN)/75**

**Subject : Canalisation of Shellac etc.**

**It has been decided with immediate effect that export of Shellac,**

Seedlac button lac, garnet lac, and all other forms of lac included under item 45 of Part 'B' of Schedule I to the E(C), 1968 is canalised through STC. Stipulation regarding minimum export prices so far in force is hereby withdrawn.

Sd/-  
Chief Controller of Imports & Exports."

16. The scheme of canalisation and buffer stock operations was modified by Jt. Secretary, Ministry of Commerce letter dated 22nd April, 1979 addressed to the Chairman, STC is extracted below :

"It has been decided that shellac exports will continue canalised through the STC. STC will also continue with the buffer stock operations though this will be on Government account and the total loss incurred by STC in operating the buffer stock scheme during 1978-79 will be met by Government.

STC is authorised to place a total order of 5,500 tonnes of Seedlac on the agencies of the State Governments during 1978-79. The procurement price of sticklac to be notified to the State agencies would be Rs. 2.25 per kg., for sticklac of 50% yield of seedlac. This price replaces the price of Rs. 3 per kg., for sticklac in the procurement of last year.

As discussed with you, the Central Government was keen to replace the existing procurement agencies of the Government of Bihar and West Bengal by setting up new cooperative societies of the tribal growers and producers of sticklac. It was also our intention to ask the STC to carry out the procurement operations in terms of sticklac rather than seedlac. These were measures desired to eliminate the middlemen and to best ensure that the tribal growers actually receive the full amount of the procurement price. However, in view of the practical difficulties outlined in procurement for the current baisakhi crop may continue to be in terms of seedlac and through the existing State Government agencies. You are requested to carry out a detailed study of the proposed scheme of procurement in terms of sticklac and to intimate the Government at the earliest the details and costs of such a scheme. We are also writing to the State Governments regarding setting up of tribal growers cooperatives to replace the present State Agencies. It is hoped that STC would be in a position to switch over to the new cooperatives and sticklac procurement for the kalki crop of 1978 79.

STC for the current baisakhi crop will re-negotiate with the State agencies about the procurement price related to Rs. 2.25 paid for

sticklac. The endeavour of the STC should be to negotiate a price near Rs. 500 per bag of 75 kg.

The obligation on the exporter will continue at 70% as in the last year for shellac exports. The release price of seedlac to the exporters would be Rs. 500 per bag of 75 kg.....The STC will take care to ensure that the seedlac received is manufactured from the fresh crop of sticklac and attempting of old seedlac to the STC is not allowed. In this connection STC may insist upon the technical specifications laid down by the Committee of experts of ISI (Flow for Gr. I-55, and Gr. II-45 as against present flow Grade 1-40, Grade II 37.5 and Grade III-35).

STC may also discuss with the Shellac Export Promotion Council the target of exports for 1978-79. In view of the reduction made in the issue price of seedlac to the exporters it is expected that 10,000 tonnes of shellac would be exported.

It is expected that the total loss to the STC on account of the carrying of operational cost, losses due to the deterioration in quality and reduction in the issue price of seedlac during 1978-79 will not exceed Rs. 2 crores in any case.....”

17. Elaborating the scheme of canalisation of exports of lac by the STC, the Joint Secretary in the Ministry of Commerce stated during evidence :

“Normally canalisation is resorted to in respect of a commodity when we want that *Inter se* competition among the trader-exporters is to be avoided. The price of shellac started declining during that period. The Government thought that private traders should not compete with each other in further reducing the price. Shellac being basically an export-oriented crop, if the international price falls, if our export price falls, ultimately it boomerangs on the tribals. These poor people get the least possible price. That is why Government thought of canalisation, exporting through the STC, so as to ensure that traders do not indulge in mutual undercutting.”

18. In the context, the Additional Secretary Ministry of Commerce further stated :

“The Government laid down a condition that any exporter should buy a certain minimum, a substantial minimum, from the STC. In this case it was 70 per cent. So, the bufferstock which the STC had pur-

chased in the interest of the grower was getting utilised through the traders. Secondly, the STC was not given the responsibility of directly trading with international agencies leaving the private trade to its own devices.....”

19. When asked how far the objectives of the scheme had been achieved, the Ministry of Commerce have stated in a note :

“The objectives of the scheme were to provide a remunerative market to the producer and regain the export market for Indian Seedlac. Under the scheme about 60% of the total lac produced was procured. The producer got Rs. 3 per kg. for the sticklac in areas covered by the scheme as against a price ranging between Rs. 1 to Rs. 1.50 per kg. in areas not covered by the Scheme. Thus, the scheme provided the much needed price support to the tribal population engaged in the production of sticklac.

The scheme also re-established Indian seedlac in the international market. The exports fallen to 6,345 tonnes during 1977-78. The exports which had fallen to 6,345 tonnes during 1977-78 increased to 9,580 tonnes during 1978-79 and 11,116 tonnes during 1979-80.”

20. The seedlac procured by the State Trading Corporation and its value during the years of buffer stock operations were as under :

| Year                  | Procurement<br>(Seedlac in Tonnes) | Value in Rs. Lakhs |
|-----------------------|------------------------------------|--------------------|
| 1975-76               | 214.0                              | 20.01              |
| 1976-77               | 6,541.4                            | 592.74             |
| 1977-78               | 6,338.8                            | 532.68             |
| 1978-79 to<br>1984-85 | Nil                                | —                  |
| Total                 | 13,094.2                           | 1,145.43           |

21. The Ministry of Commerce have stated that the STC did not have infrastructure to procure sticklac. Therefore, STC purchased Seedlac from

agencies nominated by the State Governments. The STC procurement price of Seedlac from State Government agencies was as follows :

| Year       | Price (In Rupees) per bag of 75 kg each (Net) |          |                                  |
|------------|---|----------|----------------------------------|
|            | Grade I                                       | Grade II | Grade III                        |
| 1975-76    | 714   | 614      | —                                |
| 1976-77    | 714   | 689      | 664                              |
|            | 645   | 625      | 605 (revised<br>w.e.f. 9.11.76)  |
| 1977-78    | 640   | 620      | 600                              |
| 1978-79    | 500   | 490      | 480                              |
|            | 510   | 490      | 480 (revised<br>w.e.f. 20.6.78)  |
|            | 434   | 424      | 414 (revised<br>w.e.f. 28.10.78) |
| 1979-80    | 435   | 425      | 415                              |
| 1980-81    | 435   | 425      | 415                              |
| 1981-82 to |   |          |                                  |
| 1984-85    | Nil   | Nil      | —                                |

22. The Committee desired to be apprised of the mechanism adopted by the State Government nominated agencies for procurement of sticklac, its processing into seedlac and supplying the same to STC. The Ministry have, in a note, explained that three states, namely, Bihar, Orissa and West Bengal were involved. The following mechanism of procurement of sticklac from tribals and supply of seedlac to STC was followed :

#### **BIHAR**

The purchase was made through registered cooperative societies of Bihar State Cooperative Lac Marketing Federation. The payment was made in cash at the rates announced by Government of India.

#### **ORISSA**

In one district the purchase was made from the cooperative societies. In other places the purchase was made directly by the Tribal Development Cooperative Corporation,

**WEST BENGAL**

Three categories of agents were appointed, procurement agent, processing agents, and procurement-cum-processing agents by the Tribal Corporation. These agents purchased sticklac and processed the same and made it available to the Corporation.

The STC obtained certificates from the agencies nominated by the State Governments, that the seedlac has been processed from the sticklac which was procured from the producers, who have received minimum support price."

23. In reply to an enquiry as to how other sticklac growing States were taken care of under the price, support scheme, the Ministry have stated in a note :

"The STC contacted the states of Bihar, Orissa, Madhya Pradesh, and West Bengal to procure sticklac from growers under the scheme. It is understood that States of Bihar and West Bengal responded encouragingly, while the other states did not."

24. According to the Audit paragraph the Government fixed the minimum procurement price of sticklac at Rs. 2.25 per kg in 1978-79 as against Rs. 3/- offered by STC during 1977-78. The Ministry of Commerce informed the Committee that the minimum support price offered by STC during 1975-76 and 1976-77 was Rs. 3 per kg. of sticklac.

25. A statement showing the growers' price of sticklac at important centres of lac growing States in each of the year during the period 1975-76 to 1978-79 is at Appendix I. The prevailing up-country prices of sticklac during the period 1975-78 as furnished by the Ministry were as follows :—

| Bengal  | Rate<br>(Rs. per kg.) |            |
|---------|-----------------------|------------|
|         | Jhalda/Balrampur      | Daltonganj |
| 1975-76 | 2.48                  | 2.83       |
| 1976-77 | 2.07                  | 2.09       |
| 1977-78 | 1.20                  | 1.30       |
|         |                       | 1.67       |
|         |                       | 1.15       |
|         |                       | 0.72       |

26. The Committee enquired about the reasons for lower prices of sticklac prevailing in Bihar and West Bengal when the STC was offering a

higher price for the sticklac in these States. The Ministry have explained as follows :

"The STC's operations were mostly confined to the States of Bihar and West Bengal, where the nominated agencies of the State, which entered into the markets for procurements offered a minimum support price of Rs. 3/- per kg. of sticklac to the growers. Where the nominated agencies did not enter the market, the prices were lower."

27. As regards the percentage of procurement of sticklac made, by the agencies authorised by the STC, *vis-a-vis* the production of sticklac in the country during the period 1975-78, the Ministry have stated in a note :

"The STC's operations were mainly conducted in the states of Bihar and West Bengal. During 1975-76 the procurement were meagre as the operations could be started only from the Katki Crop where as the main crop was the Baisakhi crop. However, during 1976-77 and 1977-78 the STC was able to make procurements to the extent of 75% of the crop in these two states. However, on over-all basis, about 60% of the lac produce was procured. This percentage of procurement was not low."

28. The Committee pointed out that the Ministry's D.O. letter dated 22.4.78 addressed to the STC had revealed that the Central Government was keen to replace the existing procurement agencies of the Government of Bihar and West Bengal. When asked to state the reasons for the same the Ministry have replied in a note :

"The intention in replacement of the existing procurement agencies of Bihar and West Bengal by the new cooperative societies of tribal growers and producers of sticklac was to eliminate middlemen and to ensure direct involvement of the procurement agencies of the tribals. But such societies of tribals could not be formed."

29. The Committee pointed out that the intention of the Government was to procure sticklac at the minimum support price but the STC continued to procure seedlac from the State Government nominated agencies and enquired about the steps initiated by the Ministry of Commerce/STC for procuring sticklac rather than seedlac. The Ministry have explained the position as follows :

"The STC were initially asked to undertake buffer stock operations for sticklac. But the STC did not have infrastructure to produce sticklac directly from growers. Therefore, the STC undertook procurement operations of seedlac on the following considerations :—

(a) Collection of sticklac is a cottage industry involving a large number of growers spread over a large area, making the task of

collection of sticklac from growers extremely difficult.

- (b) Since the sticklac is a crude material containing wooden pieces/stones/insect bodies, etc., the quality standards of sticklac cannot be laid down. Therefore, the collection/stocking/quality control as well as payment for goods was difficult to manage.
- (c) The purchasing of sticklac, being a cumbersome job, could not be undertaken by STC.

The Government intended that STC should carry out procurement operations in terms of sticklac rather than seedlac. The Ministry of Commerce constituted a study team in May, 1978 to carry out a detailed study of the scheme of procurement in terms of sticklac and to intimate to the Government the details of costs of such a scheme."

30. The Committee desired to know the recommendations of this study team and the follow up action taken by the Ministry of Commerce. The Ministry have, in a note, stated :

"The main recommendations of the study team were as under :—

- (a) The procurement of sticklac from growers should only be through primary level Cooperatives.
- (b) There should be one procurement agency in each state.
- (c) The price support operations and buffer stocking should be continued.
- (d) Till such time as technical data on shelf life, ideal mode of storage, quality determination and deterioration of sticklac were available and feasibility of storing of sticklac was technically and economically established, the buffer stock should be continued in the form of seedlac. The Indian Lac Research Institute (ILRI), Ranchi, the Directorate of Lac Development, Ranchi, and Bihar State Co-operative Lac Marketing Federation (BISCOLAMF), Ranchi, would make available technical data. The ILRI should, with the help of Directorate of Lac Development and BISCOLAMF, undertake a commercial feasibility study on storage of sticklac. The report of the study undertaken by the ILRI was submitted in 1984. The export of shellac was decanalised from 12.4.1984.

The recommendations of the study team were taken into consideration while deciding the price support operations in 1979-80

Management Development Institute and the shortly to be published report of IIPA condemn the present scheme of procurement specially on the count of the middlemen. Elimination of middlemen in our new proposals was being done by two measures-firstly, by changing the present agencies of procurement and arranging procurement through cooperative of tribals growers and secondly by changing the procurement to sticklac instead of seedlac. Tribals deal only in sticklac and unless our scheme deals in sticklac we would be dealing with middlemen."

32. According to audit paragraph, though the programme of procurement and buffer stock was undertaken on Government Account during 1978-79 as a price support measure with a view to ensuring Tribal Welfare, the minimum procurement price was reduced to Rs. 2.25 per kg. of sticklac as against Rs. 3/- during 1977-78 and also the price of seedlac per bag of 75 kgs. reduced to Rs. 500 against Rs. 650 in 1977-78. The Committee desired to know whether the STC approached the Government for undertaking the buffer stock scheme on Government Account during 1978-79 and if so, what reasons were advanced by STC in this regard. The Ministry have replied as follows :

"The STC approached the Government for subsidy on the purchase of sticklac from 1978-79. The STC had estimated that as on 31.3.1978 they had carry over stocks of about 6000 MTs. which would be in excess of the stocks to be lifted by the exporters under an obligation in 1978-79. The Corporation feared that they would incur losses of several crores of rupees on account of the price support operations. Therefore, they approached the Government for subsidy on the sticklac purchase operations from 1978-79."

33. The Committee pointed out that the Ministry of Commerce authorised the STC to place an order upto 500 tonnes of seedlac on the concerned agencies and enquired as to why the STC could not procure any seedlac during 1978-79. The Ministry have stated in a note :

"The STC could not make any procurement during 1978-79 because the price of sticklac ruled higher than the price offered by the STC on the basis of the Minimum Support Price of Rs. 2.25 per kg. of sticklac. In some areas, where the STC did not enter the market, the price of sticklac/seedlac might be lower than the Minimum Support Price. However, on an average basis, the price of seedlac during 1978-79 was Rs. 373/- per bag of 75 kgs. in Calcutta market."

34. The Committee pointed out that the purport of the Audit paragraph was to emphasise that the buffer-stock had been unloaded at cheaper

rates and the Ministry neither reviewed nor increased the release price when the market was buoyant with the result that the STC sustained losses and the benefit was reaped by the exporters during the year 1978-79. Explaining this point the Additional Secretary of the Ministry stated during evidence :

"We are talking of post-April 1978 when STC was asked to sell it at Rs. 500 per bag. Now, they were asked to buy at Rs. 2.25 per kg. of seedlac from the sticklac. Now the price of Rs. 500 to be given to the trader should be seen in the context of the prevalent extendability of lac in the market. The lac was to be unloaded by the STC to the trader. Now, two links were established. One link is if the STC was to buy at Rs. 2.25 per kg., it should not make a very big profit at the cost of the trader. So, it roughly works out to Rs. 500 per bag. So, the STC was told by the Government that "if you buy you shall buy it at not less than Rs. 2.25 kg. and when you give it to the trader, you shall charge Rs. 500 per bag. The second link which was not fully explained during the audit, during the examination, appears to my mind, that earlier the price was Rs. 600 per bag and Rs. 640 per bag, and so on. In the year 1978-79, the price fixed was Rs. 500. Now why did the Government fix Rs. 500 and the trader was buying at Rs. 500 per bag, that is, 70% of his exportable product and he should have made roughly Rs. 9000 or Rs. 10,000 on shellac in the export market. That was precisely the international market price at that time. The price that our shellac fetched in 1978-79 was Rs. 9380/-. If you see the price prevailing in 1979-80, you would know that it was Rs. 10,264/- or so. The price of the product bought was of the order of Rs. 500 per bag. This was in 1978. Now in 1978-79, if the trader bought it at Rs. 500, we could have said that the trader had made a very heavy profit if he had sold it at Rs. 15,000 or Rs. 18,000. No, he made Rs. 9380 only, broadly speaking. Suppose he bought it at Rs. 500 per bag, that is, 70% of his produce, the remaining 30% would have been bought by him from the market at low price. The average price in the market was Rs. 373. Now, he bought 30% at Rs. 373 and he got additional cost, for example, manufacturing conversion etc. Now, we arrive at a FOB cost of Rs. 10,100 per tonne. What did he realise? He realised according to the export statistics Rs. 9380/. It is on this basis that it was unfortunate that this idea was given on behalf of the Government. It was unintentional. It was said that the price was lowered and thereby possibly the trader had benefited. Actually the trader did not benefit.

Lastly, you can ask me "why did you reduce the price? The simple reason for this is if we had asked for more than Rs. 500 the lac would not have been sold. It would have been lying in the STC godown.

Suppose you had asked STC to sell it at Rs. 700, STC would be accused of making profit. So, it was a very peculiar combination of two circumstances for low price in the market."

35. When enquired about the unit value realisation for Indian exporters of shellac/seedlac in each of the year during the period 1975-79. The Ministry have furnished the following figures :

| Year    | "Unit value Rs./per tonne Shellac |
|---------|-----------------------------------|
| 1975-76 | 16,300                            |
| 1976-77 | 13,758                            |
| 1977-78 | 9,985                             |
| 1978-79 | 9,380.....                        |

The minimum unit value realisation anticipated was Rs. 8750 per tonne for 1978-79."

36. The Committee desired to know the release price of the STC in each year from 1975-76 up-to-date. The Ministry have furnished the following figures :

(Seedlac)

| Year    | Release price (Rs.) per bag of 75 kgs. each net |          |                                   |
|---------|---|----------|-----------------------------------|
|         | GRADE-I   | GRADE-II | GRADE-III                         |
| 1975-76 | 722   |          | (No gradation was made initially) |
| 1976-77 | 722   | 711      | 701                               |
| 1977-78 | 650   | 640      | 630                               |
| 1978-79 | 500   | 490      | 480                               |
| 1979-80 | 515   | 505      | 495                               |
| 1980-81 | 525   | 505      | 495                               |
| 1981-82 | NIL   | NIL      | NIL                               |
| to      |   |          |                                   |
| 1984-85 |   |          |                                   |

37. The Committee pointed out the fact that the difference in unit value realisation from export of lac was very insignificant for the years 1978-79 (Rs. 9380) and 1977-78 (Rs. 9985) and desired to know the reasons for reduction in procurement price of sticklac and release price of seedlac during 1978-79. The Ministry have in a note stated :

"From 1978-79 the STC was to undertake buffer stock operations "on Government Account". The release price and the procurement price was fixed by the Government, both at Rs. 500/- per bag of 75 kgs. after

taking into consideration *inter-alia* the following factors :—

- (a) The fall in the unit value realisation from exports, the consequent reduction in the minimum procurement price of sticklac from Rs 3/- per kg. during 1977-78 to Rs. 2.25 per kg. sticklac during 1978-79;
- (b) The weighted average cost of stock held by the STC and the cost of procurement of stocks;
- (c) It was considered that the release price of Rs. 500/- per bag of 75 kg would be realistic and in line with the international prices of Shellac."

38. The quantum of seedlac released by STC year-wise during the period 1975-81 was as follows :

| Year    | Quantity  |
|---------|-----------|
| 1975-76 | Nil       |
| 1976-77 | 2,503 Mts |
| 1977-78 | 3,841 Mts |
| 1978-79 | 5,528 Mts |
| 1979-80 | 308 Mts   |
| 1980-81 | Nill      |

39. The Committee desired to know the production and exports of shellac (including seedlac) with their value in each of the year during the period 1975-85. The Ministry have stated in a note :

Qty. MTS  
Val : Rs. in Crores

| 1                               | 2      | Exports |       |
|---------------------------------|--------|---------|-------|
|                                 |        | Qty.    | Value |
|                                 |        |         |       |
| In terms of shellac/<br>seedlac |        |         |       |
|                                 |        |         |       |
| 1975-76                         | 10,883 | 7,825   | 12.75 |
| 1976-77                         | 11,934 | 7,092   | 9.76  |
| 1977-78                         | 10,449 | 6,345   | 6.34  |
| 1978-79                         | 4,560  | 9,580   | 8.99  |
| 1979-80                         | 7,627  | 11,116  | 11.41 |
| 1980-81                         | 10,242 | 10,318  | 12.50 |
| 1981-82                         | 10,733 | 10,700  | 15.66 |

| 1       | 2     | 3     | 4     |
|---------|-------|-------|-------|
| 1982-83 | 6,710 | 7,002 | 13.05 |
| 1983-84 | 5,803 | 5,814 | 13.61 |
| 1984-85 | 6,477 | 5,145 | 29.73 |

\*The difference between the quantity of production and exports can be taken as consumed in the country or as stock floating.

40. According to audit paragraph, the Ministry reimbursed Rs. 94.25 lakhs and Rs.5.17 lakhs for the losses incurred by the STC on account of reduced release price of seedlac during the year 1978-79 and 1979-80 respectively. The Committee desired to know the amount of losses incurred by the STC on buffer stock operations. The Ministry of Commerce have furnished the following figures :

*Losses on Buffer stock Operations*

|                | Rs. in lakhs |
|----------------|--------------|
| 1975-76        | 0.17         |
| 1976-77        | 238.65       |
| 1977-78        | 188.74       |
| 1978-79        | 159.97       |
| 1979-80        | 10.01        |
| 1980-81 to     |              |
| <b>1984-85</b> | <b>Nil</b>   |

41. The following were the components of the losses of the STC on buffer stock operations during 1978-79 and 1979-80 :

- (a) Difference in sales price and purchase price.
- (b) Godown rent.
- (c) Insurance.
- (d) Administrative and handling expenses.
- (e) Interest on blocked capital.
- (f) Driage.

42. At the instance of the Committee, the Ministry of Commerce have furnished extracts of noting from file No. 2/S-7/78-EP (Agri. 7). The following extracts from these notings indicate that the Ministry was initially

averse to the idea of reimbursing to the STC the losses on account of buffer stock operations as it represented loss on stocks procured before the scheme came under the Government Account :

"For RE 79-80, while for budgetary purposes we can keep Rs. 157.76 lakhs as proposed. I have strong doubts whether at all Government should make this payment as it represents loss on stock procured before the buffer stocking operation was taken on the Government account. No fresh procurement was made in 1978-79 and then the object of the scheme viz. to ensure reasonable price to growers was not achieved by STC's operations. It is a different matter that even otherwise the prices were high and hence there was no need for STC to purchase any seedlac. Thus even if Government had not taken the decision to take buffer stocking on its account the STC would have incurred a loss."

43. The Committee pointed out that the letter dated 22.4.78. addressed to STC showed future programme of procurement and release where the Govt. had to subsidise and enquired whether there was any reference to the stock which was already with the STC. The representative of the Ministry stated during evidence :

"From 1975 onwards and beyond 1978 also, Government had to look at it in an integrated manner."

44. During evidence, the Committee desired to know the basis for reimbursement of the aforesaid losses to the STC. The Additional Secretary, Ministry of Commerce stated :

"Sir, there has been extensive discussion on this point. There was a demand that all losses, including special charges should be reimbursed to them and the second point of view was that nothing should be given and subsequently on discussion it was decided that we would not reimburse a portion that is including carrying costs. But as there was difference between purchase and sale cost and the lacs were sold at our fixed prices, they should be reimbursed that much subsequently, at a higher level, that is interest on carrying cost, difference between purchase and sale price. If you ask me, I would say that this seems to have been based on a judgement of higher levels of officers in the Ministry of Commerce to optimise the situation. Now, if the Government had not paid this Rs. 1 crore, STC would have to find finance for these losses in some manner or the other. It would have come back to Government in some other way or it would have raised the prices. So the decision seems to have been taken as an imminent and equitable compromise on optimisation of the thing."

Nowhere in the files, it is said that we are compromising with the STC. It appears to be a judgement of optimisation at the higher levels. All these decisions were taken in full consultation with the Ministry of Finance."

45. In reply to a query of the Committee regarding the factors for reimbursing only partial losses to the STC on buffer stock operations and the reasoning in the Ministry on the subject, the Ministry have stated in a note :

"The STC had carry over stock of 5,858 MTs at the end of 1977-78. On the basis of the procurement prices, the issue price for release of stocks before 1978-79 was fixed at Rs. 640/- per bag of 75 kgs. This price was reduced to Rs. 500/- per bag in 1978-79.

Since the release price was reduced from Rs. 640/- to Rs. 500/- per bag, the Corporation incurred losses of Rs. 94.25 lakhs on this account. This amount was reimbursed to the Corporation. However, the losses on account of interest (Rs. 38.80 lakhs) and carrying cost (Rs. 26.72 lakhs) were not reimbursed to the Corporation, as it was expected that the Corporation would have otherwise incurred these losses on the heldover stocks."

46. As the losses on buffer stock operations of the STC were made good for the year 1979-80 also, the Committee desired to know whether the scheme on Government Account was extended beyond 1978-79, the Ministry have stated :

"The scheme of buffer stock operations was extended for 1979-80 also."

47. The Committee desired to know the reasons for not asking the STC to bear/share the losses. The Ministry have stated :

"The State Trading Corporation was asked by the Government to operate the scheme of buffer stock operations in respect of lac on Government account for 1978-79. The losses were to be borne by the Government. The STC could not be asked to share with the Government the losses incurred on account of the operations of minimum support price for lac."

48. The Committee desired to know as to why no action was taken to adjust losses against profits earned by STC. The Ministry have stated in reply in a note :

"The STC charged service charge under the scheme of canalisation of exports during 1975-76 and 1976-77. The service charges under the

canalisation schemes are intended to cover the expenditure on the operation of the scheme and as such service charges could not be treated as profits. The Corporation, however, incurred losses under the price support scheme. At one stage the Corporation was reluctant to undertake price support operations for 1978-79 on account of the losses. Therefore, the scheme was taken up on Government account. The question of adjustment of profits against the losses did not arise."

4. An extract of the notings from File No. 2/S-7/78-EP (AGRI.7), furnished at the instance of the Committee, however, reads as follows :

"The STC has given the position in the PUC which may please be seen. The STC has stated that until 1977-78 the operations did not entail any losses as losses incurred on the price support operations were off set by profits made on canalised exports."

50. It would, however, appear from the following extracts from the notings from file No. 2/S-7/78-EP (AGRI.7) furnished by the Ministry of Commerce that the Ministry had decided to off set the losses on account of margin earned by STC as canalising agency.

"This may be processed further for reimbursement. As per the pro-forma account given in one of the linked files the gross loss on disposal of 5528.492 MT was Rs. 94,24,618.25. We have to deduct from this Rs. 17.14 lakhs being margin earned by STC as canalising agency. Other items like Godown rent, insurance, administrative overheads, interest need not be reimbursed as these would in any case have been incurred by STC even if Government had not decided to take on the operations in 1978-79 in its account and as no new/procurement was done in 1978-79."

Sd/-  
12.3.80

"The amount of Rs. 94,24,618.25 does not include any provision for godown rent, insurance, administrative overheads, interest etc. referred to in DIR (F)'s note at page 21/N, After deducting Rs. 17.14 lakhs on account of service margin earned by STC in 1978-79, the net amount of Rs. 77,10,618.25 may be reimbursed to the Corporation."

Sd/-  
13.3.80

51. The Committee desired to know the profits earned by the STC under the canalisation scheme. The Ministry have stated :

“Under the scheme of canalisation of exports, the STC collected the following service charges :—

| Year    | Amount in Rs. |
|---------|---------------|
| 1975-76 | 34,93,775     |
| 1976-77 | 40,10,511     |
| 1977-78 | 12,82,569     |
| 1978-79 | 17,13,944     |
| 1979-80 | 13,78,691     |
| 1980-81 | 6,90,090      |
| 1981-82 | 8,30,328      |
| 1982-83 | 6,30,725      |
| 1983-84 | 7,39,725      |
| 1984-85 | 3,604.62      |

The STC has been the canalising agency for imports/exports of different items from time to time. The service charges are collected by the Corporation on canalised items. The Corporation does not have a system for item-wise monitoring of overhead expenditure and net profits.”

52. The Committee enquired as to why the sanction for reimbursement of loss of Rs. 99.42 lakhs was not endorsed to Audit. The Ministry have stated :

“The copies of the sanction letters of reimbursement of Rs. 99.42 lakhs to the STC were not endorsed to the Audit. It is noted from the records that this was an inadvertent omission and is regretted.”

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

arrangements with State Government organisations and utilise their network at the field level.

54. The Committee wonder how Government had expected the benefits of buffer purchase operations in respect of sticklac to flow to the growers when no infrastructure existed with STC. Evidently, the scheme was not well conceived and no pioneering study had been made before it was initiated. It was taken up in an unplanned manner with the result that relatively little benefit actually accrued to the growers. For, during the entire period of buffer stock operations STC continued to make purchase of seedlac from the State nominated agencies who followed varying mechanisms for procurement operations and supplied seedlac (an intermediate product) rather than sticklac (the basic material marketed by the growers). Since sticklac was not purchased from the growers directly, this resulted in the price often prevailing lower than the minimum procurement price in different lac growing States during the period of procurement and buffer stock operations. The Committee further note that even though a large number of States are growing lac the operations were confined only to three States, viz., Bihar, Orissa and West Bengal. The other States which were addressed to undertake procurement did not respond to the proposed scheme positively. The Committee thus, cannot, but conclude that the objective of providing a remunerative market to the growers was largely frustrated. That the scheme had this inherent deficiency is borne out by the fact that even the Ministry of Commerce were themselves not happy with the existing mechanism as is evident from the following observations contained in their note dated 14.4.1978. The note conceded :

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

The Committee are astonished to observe that despite the STC having made clear that they do not have infrastructure for procurement of sticklac from the growers and that they will continue to procure the seedlac from the state agencies and despite the Ministry having fully realised that the scheme is not likely to benefit the growers for whose benefit the same was introduced, they went ahead with the scheme in a halfhearted, haphazard and unbusiness-like manner, after recording their misgivings about any arrangements for procurement of sticklac directly from growers and without even spelling out

or initiating any arrangements to establish marketing cooperatives. etc. through the specialised organisations like the National Cooperative Development Corporation etc. With all the misgivings and reservations, the scheme of subsidy was approved even by the Ministry of Finance who had also failed to initiate any long term measures to alleviate the hardships caused to the tribal growers. Failure to initiate any measures to form grower's cooperatives etc. has left the problem of middlemen, exploiting the growers, unsolved. The Committee recommend that responsibility in this respect should be pin-pointed and suitable action taken against those found responsible in the matter. The Committee also place on record their disapproval of the procurement of lac having been handled in a halfhearted manner which led to this failure to achieve the objectives of the scheme.

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

56. On 22 April, 1978, it was decided to continue the scheme of canalised exports and buffer stock operations but the scheme was modified to be on Government account during 1978-79. It was decided that STC should take up procurement and buffer stock programme for seedlac involving procurement of 5500 tonnes during the year for which a loss of about Rs. 2 crores was estimated. The total loss incurred by STC during the year was agreed to be met by Government. The minimum procurement price of sticklac was reduced to Rs. 2.25 per kg. as against Rs. 3.00 and the release price of seedlac was reduced to Rs. 500 per bag of 75 kg as against Rs. 640 in the previous year, i.e. 1977-78. The Committee regret that the Ministry did not review the said price stipulations during the year 1978-79 when there was a crop failure and the resultant short supply. This only helped the traders in keeping the price of sticklac under their control. The exporters realised Rs. 9380 per tonne of shellac exported in 1978-79 as against the anticipated export unit value realisation of Rs. 8750 per tonne calculated on the basis of release price of Rs. 500 per bag. While the exporters made full use of the reduced release price of seedlac as would be evident from the fact that the release of 5528 Mts. of seedlac during the year 1978-79 was the highest made by the STC in a single year during the entire course of buffer stock operations, the Ministry failed to carry out a timely review of the release price in the context of buoyant export market and thus lost an opportunity to minimise the losses on account of buffer stock operations. The Committee would like the Ministry to take a lesson from this for future.

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

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

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

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

60. The Committee observe that the scheme of operation of buffer stock and support price has since been discontinued. The Committee consider it unfortunate that the scheme has been discontinued without proper examination and longer trial. The Committee are of the opinion that the objective of providing remunerative prices to the growers can still be achieved if the scheme is taken up and implemented as a part of Integrated Rural Develop-

ment Programme monitored by District Rural Development Agency. The Committee recommend that this aspect of the issue should be examined now and suitable action taken in the matter.

NEW DELHI;

11 August, 1986  
20 Sravana, 1908 (Saka)

E. AYYAPU REDDY,

*Chairman,*  
*Public Accounts Committee.*

## APPENDIX I

(Vide Paragraph 25)

*Growers Price of Slichtac in Rs./kg. in the Important Centres of Different Lac Growing States*

|              |      | 1975/76 |      |      |      |      |       |      |      |      |      |      |      |
|--------------|------|---------|------|------|------|------|-------|------|------|------|------|------|------|
| GROWERS      |      | April   | May  | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mach |
|              | Bai. | Bai.    | Bai. | Bai. | Bai. | Bai. | Bai.  | Bai. | Bai. | Bai. | Kat. | Kat. | Kat. |
| <b>W.B.</b>  |      |         |      |      |      |      |       |      |      |      |      |      |      |
| Jhalda       | 2.20 | 2.30    | 2.90 | 2.40 | 2.00 | 2.75 | 2.90  | 3.10 | 3.56 | 2.95 | 2.55 | 2.45 |      |
| Balrampur    | 2.40 | 2.75    | 3.45 | 2.55 | 2.00 | 2.50 | 3.45  | 3.25 | 3.25 | 3.05 | 2.65 | 2.80 |      |
| <b>BIHAR</b> |      |         |      |      |      |      |       |      |      |      |      |      |      |
| Khunti       | 1.80 | 2.10    | 2.75 | 2.25 | 1.70 | 2.30 | 3.25  | 3.25 | 3.40 | 2.80 | 2.55 | 2.30 |      |
| Bundun       | 2.50 | 2.45    | 3.00 | 2.40 | 1.95 | 2.75 | 2.90  | 2.85 | 3.20 | 3.10 | —    | 2.42 |      |
| Daltonganj   | 1.55 | 1.55    | 1.85 | 1.45 | 1.20 | 1.90 | 1.85  | 1.85 | 2.00 | 1.65 | 1.35 | 1.35 |      |
| <b>M.P.</b>  |      |         |      |      |      |      |       |      |      |      |      |      |      |
| Katbgora     | 1.85 | 2.10    | 2.50 | 1.80 | 1.30 | 1.65 | 2.05  | 1.85 | 1.80 | 1.55 | —    | —    |      |
| <b>U.P.</b>  |      |         |      |      |      |      |       |      |      |      |      |      |      |
| Dudhi        | 1.40 | 1.60    | —    | 1.65 | 1.05 | 1.25 | 1.60  | 1.75 | 1.65 | 1.50 | —    | 1.30 |      |

| GROWERS      | April<br>Bai. | May<br>Bai. | June<br>Bai. | July<br>Bai. | Aug.<br>Bai. | Sept.<br>Bai. | Oct.<br>Bai. | Nov.<br>Bai. | Dec.<br>Bai. | Jan.<br>Bai. | Feb.<br>Bai. | March<br>Bai. |  |
|--------------|---------------|-------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|--|
|              |               |             |              |              |              |               |              |              |              |              |              |               |  |
| <b>W.B.</b>  |               |             |              |              |              |               |              |              |              |              |              |               |  |
| Jhalda       | 2.00          | 2.00        | 2.85         | 3.15         | 2.65         | 2.80          | 2.80         | 2.40         | 2.40         | 1.60         | 1.40         | 1.35          |  |
| Balrampur    | 2.20          | 2.15        | 2.55         | 2.85         | 2.95         | 2.90          | 2.85         | 2.55         | 2.06         | 1.80         | 1.25         | 1.00          |  |
| <b>BIHAR</b> |               |             |              |              |              |               |              |              |              |              |              |               |  |
| Khunti       | 1.70          | 1.85        | 2.30         | 2.80         | 2.95         | 2.80          | 1.46         | 1.91         | 2.00         | 2.65         | 3.00         | 3.35          |  |
| Bundu        | 1.56          | 2.10        | 2.50         | 3.05         | 4.70         | 3.05          | 2.80         | 1.95         | —            | 2.70         | 1.70         | 1.45          |  |
| Daltonganj   | 1.30          | 1.25        | 1.10         | 1.50         | 1.55         | 2.25          | 1.35         | 1.10         | 1.10         | 0.85         | 0.65         | 0.65          |  |
| <b>M.P.</b>  |               |             |              |              |              |               |              |              |              |              |              |               |  |
| Kathgora     | —             | 1.40        | —            | —            | —            | —             | 0.80         | 1.20         | 1.20         | 0.85         | 0.85         | 0.60          |  |
| <b>U.P.</b>  |               |             |              |              |              |               |              |              |              |              |              |               |  |
| Dudhi        | 1.25          | 1.10        | 1.30         | 1.25         | 1.15         | 1.25          | 1.10         | —            | —            | 0.90         | 0.80         | 0.80          |  |
| <b>W.B.</b>  |               |             |              |              |              |               |              |              |              |              |              |               |  |
| Jhalda       | 1.25          | 1.15        | 1.30         | 1.40         | 1.25         | 1.00          | 1.00         | 1.05         | 1.20         | 1.20         | 1.25         | 1.25          |  |
| Balrampur    | 1.30          | 1.30        | 1.55         | 1.45         | 1.40         | 1.25          | 1.10         | 1.35         | 1.45         | 1.30         | 1.30         | 1.15          |  |
| <b>BIHAR</b> |               |             |              |              |              |               |              |              |              |              |              |               |  |
| Khunti       | 1.25          | 1.25        | 1.15         | 1.10         | 1.20         | 1.00          | 1.20         | 1.45         | 1.50         | 1.35         | 1.35         | 1.45          |  |
| Bundu        | 1.40          | 0.95        | 0.95         | 1.75         | 1.25         | 1.15          | 1.20         | 1.50         | 1.55         | 1.55         | 1.55         | 1.55          |  |

Daltonganj 0.80 0.75 0.80 0.95 0.65 0.65 0.75 0.75 0.80 0.70 0.70  
**M.P.**  
 Kathghora 0.75 0.80 0.85 0.85 0.80 0.60 0.60 0.45 0.70 0.60 0.65 —

U.P.  
 Dudhi 0.50 0.60 0.55 0.50 0.50 0.45 0.45 0.45 0.55 0.55 0.55 0.40

1978-79

W.B.  
 Jhalsa 1.50 2.70 3.40 3.65 3.50 3.90 3.00 3.25 3.00 2.85 2.25 2.70  
 Balrampur 1.60 2.75 3.40 3.60 3.50 3.90 3.00 3.25 3.10 1.90 1.75 2.00

**BIHAR**

Khuniti 1.75 2.70 3.30 3.90 3.60 3.80 2.60 2.00 2.90 2.50 2.10 —  
 Bundu 1.75 3.00 3.35 3.75 3.35 4.10 3.00 3.25 3.00 2.60 2.00 2.00  
 Daltonganj 0.95 1.60 3.20 2.40 2.25 2.40 2.65 1.80 1.50 1.25 1.05 1.45

**M.P.**

Kathghora 0.60 1.30 2.10 1.95 1.90 — 1.60 1.60 2.15 — — —  
 U.P.  
 Dudhi 0.65 1.20 2.00 — 2.20 — — — — — — —

## APPENDIX II

## (Wide Introduction)

*Statement of Conclusions and Recommendations*

| Sl. No. | Para No. | Ministry/Department | Conclusion/Recommendation   |
|---------|----------|---------------------|---|
| 1       | 2        | 3                   | 4   |
| 1       | 53       | Commerce            | <p>Shellac export had been passing through difficult days since early 1975 and even the decision to reduce the minimum export price by 15% for machine-made grades and 22% for hand-made grades had not produced the desired results. The reduced offtake by way of export in the face of increased production had resulted in prices of sticklac crashing, causing distress to the growers, a large number of whom were tribals. With an avowed objective of regaining export market for Indian lac and providing remunerative prices to the growers, the Ministry of Commerce decided in June 1975 to canalise the export of shellac and seedlac through the State Trading Corporation of India. The STC was required to undertake maintenance of buffer stock of sticklac as a price support measure. As STC did not have a ready infrastructure for buffer purchase operations it was expected to enter into working arrangements with State Government organisations and utilise their network at the field level.</p> |

The Committee wonder how Government had expected the benefits of buffer purchase operations in respect of sticklac to flow to the growers when no infrastructure existed with STC. Evidently, the scheme was not well conceived and no pioneering study had been made before it was initiated. It was taken up in an unplanned manner with the result that relatively little benefit actually accrued to the growers. For, during the entire period of buffer stock operations STC continued to make purchase of seedlac from the State nominated agencies who followed varying mechanisms for procurement operations and supplied seedlac (an intermediate product) rather than sticklac (the basic material marketed by the growers). Since sticklac was not purchased from the growers directly, this resulted in the price often prevailing lower than the minimum procurement price in different lac growing States during the period of procurement and buffer stock operations. The Committee further note that even though a large number of States are growing lac the operations were confined only to three States, viz., Bihar, Orissa and West Bengal. The other States which were addressed to undertake procurement did not respond to the proposed scheme positively. The Committee thus, cannot, but conclude that the objective of providing a remunerative market to the growers was largely frustrated. That the scheme had this inherent deficiency is borne out by the fact that even the Ministry of Commerce were themselves not happy with the existing mechanism as is evident from the following observations contained in their note dated 14.4.1978. The note conceded :

"I am not entirely happy in making this recommendation as the published reports of Management Development Institute and the shortly to be published report of IIPA condemn the present scheme of procurement specially on the count of the middlemen. Elimination of middlemen in our new proposals was being done by two measures firstly, ..

hy changing the present agencis of procurement and arranging procure-  
ment through cooperative of tribal growers and secondly by changing  
the procurement to sticklac instead of seedlac. Tribals deal only in  
sticklac and unless our scheme deals in sticklac we would be dealing  
with middlemen."

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

in a haphazard manner which led to this failure to achieve the objectives of the scheme.

3 55 Commerce

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

4 56 —Do—

On 22 April, 1978, it was decided to continue the scheme of canalised exports and buffer stock operations but the scheme was modified to be on Government account during 1978-79. It was decided that STC should take up procurement and buffer stock programme for seedlac involving procurement of 5500 tonnes during the year for which a loss of about Rs. 2 crores was estimated. The total loss incurred by STC during the year was agreed to be met by Government. The minimum procurement price of sticklac was reduced to Rs. 2.25 per kg. as against Rs. 3.00 and the release price of seedlac was reduced to Rs. 500 per bag of 75 kg. as against Rs. 640 in the previous year, i.e. 1977-78. The Committee regret that the Ministry did not review the said price stipulations during the year 1978-79 when there was a crop failure and the resultant short supply. This only helped the traders in keeping the price of sticklac under their control. The exporters realised Rs. 9380 per tonne of shellac exported in 1978-79 as against the anticipated export unit value realisation of Rs. 8750 per tonne calculated on the basis of release price of Rs. 500 per bag. While the exporters made full use of the reduced release price of seedlac as would be evident from the fact that the release of 5528 Mts. of seedlac during the year 1978-79 was the highest made by the STC in a single year during the entire course of buffer stock

operations, the Ministry failed to carry out a timely review of the release price in the context of buoyant export market and thus lost an opportunity to minimise the losses on account of buffer stock operations. The Committee would like the Ministry to take a lesson from this for future.

5      57      Commerce

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

34  
The Committee consider that reimbursement of Rs. 94.25 lakhs to STC was hardly justified as the losses actually related to the stocks procured before the buffer stock operations were undertaken on Government Account and not as result of purchases during the year.

6      58      —Do—

The Committee observe that the Ministry was to reimburse the loss of Rs. 94.25 lakhs after setting off the service charges amounting to Rs. 17.14 lakhs earned by STC as canalising agency. The Committee, however, find that while the net amount so payable to the STC was Rs. 77.11 lakhs, the Ministry actually reimbursed Rs. 94.25 lakhs. Even if reimbursement of the losses accruing to STC for buffer stock operations on Government account during 1978-79 is agreed to in principle on the plea put forward by the Ministry that an integrated view of the scheme needed to be taken, the Committee see little justification in not setting off service charges of STC during the year against the loss. To the Committee's surprise, it is contrary

to the decision taken by the Ministry in this regard as is clear from the extracts of the notes furnished to the Committee. The Committee would like Government to enquire as to when, at which level and on what considerations was the decision of setting off the service charges of Rs. 17.14 lakhs was reversed due to which an amount of Rs. 94.25 lakhs was ultimately paid to the STC. The Committee may be apprised of the findings in this regard.

7 59 —Do— The Committee are informed that STC do not have a system for scheme-wise monitoring of expenditure and net profits earned as canalising agency for import/export of different items. As a large number of Government schemes are executed through the medium of STC, it is desirable that the system of accounts should be reorganised to ensure that the cost incurred by STC on individual schemes is available separately to give a proper and timely feedback to the Government.

8 60 —Do— The Committee observe that the scheme of operation of buffer stock and support price has since been discontinued. The Committee consider it unfortunate that the scheme has been discontinued without proper examination and longer trial. The Committee are of the opinion that the objective of providing remunerative prices to the growers can still be achieved if the scheme is taken up and implemented as a part of Integrated Rural Development Programme monitored by District Rural Development Agency. The Committee recommend that this aspect of the issue should be examined now and suitable action taken in the matter.