

TEA TRADING CORPORATION OF INDIA LIMITED

**Setting up of a Joint Venture Company, Export
Contracts and Irregular Payment of Advances**

MINISTRY OF COMMERCE

COMMITTEE ON PUBLIC UNDERTAKINGS 1991-92

TENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

THIRD REPORT

**COMMITTEE ON
PUBLIC UNDERTAKINGS
(1991-92)**

(TENTH LOK SABHA)

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**Setting up of a Joint Venture Company, Export
Contracts and Irregular Payment of Advances**

(MINISTRY OF COMMERCE)



*Presented to Lok Sabha on 12 March, 1992
Laid in Rajya Sabha on 12 March, 1992*

**LOK SABHA SECRETARIAT
NEW DELHI**

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Corrigenda to the third Report
of the Committee on Public Under-
takings(1991-92) on the Tea Trading
Corporation of India Ltd.:Setting
up of a Joint Venture Company, Export
Contracts and Irregular payment of
Advances.

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CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I — Setting up of a Joint Venture Company	1
CHAPTER II — Loss of Rs. 64.61 lakhs on sale of tea to foreign buyer	13
CHAPTER III — Export of Tea to Libya	20
CHAPTER IV — Export of Tea to Iran	27
CHAPTER V — Irregular Payment of Advances	32
APPENDIX — Statement of Conclusions / Recommendations of the Committee contained in the Report	38

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(1991-92)

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2. Smt. P.K. Sandhu—*Deputy Secretary*
3. Smt. Revathi Bedi—*Under Secretary*

(iii)

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Report on Tea Trading Corporation of India Limited.

2. The subject was examined by the Committee on Public Undertakings (1990-91). The Committee took evidence of the representatives of Tea Trading Corporation of India Limited on 30th October, 1990 and also of the representatives of Ministry of Commerce on 12th December, 1990. The Committee, however, could not finalise their Report due to the dissolution of Ninth Lok Sabha on 13th March, 1991.

3. The Committee on Public Undertakings (1991-92) considered and adopted the Report at their sitting held on 6th December, 1991.

4. The Committee feel obliged to the Members of the Committee on Public Undertakings (1990-91) for the useful work done by them in taking evidence and sifting information which forms the basis of this Report. They would also like to place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

5. The Committee wish to express their thanks to the Ministry of Commerce and Tea Trading Corporation of India Limited for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Commerce and Tea Trading Corporation of India Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered by the Comptroller & Auditor General of India.

NEW DELHI;

10 March, 1992

20 Phalgun, 1913 (S)

A.R. ANTULAY,
Chairman,

Committee on Public Undertakings.

CHAPTER I

SETTING UP OF A 'JOINT VENTURE' COMPANY

The Comptroller & Auditor General of India in Paragraphs 27.1 to 27.8 on Tea Trading Corporation of India of the Report on Union Government (Commercial) No. 9 of 1989 observed that in order to expand tea marketing activities, a project report was prepared (February 1981) jointly by the Corporation (TTCI) and Kellogg 20th Century (KTC), an associate of 20th Century Pvt. Limited of Singapore, which envisaged setting up of a new company in Singapore on joint venture basis. The main features of the new project were:—

- (i) The cost of the Project was estimated at \$ 9,00,000 of which Equity Share Capital was \$ 4,50,000 to be shared by KTC and TTCI at 60:40 thereby making TTCI's share as \$ 1,80,000.
- (ii) KTC was to provide the physical needs for the project *i.e.* land, building, manpower etc. and TTCI was to provide technical know-how promotion support in marketing target etc.
- (iii) The project was expected to break even in the first 12 months of its operation (with the target sale of 750 MT of bulk tea, 60 MT of bags and 15 MT of caddies) and the target was based on TTCI's experience in market operation.
- (iv) The location at Singapore was considered on account of ready availability of tea from different sources, low freight rate, facilities for shipping, banking and communication in addition to the port being a 'freeport'.

1.2 The project was approved by the Government of India in June 1981 and the new company named as 20th Century Beverages Pvt. Ltd. was incorporated on 26th December, 1981. In January 1982, TTCI remitted \$ 1,80,000 as its share of equity.

1.3 During the period from December, 1981 to November, 1982, the joint venture company could sell only 320 chests of tea (12800 kg) valuing \$ 1,64,593 and suffered a loss of \$ 1,89,821 during the year. In view of substantial loss suffered and unwillingness of the partners to continue with the project, the joint venture company ceased its operation subsequent to November, 1982.

1.4 The Committee wanted to know as to what were the main considerations and the basis for anticipating that the project would

be economically viable and would break-even in the first 12 months of its operation. TTCI informed the Committee in a written note as follows:—

"The project envisaged that the target would be achieved within one year and the project would generate surplus in the second year of operation mainly due to vast potential market in South-east Asia. TTCI had experience in marketing of tea in Japan, Australia and Far East Asian countries. The other consideration was also that Singapore was economically and politically stable with excellent communication facilities and good banking and financing net work, relatively low wage rate, moderate and manageable rate of inflation besides its economy being export dependent and export oriented."

1.5 The Committee wanted to know as to what were the market inputs available to TTCI when this project was taken up and if they had any experience of exports to South-east Asian countries, the Managing Director, TTCI stated in evidence before the Committee as under:—

"From the records which are available it seems there was not as adequate study of the market conditions as there should have been and our experience in the Far Eastern countries like Australia and Japan were casual in nature and not a very well documented one about the market conditions there."

1.6 On being asked that when TTCI did not have enough study into market conditions; what was the basis of compulsions for having entered into the joint venture collaboration, a representative of TTCI stated in this connection as follows:—

"I was not dealing actually with this. But from my memory of discussions in the Board Meetings, I can say the compulsion was because of a reference from the Trade Development Authority. They had suggested that a joint venture company could be viable, there being no other Govt. organisation besides TTCI. This responsibility was given to TTCI. So, from a reference of the Trade Development Authority this project was originally undertaken. But the idea of market analysis and all those records were handled by the Chief Executive and they were not discussed at Board Meetings. But the source of origin is the Trade Development Authority."

1.7 On being asked if the Trade Development Authority parted with any market inputs, the representative replied as under:—

"They gave a report which is not available in our office records because besides the Chief Executive, all other people who were assisting the Chief Executive, are no longer in this Company. So records are also not available."

1.8 When asked if any negotiation was held by TTCI with any firm based in South East Asia when the project was set up, the witness replied in the negative.

1.9 The Committee wanted to find out from the Ministry as to how they approved the setting up of Joint Venture and what study they had made in this regard, the Special Secretary, Ministry of Commerce stated during evidence:—

“We thought that if we have a joint venture in a central base like Singapore, we will be in a position to promote the export of blended and packaged tea in value added form. We had also gone into the expertise available in TTCI at that time and we thought that TTCI is equipped to take up this work.”

1.10 The Committee wanted to know as to what could be the reasons due to which the anticipated targets could not be achieved and the company suffered heavy losses. The M.D., TTCI stated in this connection as under:—

“Sir, the main reasons for suffering the losses are that the prices ex-Colombo, ex-Chittagong and Calcutta were lower and more competitive than the prices of tea ex-Singapore. Also it was the prices of tea which was to be exported to countries through which the market was identified. We offered a higher price than the price which was available. Therefore the losses are based on the fundamental or basic reasons of higher transportation costs.”

1.11 However, to a question as to the reasons for not achieving the targets and company suffering heavy losses, the TTCI informed the Committee *vide* a note submitted to the Committee that the type of tea which was suitable for marketing in South East and far East Asian countries was not available and the price ex-Singapore was not competitive enough with prices ex-Colombo, ex-Chittagong and Calcutta. During that period M/s. Kellogg who was one of the shareholders of the Joint Venture Company withdrew from the project. It was mutually agreed upon at the time of joint venture company that M/s. Kellogg would provide all necessary infrastructural facility for marketing and Channel of distribution. So the joint venture company could not achieve the targets and incurred losses.

1.12 The Committee wanted to know if any study was made about the market conditions, the type of tea which would be required by the people there and also the consumer market behaviour, M.D., TTCI stated in this regard:—

“I would agree that the expertise the kind of market knowledge, the kind of efficiency that is necessary to enter into a joint venture particularly with a foreign collaborator was not available to the extent it should be available.”

She further added:—

“.....It is not that we were not capable of providing that tea, because otherwise the market survey report of that particular period

does not show the total absence of the type of tea which we were supposed to offer."

She further stated in this connection as under:—

"The blend formula was available and we know that kind of tea was available and also the market did have the inputs for that blend formula.....As I have already stated unfortunately the Company could not make it available."

1.13 The Committee wanted to know that when blend formula was available, what was the problem in exporting. Managing Director, TTCI replied as under:—

"Separately those types of tea were available in the market but shortcoming was at the level of procuring it to the desired quantity and blending it to the desired formula."

1.14 Regarding the reasons for incurring losses, the Special Secretary, Ministry of Commerce stated during evidence:—

"The Joint Venture Company did not take off in the real sense of the word. The Collaborator did not put in his share of equity capital."

1.15 According to Audit as per Memorandum of Understanding (October 1985) between TTCI and 20th Century Private Limited it was decided that TTCI would get back its share of investment (S \$ 1,80,000) alongwith interest (@ 10 per cent) upto November, 1984 (S \$ 51,879) after adjustment of share of loss to be borne by TTCI (S \$ 1,14,100 being 40 percent of total loss of S \$ 2,85,252 of joint venture company upto November 1984). The amount due to TTCI as on 30-11-1984 was thus determined as S \$ 1,17,779. However, in the subsequent memorandum of 26-2-1987 it was decided that TTCI would accept 60 per cent of its investment amounting to S \$ 1,08,000 in full and final settlement of its claim. The amount was received by the Company in April, 1987.

1.16 Thus in the joint venture deal for sale of tea, TTCI incurred a loss of Rs. 9.89 lakhs by way of foregoing investment of S \$ 72,000 (Rs. 4.29 lakhs) and interest thereon (Rs. 5.60 lakhs) upto March, 1987.

1.17 The Committee wanted to know as to why while signing the second Memorandum of Understanding the amount which was earlier determined as S \$ 1,17,779 was subsequently reduced to S \$ 1,08,000. TTCI stated in this regard in a written reply as under:—

"In Memorandum of Understanding dated 29-10-85 and in paragraph 4 thereof, it was decided that TTCI would receive an amount of S \$ 1,00,000 on dissolution of joint venture company after taking all the legal steps under the law at Singapore. That agreement was based on a *prima-facie* accounts of 20th Century Beverages Pvt. Ltd. At the time of settlement based on subsequent memorandum of understanding as also after scrutiny of management accounts upto

31st January, 1987, the matter was settled at S \$ 1,08,000 which included understandably our claim on account of interest also. The amount of S \$ 1,08,000 was compounded taking into account 60% of S \$ 1,80,000 originally remitted plus our share of expenses as on 31st January, 1987 as also our claim of interest."

1.18 When asked to clarify the position regarding the difference in the figures of audit and that of TTCI relating to amount due, TTCI stated in a post-evidence reply:

"In the paragraph 4 of the Memorandum of Understanding dt. 29-10-85, it was mentioned 'From a *prima-facie* scrutiny of the accounts of 20th Century Beverages as available till date, it appears that 20th Century Foods will have to pay TTCI approx. Singapore \$ 1,00,000/- on dissolution of the Joint Venture Company after taking all appropriate legal steps under the laws of Singapore. But exact figure shall be determined after scrutiny of the accounts as certified by the auditors and after scrutiny by TTCI's representatives. Hence Singapore \$ 1,00,000/- was an approx. figure estimated at that stage to be received by TTCI and was not a final figure agreed between the parties as per MOU dt. 20-10-85."

1.19 A representative of Ministry of Commerce stated in this connection during evidence:

"Initially the first memorandum was sent and as per the first memorandum it was felt that from the losses the share of TTCI can be kept at 40 per cent and after looking into the books of accounts it was noticed that it could be settled for one lakh Singapore dollarsIn the Board meeting it was realised that the joint venture can be closed and the claim settled at 1,08,000 Singapore Dollars by TTCI. It was found that settling the claim at that figure was the best than can be done."

1.20 Audit has further noted that though one of the main functions of TTCI in the joint venture was to provide active marketing support as also to secure orders for the new company but no such marketing support could be provided by TTCI. Besides the important factor that the cost of tea escalates in Singapore because of the triangular factor of transportation involved was also ignored. Every Kilogram of tea imported as Singapore for auctioning and sale thereafter added to its initial cost, the cost of transportation from the ship to the auction companies warehouse from there to the buyers warehouse and from the buyers warehouse to the ship again to its final destination. There were also inadequate blending facilities in Singapore.

1.21 The Committee wanted to know why the transportation costs were not taken into account before the setting up of the project and why no active marketing support could be provided. TTCI stated in a written reply

that as regards transportation costs, records do not reveal anything. So far as failure to provide marketing support is concerned, TTCI informed in the written reply:

"As the project could not be materialised due to withdrawal of Kellogg the major partner in the joint venture project who were basically supposed to provide marketing support, further action regarding the project on behalf of TTCI was decided to be suspended until the problem of constitution and formation of the proposed joint venture company was settled and necessary shares of TTCI were issued for which \$ 1,80,000 was remitted but the same was kept as loan. Accordingly it was felt as risky to take further action on the part of TTCI for the project with men, material and funds without legal standing as share-holders of the Company."

1.22 On being asked why TTCI remitted money while others did not contribute and if there was any compulsion, a representative from TTCI stated in evidence before the Committee that the money was remitted as per-agreement but regarding any sort of compulsion, he stated:—

"To this question there is no answer in our record."

He further added:

"We had sent that money for share capital."

1.23 On being asked if they had any receipt of share papers, the representative while replying stated:—

"No Sir, that is a question which has been raised by the RBI also."

1.24 The Committee wanted to know from the Ministry as to what were the reasons on account of which TTCI remitted their share of contribution whereas the others did not. The Special Secretary, Ministry of Commerce stated as under:—

"This was our share of the equity and we thought that the collaborator also will contribute his share. He did not contribute."

1.25 The Committee desired to know if the financial standing of the Collaborator was verified before approving the Collaboration agreement and whether it was reported to the firm that the Collaborator was not taking any interest. In reply the representative of the Ministry of Commerce stated:—

"There was failure on the part of the management in reporting the matter. The Government did not get any report about the joint sector venture not taking off. So there was a failure on the part of the management. They did not report to the Government that the Collaboration is not working."

1.26 When asked to state as to what were the representatives of the Ministry doing on the Board, the Special Secretary stated as under:—

“The Ministry has got two directors on the Board of Directors of TTCI. It was incumbent on them to oversee the working of TTCI. When the Collaborator did not take off they should have reported back to the Government saying the Collaborator is not working.”

He further added:

“The matter was not reported to the Board. The Ministry’s representative on the Board did not report to the Government that the Collaboration Agreement is not working.”

1.27 On being asked if any responsibility was fixed on them the Special Secretary stated as under:—

“We are trying to find who were the directors. We have got a list of directors who represented the Ministry in TTCI. We will try to fix the responsibility. We have to find out during which period they were on the Board.”

1.28 Regarding the role of Directors on the Board the Ministry submitted in a post evidence note that the Directors of the Government on the Board of Directors of TTCI are supposed to represent and watch the interest of the Government and also report any important matter that would need the attention of the Government. Generally the Ministry is represented on the Board by officers who are dealing with the concerned subject in the Ministry so that they are aware of the general nature of operation of TTCI. These officers also operate as in interface between the Ministry of Commerce and the Corporation and co-ordinate with other wings in the Ministry in respect of matters pertaining to the Corporation. The Government representatives keep watch on the Corporation and see whether it is taking action to fulfil the objectives with which it has been established. Action of the Corporation which do not serve the interest of the Government is supposed to be brought to the notice of the Government for taking appropriate remedial action whenever it comes to the notice of the Directors during the course of the Board meetings.

1.29 The Committee wanted to know the reasons as to why Govt. was not kept informed of the developments of the new joint venture company periodically. TTCI stated in a written reply that reasons are not available from the records.

1.30 The Committee wanted to know from the Ministry as to how many meetings were held and how many progress Reports were collected by Ministry since 1981. The Special Secretary, Ministry of Commerce stated as under:

“We have checked it up. We have not come across any performance Report.”

1.31 On being asked if the Ministry also did not ask for any quarterly performance review report from the management of TTCI, the Special Secretary stated:

"From our papers it is known that the Ministry did not ask for any report. But the Chief Executive did not send us the report."

1.32 However, in the post-evidence replies the Ministry informed the Committee that:

"The first report of the performance of the Joint Venture Company was sent by the then M.D. Shri P.K. Das Gupta indicating that company was incorporated w.e.f. 26-12-1981 and going into operation w.e.f. 1-6-1982. The second report informing that the joint venture company has incurred a loss was received on 6-2-1984. In April, 1985, TTCI informed the Government about the problems faced by the Joint Venture Company."

1.33 Audit has pointed out that while approving the new project the Govt. of India directed (June 1981) *inter alia* that TTCI should submit to the Ministry of Commerce the Annual Report on the progress made in the implementation of the project and performance of the joint venture, no such annual report was furnished to the Ministry.

1.34 The Committee wanted to know from the Ministry as to why annual reports were not called for. The Special Secretary, Ministry of Commerce while replying stated as under:

"When the joint venture was set up the understanding was that it will give a annual report with balance sheet, audited accounts. But they have not sent them."

1.35 On being asked whether Ministry also do not ask for it, the Special Secretary stated:

"The papers say that they did not ask for it."

1.36 According to Audit the loss incurred was only \$ 1,89,821 which subsequently increased to \$ 2,85,252 in November, 1989. When asked about the reasons for these continued losses, a representative of TTCI stated during the oral evidence that those were establishment expenses and due to the fact that the Company was not wound up.

1.37 The Committee wanted to know whether any directions were issued by Government to reduce the administrative expenses after the Company ceased operating. The Ministry of Commerce stated in a written reply that:

"The Govt. became aware of the performance of the joint venture company only in April, 1985 and that it was not possible for the Govt. to issue any directions to reduce any administrative expenses."

1.38 Audit has also pointed out that TTCI had imported tea bags machine to be sent to the newly formed joint venture company but later on it was not sent.

1.39 When asked as to why the tea bags machine worth Rs. 16.93 lakhs was not put to use, TTCI stated in a written reply:

“From the records it appears that it was not sent as the same was found not suitable for the nature of tea bags which were proposed to be produced there.”

1.40 The Ministry was asked to state if approval was obtained before importing the machines, the Ministry of Commerce in a written reply stated:

“The import of bag manufacturing machine is within the scope of TTCI and therefore the Ministry was not involved in the import of these machines.”

1.41 The Committee wanted to find out as to what action was taken by the Ministry when it came to their notice that the Joint Venture Company was incurring heavy losses, the Special Secretary stated in this regard as follows:

“We had examined the role of Chief Executive. Then we had referred the matter to the CBI for investigation. In the year 1985 we had referred this matter. The Services were terminated on 15 April, 1985. We referred it on 16 April, 1985.”

1.42 When asked to state as to who was the CMD, TTCI at that time and for how long he worked there, the Special Secretary replied:-

“The position is like this. Shri P.K. Das Gupta was the CMD, TTCI from 13.8.75 to 22.5.82. He was Chairman of STC from 22 May, 1982 to 27 August, 1983. During a brief period he was also holding the charge of CMD, TTCI. From 23 August to 15 April, 1985 he only was the CMD, TTCI.”

1.43 The Committee wanted to know as to why the resignation of CMD was accepted when *prima facie* he appeared to be at fault, the Special Secretary stated:

“He submitted his resignation in April, 1985. The resignation was accepted. At that time the position was that no further action need be taken.

He further added:

“The file shows that a conscious decision was taken that it was not worthwhile to pursue the matter and close the matter.”

1.44 In this connection, a representative from the Ministry of Commerce elaborated as under:

“There were about 19 allegations against Shri Das Gupta and the moment the Govt. came to know about these allegations and the

Govt. realized the seriousness of the allegations, they sent two officers. One Joint Secretary and a Controller of Accounts to conduct an investigation. They reported that out of 19 allegations further examination is needed in the case of 11 and *prima facie* it was felt that the allegations had some force in them. It was decided to look further into those 11 allegations. Even out of those 11 allegations, as regards two, one regarding the Singapore Joint Venture and another it was felt that one has to go into it in detail. Now when this report was given a view was taken by the Ministry that on the basis of these allegations, one should take action against the then CMD. By that time he had submitted his resignation. The Govt. took a view that instead of entering into protracted departmental action, which would result into unnecessary loss to the Govt. it is felt that his resignation may be accepted and the matter may be referred to the CBI for a detailed enquiry. If any amount has to be collected from him that could be adjusted from the money that is due to him."

1.45 When asked to state as to what was the exact amount due to him the Special Secretary informed that about Rs. 30,000 were due.

1.46 While elaborating further Ministry informed the Committee in writing that it was decided that the settlement of claims of the Chief Executive might be held over until the completion of inquiries. A reference was made to Secretary of Department of Personnel for initiating CBI investigation on these allegations against the Chief Executive *vide* the letter dated 14 April, 1985 from the Commerce Secretary. PESB was also informed about this *vide* the letter dated 18 April, 1985.

1.47 The Department of Personnel informed the Office that no departmental action shall be possible against the Chief Executive since his resignation has been accepted.

1.48 As regards the CBI enquiry, the representative of Ministry stated as under:

"There were about 11 allegations against the then CMD. These were referred to the CBI. In 8 allegations, the CBI conducted detailed inquiry and filed a case against two employees Mr. Suri, Public Relation Officer and Mr. Majumdar, the then Financial Adviser of the TTCL. A Criminal case was filed against them in Calcutta High Court. Regarding the other 3 allegations which included the allegation on Singapore Joint Venture, the CBI wanted further documents from us. These were given in May, 1987. Finally it has been reported that these allegations could not be substantiated to the extent that one could lodge a criminal case against them."

1.49 The Committee wanted to know if Shri Das Gupta or any of his immediate family members are still associated with TTCI as sub-contractors. The Special Secretary stated during evidence as follows:-

"It has not come to our notice. We will check up and find out."

1.50 On being asked what action would be initiated even if it is found that he is involved, the Special Secretary while answering stated:

"We can take the explanation of the Chief Executive."

1.51 However in the post evidence replies the Ministry informed the Committee that it is confirmed that TTCI accepted tea bags manufacturing order from M/s. Uphar & Co. which is owned by Shri Das Gupta's daughter. The last contract was given by TTCI in March, 1990.

1.52 The Committee regret to note that Tea Trading Corporation of India suffered as loss of 9.89 lakhs in setting up of a Joint Venture Company abroad. In spite of the fact that the Company did not have sufficient market inputs available with it before the setting up of the joint venture it went ahead with the project without making any proper study regarding the market conditions as well the type of tea required in the region. The only basis for having embarked upon this project was stated to be the report of the Trade Development Authority. Since the same was not available with TTCI, the Committee doubt whether any market inputs were made available even by the Trade Development Authority to TTCI. They are constrained to note that the project was approved without taking into consideration basic factors such as the location, transportation cost and adequacy of blending facility with the result that the type of tea which was suitable for marketing in South-East and for East Asian countries was not available and the prices of tea ex-Singapore were not found competitive. The Managing Director, TTCI was candid enough to admit before the Committee that the desired expertise and the kind of efficiency that was necessary for entering into a joint venture particularly with a foreign collaborator was not available to the Company. The Committee express their strong displeasure over the casual manner in which the TTCI went ahead with the setting up of the joint venture incurring heavy losses in precious foreign exchange.

1.53 The Committee note that the new Company i.e. 20th Century Beverages Pvt. Ltd. was incorporated on 20 December, 1981 and in January, 1982 TTCI remitted a sum of \$ 1,80,000 towards their share of equity. The collaborators i.e. Kellogg 20th Century (KTC) however, never contributed its share which was 60% of the equity. It is surprising that the Company went ahead with the joint venture without verifying the financial standing of the collaborators and remitted the amount of \$ 1,80,000 without obtaining the share certificates. In fact, the amount remitted by it was shown as loan in the accounts of the joint venture. In the Committee's view

this reflects poorly on the working of TTCI, who in total disregard of its commercial interests went ahead with the project.

1.54 The Committee also regret to note that the project was approved by Govt. without careful consideration of the basic points. Further, though the joint venture started facing problems soon after it started its operations the Ministry came to know about the losses incurred by it in February, 1984. The Ministry have put the blame in this regard on TTCI by stating that the matter was never brought earlier notice by the TTCI. While the Committee are unhappy over the failure of the management to keep the Ministry informed of the developments, they are also pained to find that no action seems to have been taken by the Ministry even after the matter was brought to their notice in February 1984. The Committee are, therefore, constrained to observe that there was no effective monitoring system prevalent in the Ministry. They cannot help re-calling the sorry state of affairs in regard to Engineering Projects (India) Limited while dealing with equally distressing state of affairs of Tea Trading Corporation of India Limited. The line of action that the Committee have desired in the former case needs to be adopted in this case also. Indeed whether it is a matter of securing project abroad—EPIL—or the question of setting up of a joint venture in the foreign company—TTCI—the Committee desire that a High Powered Committee of experts be constituted by Government so that right from the conception of such an idea to completion of the venture the business policies and programme could be monitored from time to time at every stage. The High Powered Committee will function as a watch dog. They also desire that they be apprised of the action taken by the Ministry in this regard.

1.55 The Committee are distressed to note that although as a result of the investigation made by the Ministry, the then Chief Executive appeared to be *prima-facie* at fault yet no departmental inquiry was instituted against him. He was instead allowed to resign quietly on 15 April, 1985 and the case was referred to CBI only on 16 April, 1985 i.e. one day after his resignation was accepted. The assertion made by the Ministry in this regard that at that time it was thought that protracted departmental action should be avoided by accepting his resignation is far from convincing. The fact that he was allowed to leave without being asked to account for the grave irregularities committed by him creates an impression that there was some nexus between the then Chief Executive of TTCI and the officials of the Ministry. The Committee, therefore, recommend that the circumstances under which his resignation was accepted should be looked into afresh and the responsibility on officers be fixed. The Committee would like to be apprised of the action taken in this regard within three months.

1.56 The Committee regret to note that though the then CMD resigned in 1985, yet he continues to have direct or indirect dealings with TTCI. They desire that those responsible for this be adequately punished and the Committee informed accordingly.

CHAPTER II

LOSS OF RS. 64.61 LAKHS ON SALE OF TEA TO A FOREIGN BUYER

2.1 It has been reported by Audit that in November, 1981, Tea Trading Corporation of India entered into a contract with a foreign buyer for supply of 5000 MT of black superior tea @ US \$ 1450 per MT. The contract stipulated, *inter-alia* (i) delivery @ MT per month commencing from February, 1982; (ii) penalties for delay in delivery @ 0.10 per cent of merchandise value short delivered per day of delay after permissible delay of 7 days; (iii) performance guarantee of US \$ 1,81,250 equivalent to 2-1/2 per cent of the value of the contract; (iv) 50 per cent of the value of each shipment to be paid by irrevocable letter of credit and remaining 50 per cent to be settled 7 days after the arrival of the merchandise against presentation of documents and (v) settlement of disputes, if any, through arbitration in accordance with the rules of conciliation.

2.2 During the period from February, 1982 to July, 1982 the Company supplied 1426 MT of tea (838 MT by itself and 588 MT through sub-contractor) and incurred a loss of Rs. 22.25 lakhs, the loss per kg. being Rs. 1.40 for own supply and Rs. 1.79 for supply through contractor.

2.3 In order to avoid further loss on the deal a decision was taken by the company in September, 1982 to discontinue the supply of tea and the foreign buyer was intimated accordingly in September, 1982. The foreign buyer then withheld payment of two bills and invoked performance guarantee clause. They also claimed penalty of \$ 1 million on account of loss suffered by them for procurement of tea on the risk and cost of the company. The matter was ultimately settled in September, 1983 and the total loss suffered by the Company in the deal amounted to Rs. 64.61 lakhs.

2.4 The Committee wanted to know from TTCI the basis on which it was anticipated to supply 700 MT of tea per month; the TTCI stated in a written reply:

"The Company accepted the delivery schedule of 700 MT per month commencing from February, 1982 keeping in view the expected availability of tea and the then prevailing market price."

2.5 When asked about the reasons for the short supply of tea and incurring losses the CMD, TTCI stated during oral evidence as follows:—

"The Company decided to supply 700 MT of tea per month to Tunisia. But there was an overall shortage of crop, which means, the market availability went down. As a result, the tea pices went up

and the company could not procure the tea or supply the tea at the agreed upon prices."

2.6 The Committee desired to know the measures the Company took to supply tea according to the quantity stipulated in the contract. The TTCI informed the Committee in a written note as under:

"TTCI could export partly for a total quantity of 1426 MT only and had to stop further export due to sudden increase in tea prices in anticipation of high losses. The matter of servicing of Tunis order was discussed at the 52nd meeting of the Board of Directors held on 22.6.82. It was discussed that if TTCI resiled from the contractual obligation because of heavy loss being sustained due to increased cost of tea, it would be a tremendous loss of prestige not only for the Corporation but also for the Government of India as well as Indian Tea. It would also make it difficult for India to enter the Tunisian Market considering the stiff competition offered by Sri Lanka. The Board agreed that the Corporation approach the Government on this matter. At the 53rd meeting of the Board of Directors held on 3.9.82, it was noted that the Govt. had communicated under its letter No. 3915 Plant (A) dt. 19.8.82 that Govt. could not underwrite the losses involved in supplying teas to Tunisia under this contract. Board further noted that there was no assurance from Tunisia for repetition of the order at remunerative price in future even if the present order could be executed at substantial losses and as per terms of the contract Board decided that TTCI might pull out from executing the order with immediate effect so that further loss might not be incurred on this order."

2.7 Asked about the quantity of Company's own production of black tea and the stock, the TTCI informed in a written reply as under:

"The Company's own production was sold through auction and this was also not the type of tea as per the specification of tea to be supplied to Tunisia under the Contract. There was no tea available with the Company in November, 1981 similar to the specification of tea required for Tunisia order."

2.8 Audit has pointed out that in order to avoid further loss on the deal, a decision was taken (September, 1982) by the Company to discontinue the supply of tea and the foreign buyer was intimated accordingly (September, 1982). The foreign buyer then withheld payment of two bills amounting to \$ 8,48,054.25 (Rs. 80.19 lakhs) and invoked performance guarantee clause of \$ 1,81,250. They also claimed penalty of \$ 1 million on account of loss suffered by them for procurement of tea at the risk and cost of the Company. Further it has also been reported by Audit that the contract was finalised with an inbuilt loss of Rs. 70 lakhs against the projected cost.

2.9 On being asked about the considerations which weighed with the management in accepting the contract, with an inbuilt loss, the TTCI stated in a written reply:

"The tea cost went up to unprecedented level and was much higher than the tea cost considered at the time of concluding the contract. Since the Company started incurring losses in respect of supplies already made and the full supply would have resulted in a huge loss, the matter was referred to the Board and ultimate decision was taken by the Board to pull out from the contract."

2.10 The Committee wanted to know if the decision to enter into the contract was taken in the Board, MD, TTCI stated as under:

".....The decision was taken jointly by the Marketing Manager and the Chief Executive and the matter came to the Board only when we decided to pull out of the contract. It was not ratified by the Board because it was not referred to the Board."

She further added:

"The particular contract also pertains to the period in office of the same Chief Executive during whose tenure the Singapore deal went on. All these matters were taken up jointly."

In this connection the Special Secretary, Ministry of Commerce stated during the evidence:

"It appears that they wanted to make a break through in the new market. So they took the conscious decision to export tea at a loss. They wanted their presence felt in the new market. They anticipated a loss of Rs. 25 lakhs."

It was also stated in their written reply as follows:

"The consideration for entering into contract was not known to the Ministry at the time of signing the contract."

2.11 Asked whether the contract contained provision in regard to force majeure clause, the TTCI informed in a written reply that:

"The contract did not contain any provision in regard to force majeure clause".

2.12 When the Committee desired to know whether there was any escalation clause in the contract, the Special Secretary, Ministry of Commerce stated during oral evidence:

"Normally the practice is to have an escalation clause in the contract. But it appears that the domestic prices had gone up because of shortages of tea and there was no escalation clause in the contract. This is why, this loss went up from Rs. 25 lakhs anticipated to Rs. 64.61 lakhs."

2.13 The Committee wanted to know as to when did the Ministry come to know about the losses being suffered by TTCI and what action was taken by the Ministry in this regard, the Special Secretary, Ministry of Commerce stated as under:—

“This was purely a Commercial transaction. For entering into Commercial transactions of this nature, the contract does not require the Govt’s approval. The Govt. came to know about this transaction only when the Board of Directors noticed this loss and decided to approach the Govt. for underwriting the loss. It was only at that stage this matter came to the notice of the Govt. It was decided on 2nd June, 1982 that the loss should be reimbursed by the Govt. When they approached the Govt. saying that because of increase in domestic price of tea, they are not in a position to fulfil the export commitment, the Govt. considered the request and did not agree to underwrite the loss, so the contract had to end.”

2.14 When asked to state if the matter was ever discussed in any performance review meeting, Special Secretary stated:

“There was a performance review meeting on 24th March, 1982. In that they discussed the report. The Board sent the recommendations that the Govt. should underwrite the loss but the Govt. did not agree with that.”

2.15 Audit pointed out that on the advice of the Government of India, the matter was settled amicably (September, 1983) as follows:—

- (i) The Company accepted the loss suffered by the buyer by an amount equal to 5 per cent of the quantity undelivered i.e. \$ 259140.73. This was finally adjusted by invoking performance guarantee of \$ 1,81,250 (Rs. 17.93 lakhs) and recovery of \$ 77923.50 (Rs. 10.18 lakhs) from the withheld bills.
- (ii) The company also had to pay overdue interest of Rs. 14.25 lakhs to the overseas branch of State Bank of India for delayed payment of bills by the buyer. Thus the total loss suffered by the Company in the deal amounted to Rs. 64.61 lakhs.

2.16 The Company stated (August, 1987) that all the files had been lying in the custody of CBI, Calcutta.

The Committee desired to know how Company justified withholding of payment of bills by the foreign buyer. The TTCI stated in a written reply:

“Since TTCI executed performance guarantee for the contract, it was felt totally unjustified and unwarranted on the part of foreign buyer to withhold two bills amounting to \$ 8,48,054.25. As such, the matter was taken up by the Commerce Ministry through Indian Embassy in

Tunisia for negotiation and settlement. The matter was ultimately settled as follows:—

Value of balance quantity remained = \$ 51,82,814.70
to be supplied i.e. 3574.355 MT
@ \$ 1450 per MT

Value of 5% thereof = \$ 2,59,140.73

The above amount to \$ 2,59,140.73 had been agreed to be settled by the buyer on TTCI's account as follows:—

1. 2.5% performance guarantee = \$ 1,81,250.00
2. Deduction from TTCI's bills = \$ 77,890.73
withheld by OCT

\$ 2,59,140.73"

2.17 When asked whether the interest paid to Overseas Branch of State Bank of India could not be saved, the TTCI stated in a written reply:—

“Since funding was made by State Bank of India for the two relevant bills against our Bill Discounting facilities and due to withholding of payment of these bills by the customer, actual payment was received by the Bank much later, consequent overdue interest for delayed payment of bills was debited by our Banker. We had no alternative but to accept the same.”

2.18 The Committee desired to know whether any independent enquiry was initiated by the Company and why the files were with the CBI. In reply the TTCI submitted in a written note as under:—

“Preliminary departmental enquiry was held and a prima facie case for suitable regular departmental action was found. As such, the case was referred to CBI....CBI completed the investigation and recommended regular departmental action against Shri Dipankar Ghosh, former Branch Manager, Siliguri Branch.....SP, CBI's report was referred to Central Vigilance Commission who advised major penalty proceedings against Shri Dipankar Ghosh and also nominated Commissioner for Departmental Enquiry. Regular departmental enquiry was conducted by the Commissioner for Departmental Enquiry during which Charges against him are established. The enquiry report was sent thereafter to CVC for advice according to rules. CVC recommended acceptance of enquiry report and imposition of major penalty. TTCI management, on the basis of enquiry report and imposition of major penalty. TTCI management, on the basis of enquiry report removed the Officer from the services of the Company.”

2.19 When asked whether guidelines were issued by the Ministry of Commerce for strengthening the Marketing Division of the Company, the Ministry informed the Committee in a written reply that no guidelines were issued.

2.20 The Committee wanted to know whether appropriate infrastructural facilities and necessary inputs are now available in TTCI, and if not if they are going to take any preventive measures in future with a view to safeguard their interests, MD, TTCI replied as under:

"The Company feels that we are more equipped now than we were earlier to take this kind of decision. But of course there is always room for improvement. And the Company is always open to any constructive suggestion."

While elaborating further she stated:

"We have started conducting market survey. We are doing close monitoring. Now we are trying to make our procurements, when the market is down. We try to pick up tea when the prices are down. We try to have a gradual control on purchasing on which basically our turnover depends. But there is room for improvement, and we will try to improve now."

2.21 Asked whether the Government was satisfied with the present performance of the Corporation, it was stated in the written reply as follows:—

"The Government is seriously considering the revamping of TTCI.

Following alternatives are being examined by the Government:

- (1) Retaining the present status of TTCI as a wholly owned Co. of STC and revamping the functioning by working out a package of financial assistance and possible changes in the management;
- (2) Merging the gardens of the TTCI with M/S. Andrew Yule;
- (3) For total privatisation of the Corporation;
- (4) A project Report for revamping of the TTCI was prepared in consultation with M/s J. Thomas & Co.; and
- (5) This was considered in the TTCI Board meeting held on 7th December, 1990. It was decided that the Tea Board will examine the Project Report in consultation with the TTCI Management and work out a detailed plan with long-term, medium term and short term strategies.

The present project proposal envisages an investment for Rs. 4.60 crores with 1.60 crores investment for Garden Division and Rs. 3 crores for the Trading Division."

2.22 The Committee note that TTCI entered into a contract with a foreign collaborator in November, 1981 for supply of 5000 MT of black superior tea. Though according to the terms of the contract TTCI was to supply 700 MT of tea every month, the Company could supply only 1426 MT of tea from February to July, 1982 and incurred a loss of Rs. 22.25 lakhs. To avoid further losses, the Company discontinued the supply of tea

and the foreign buyer was intimidated accordingly. The ultimate settlement reached with the foreign buyer resulted in a loss of Rs. 64.61 lakhs to TTCI on this deal. The reasons put forward by the Management for not being able to supply the required quantity of tea are stated to be non-availability of tea due to bad crop and the consequential rise in prices. The Committee are distressed to note that before entering into the contract the Company did not have any indepth study made of the market conditions and future forecasts. The Committee are constrained to observe that be it construction contract—EPI—or trade abroad—TTCI—the whole object smacks of total disregard of prudent commercial interest.

2.23 It is regrettable that although the contract was finalised with an imbuilt loss of Rs. 25 lakhs yet the matter was neither placed before the Board for their approval nor was the Ministry informed about the same. The decision to enter into the contract was stated to have been taken jointly by the Marketing Manager and the Chief Executive. The Board was informed about it only when a decision was to be taken to pull out from the contract. The Committee are also constrained to note that the contract did not contain a force majeure clause as is normal practice.

2.24 The Committee were informed that this particular contract also pertained to the period when the Chief Executive, during whose tenure the Singapore deal was entered into, was in office (commented upon in earlier paragraphs of this Report). At this stage the Committee can only express their displeasure over the fact that by entering into this agreement the commercial interests of the Company were relegated to the background by the then Management. In reality the interests of a few seem to have been kept uppermost before that of the Company.

2.25 The Committee were informed that the proposal for revamping of TTCI is under the serious consideration of the Government. Some of the alternatives which are being examined include such proposals as retaining present status of TTCI as a wholly owned company of STC, revamping the functioning by financial assistance, merging gardens of TTCI with M/s. Andrew Yule, privatisation and working out short and long term strategies in consultation with the Board. The Committee cannot persuade themselves accept this situation unless an independent high-powered Expert Committee as recommended elsewhere in this Report has had an opportunity to weigh pros & cons. As this Committee in their report (Para No. 2.52 of the 60th Report on S.T.C., 9th Lok Sabha) very aptly described STC as an importing agency, how can the same be considered fit enough to become the 'owner' of TTCI. The Committee regret to note that the matter regarding the revamping the TTCI has been pending for quite a long time which is adversely affecting its functioning. The Committee desire that the final decision in this regard on the advice of High powered Expert Committee (as indicated herein above) should be taken expeditiously and the result intimated within three months.

CHAPTER III

EXPORT OF TEA TO LIBYA

3.1 It has been stated by the Audit that during January 1978 and January 1979, the Company entered into four contracts with a Lybian Firm for export of 8,550 tonnes of packet tea and tea bags valued at Rs. 18.94 crores on firm price basis for delivery between April 1978 and November 1979. The contract, *inter-alia* provided for:

“Payment of fine @1 percent of the value of the quantities not despatched per day for delay in shipment subject to a maximum of 10 percent of the value except due to force majeure;

The cost of insurance against all damage, loss, perils and risks was to be borne by the buyer, however, any extra expenditure on insurance on account of shipment of goods by a vessel of not first class, or older than 15 years was to be borne by the supplier.”

3.2 The Company supplied 8,473 tonnes of tea between May 1978 and January 1980 valued at Rs. 18.77 crores. The buyer, however, withheld three bills of the Company for £3,59,261.43 £1,39,902.47 and US \$68,945.59 (Rs. 94.57 lakhs) and also lodged (October 1980) claims amounting to £ 117261.76 and \$11094.56 for delay in Shipment, £26100.73 for deviation in specification and £22899.69 and \$567.69 on account of extra Insurance Premium on overage vessel (Rs. 29.11 lakhs). The Company entered into agreement with the buyer on 5th October, 1980 admitting fully the claims for Rs. 29.11 lakhs.

3.3 The Committee wanted to know from TTCI the basis for entering into the agreement. The TTCI stated in the written reply that they wanted to export value added tea to Libya.

3.4 On being asked the reasons for the delay in Shipment, and whether the order was executed through a sub-contractor or it was done by TTCI, the representative from TTCI stated that this was mostly done by them. The MD of TTCI stated during oral evidence:

“The whole question of shipping was done on two-tier system. Company ships some tea directly and some were given on sub-contract to the company in which the shipping manager was primarily held responsible. I am told the sub-contract was given to Hindustan Tea Company and the Shipping Manager was primarily held responsible because the consignment was not sent in due time. The shipping schedule was not maintained and the ships on which the consignments were sent were over-aged.”

3.5 When asked as to why the tea of different specification was supplied, the TTCI informed the Committee in a written reply:

"The blend that has been supplied to NASCO, Libya commend or North Indian Orthodox whole and broken grade of teas. The tea supplied to customer had a standard number which signifies its specification. Tea being a perishable commodity and agriculture crop subject to season; fluctuation can always vary marginally with passage of time. It may be possible that when the business concluded under a specification, this could vary to a certain extent with the tea that was used for execution."

3.6 Asked why extra insurance was paid, the TTCI informed in a written reply that Extra insurance was paid in cases where vessels were overaged.

3.7 When asked to state as to what action was taken against the sub-contractor for using overaged vessels, a representative from TTCI stated:

"The sub-contractor cannot be held responsible if the ship is over-aged. The Shipping Company is responsible for these huge losses. The insurance company wanted more payment since the ship was over-aged."

3.8 On being asked if any compensation was claimed from the Shipping Company; the representative replied in the negative. The Committee wanted to know why no compensation was claimed, the representative of TTCI stated as follows:

"The TTCI is responsible to provide a new ship. But the TTCI had provided an old ship, because of which the payment towards insurance was much more. I may inform that the manager concerned was removed from service."

3.9 On being asked who was the shipping agent, the representative stated:

"One Mr. Avtar Singh was the Shipping agent. His services were terminated."

In this connection a representative of the Ministry of Commerce stated during oral evidence:

"The Tea Trading Corporation of India reported that at that particular time there was some problems in availability of ship because of which there was some problem of shipping the goods and ultimately they had to engage an overage ship because of which there was an extra insurance premium."

Further, the special Secretary clarified regarding the same by stating:

"The shipping space was not available. So, they had to employ a ship which was overaged and the result was the extra Insurance claims and the delay was on account of difficulty in finding the shipping space."

3.10 When asked whether they could not foresee these things, the Special Secretary stated during oral evidence:

"It appears that they did not anticipate these problems. That is the reason why they did not provide for that. This matter was not reported to the Ministry. They reported to the Board of Directors."

3.11 The Committee wanted to know if the Ministry enquired as to why the services of the Shipping agent were dispensed with by TTCI, the Special Secretary stated:

"We did not investigate why the services of the agent were dispensed with. However, we will investigate in this matter."

3.12 When the Committee desired to know whether the Ministry of Commerce had enquired the reasons for losses and whether any directions were issued to TTCI, the Special Secretary Ministry of Commerce stated during oral evidence as follows:

"The contract was more or less executed for export of 8,550 tonnes of packet tea and the tea bags were valued at Rs. 18.94 crores. The Company supplied 8473 tonnes of tea between May, 1978 and January, 1980. The buyer, however, withheld three bills of the company for £ 3,59,261.43; £1,39,902.47 and US \$ 68,945.59 (Rs. 94.57 lakhs). These claims were based on the fact that there was delay in shipment and deviation in specification and also on account of extra Insurance Premium on overage vessels. So, on these three grounds they withheld these three bills. The Company applied to the foreign buyer for withdrawal of the claims on account of delay in shipment, though the contract provided for exemption from penalty on account of delay in shipment. The Company admitted the claim for Rs. 29.11 lakhs and then approached the Reserve Bank of India to release the amount for making the payment. Even though the foreign buyer withheld three bills of the value of Rs. 94.57 lakhs, the Company admitted that they are responsible for a sum of Rs. 29.11 lakhs on account of delay in shipment."

3.13 On being asked if any guidelines were issued with a view to ensure such losses do not occur in future, the Special Secretary, Ministry of Commerce stated:

"We had not issued any guidelines. The files do not show that any guidelines were issued."

Regarding the same, the Ministry further informed in a written reply:

"It does not appear from available records that the Ministry was approached by the Corporation in any way with full report of the contract signed. Ministry in its normal course of functions is not required to look into the terms and conditions of other contract that is signed by the Company and the foreign buyer. Since contract was in the nature of normal business of the Company the Board of Directors does not appear to have been apprised of it. Therefore, the question of Government's directives or any remedial steps does not arise."

3.14 When asked why the Company entered into an agreement and did not invoke force majeure clause the representative from TTCI stated as under:

"In this particular case three bills were withheld by the buyer for payment which was to the tune of about Rs. 90 lakhs. In fact there was also a point where the major clause was not invoked. Though the clause was there. From the records we find that the man who went and finalised the agreement agreed to different charges made by the Company. On I think 4th of February he invoked the clause. As it is recorded by his order, due to release of those bills and to get the flow of funds he had to accept that."

3.15 On being asked as to what action was taken against him, the representative replied:

"In this case no action was taken."

TTCI further informed in this connection in a written reply that records reveal that due to financial constraint, Company had to agree with the dictates of the buyer.

3.16 When asked from the Ministry of Commerce regarding their awareness about the case, the Ministry of Commerce informed in a written reply as under:

"The Ministry was not made aware at any point of time regarding the Company's failure to invoke exemption from fines due to delay in shipment under Force Majeure Clause."

3.17 It has also been reported by the Audit that while approaching the Reserve Bank of India (February 1981) for regularisation of the contract, the company justified the settlement with the buyer mainly on the following grounds:

- (i) Its cash flow position was poor;
- (ii) The buyer might consider subsequently the appeal for waiver of the claims.

3.18 In December, 1983 the matter was placed before the Board of

Directors of the Company to accord sanction for write off of the amount after obtaining the approval of the Reserve Bank of India.

The Management stated (February, 1987) that they had not received approval from the Reserve Bank of India and the Board of Directors had also not yet approved writing off the amount.

3.19 Asked whether the approval of the Reserve Bank of India was sought for regularisation of the contract, the TTCI informed in a written reply as under:

“An agreement was entered into with the buyer accepting certain deductions from the bills sent for collection. An application was made by the Corporation vide letter dt. 24.2.81 to the Joint Controller Exchange Control Department RBI, Calcutta for approval of the said agreement, No approval has since been received.”

3.20 On being asked whether the Board of Directors has since approved writing off amount which was withheld by the buyer, TTCI informed in a written reply that the amount withheld by the buyer has not been approved by the Board so far.

3.21 The Committee desired to know whether any appeal for waiver of claims was made by the Company subsequently. It was informed in a written reply by TTCI:

“From records it is observed that an appeal for waiver of claims for delayed shipment was sent by the then CMD vide his letter dt. 23.1.1981 to the president, National Supply Corporation, Libya. No positive response was received.”

3.22 The Committee wanted to know the position from the Ministry of Commerce regarding the settlements of the claims and the release of payment for the withheld bills. A representative from the Ministry stated in this regard as under:

“The Reserve Bank has been approached for writing it off. Meanwhile the Board was approached in December, 1983 by the Management to give the approval in principle so that later on if the Reserve Bank's approval comes it can be regularised. As the matter stands today, it has not been approved by the Board and the Reserve Bank's approval has also not come to this proposal.”

The Ministry of Commerce further informed in a written reply that no financial assistance or no write off claims was sought from the Ministry by the Company.

3.23 On being asked about the steps being taken by the Ministry for settling the claims and releasing the payment for withheld bills, the Special Secretary, Ministry of Commerce stated as under:

“We have made a request and the Reserve Bank has not given

the answer. We will pursue it with the Reserve Bank. There these bills are also held up."

3.24 The Committee find that during January, 1978 to January 1979 the TTCI entered into four contracts with a Libyan firm for export of 8550 tonnes of packet tea and tea bags for delivery between April 1978 and November, 1979. The Company could, however, neither stick to the delivery schedules, nor could supply tea of the requisite specification. It also engaged over-aged vessels though it had been clearly stipulated in the contract that in case the goods were not shipped by a vessel of first class or by a vessel older than 15 years, extra expenditure on insurance shall have to be borne by the supplier. The buyer withheld three bills of the company for Rs. 94.57 lakhs on this account. The company subsequently admitted the claim of the buyer for Rs. 29.11 lakhs. Thus, the failure of the company to adhere to the contractual obligation resulted in a loss of Rs. 29.11 lakhs on this export deal. The Committee desire that for any public undertaking non fulfilment of contractual obligation should be considered a blatant attempt to undermine the very foundation of the existence of public undertaking (which rests on public confidence). For the Ministry to act as a helpless spectator tantamounts to overlooking the overbearing and arrogant behaviour of a public undertaking. In each case of loss to the public exchequer unless arbitrator otherwise attributes the same to circumstances beyond human control, the officers responsible for such loss must not only be adequately dealt with but made to make good the loss. Bonafide mistake must be condoned. Whereas malafide attitudes and actions must be made to pay.

3.25 While the management of TTCI has tried to justify in vain their failure to have procured tea of the desired specifications by attributing the same to seasonal fluctuations, no justifiable reasons have been advanced for the failure to stick to the delivery schedule and for engaging over-aged vessels except simply stating that the Manager Shipping has been removed from the service.

3.26 The Committee also take a serious note of the fact that though the terms of the contract provided for forcemajeure clause, yet the same was not invoked with a view to seek exemption of fines imposed by the buyers for delayed shipment. The plea put forward by the management in this regard that due to resource crunch being faced by the company at that time all the terms imposed by the buyer were agreed to fail to convince the Committee. In Committee's view, by not invoking the said clause, TTCI have miserably failed in protecting their commercial interests and allowing personal interests to be furthered. This definitely casts a well founded suspicion about the bonafide working of the company. The Committee desire this aspect to be probed and those found guilty punished under intimation to the Committee.

3.27 The Committee are further displeased to note that though the company incurred heavy losses yet the matter was reported neither to the

Board nor to the Ministry for long. It was only in December, 1983 that the matter was referred to the Board to accord sanction for writing off the amount after obtaining the approval of the Reserve Bank of India. The matter therefore needs to be thoroughly probed responsibility fixed and punishment meted out.

3.28 The Committee also take a serious note of the fact that though sufficient period has elapsed yet no approval has been received from the Reserve Bank of India for regularisation of the contract and for writing off the amount, with the result that the payment of three bills amounting to Rs. 94.57 lakhs is still withheld by the buyer. They recommend that the Government should take immediate steps to settle the matter through arbitration. The Committee would like to be apprised of the final outcome in this regard at the earliest.

CHAPTER IV

EXPORT OF TEA TO IRAN

4.1 It has been reported by the Audit that State Trading Corporation of India entered into a contract (August 1983) with a Foreign Company for sale of 4650 MT unblended Assam Indian Black Tea to current Crop. For the execution of the above contract, a back-to-back contract was reached in August, 1983 with the Tea Trading Corporation of India Limited entrusting it with the obligation for supply and shipment of 2000 MT of tea within 4 months from August 1983 to November 1983. The original order of 2000 MT of tea was reduced (October/November 1983) by STC to 1550 MT for delivery by December 1983 (1000MT) and June 1984 (550MT).

4.2 During the period from October, 1983 to November 1984, 960 MT of the tea was supplied by the Tea Trading Corporation of India at a loss of Rs. 53.78 lakhs. In view of the huge loss that the T.T. Corporation was suffering in export of tea, the matter was taken up by the Ministry of Commerce at the request of the TTCI with the STC and it was decided (May 1985) that the T.T.C.I. would not execute the backlog of tea against the export contract of 1983.

4.3 In July, 1983 (i.e., prior to finalisation of the back-to-back contract with the Public Sector Undertakings) the average market price of Iran type tea was Rs. 28.50 per kg. and considering other variable cost of Rs. 5.18 per kg. the total cost worked out to Rs. 33.68 per kg. Although the average contractual selling price was only Rs. 31.31 per kg. the contract was finalised with the total inbuilt loss of Rs. 47.40 lakhs (2000 Mt. @ Rs. 2.37 per kg.) apart from non-recovery of fixed cost. The acceptance of the contract at such huge inbuilt loss thus lacked justification.

4.4 The Committee wanted to know the consideration on the basis of which the Company entered into contract with State Trading Corporation of India. The TTCI informed in a written reply that in order to augment its export sales, the Company entered into a back-to-back contract with State Trading Corporation of India for supply and shipment of 2000 MT tea to Government Trading Corporation of Iran.

4.5 On being asked about the compulsions for TTCI to enter into such a contract with in-built loss of Rs. 47 lakhs, the Special Secretary, Ministry of Commerce replied during evidence as follows:—

“The contract was obtained by STC in August, 1983 for supply of 4650 MT of unblended Assam Indian Black Tea. STC in turn entered into back-to-back contract with TTCI. Originally they asked TTCI to

supply 2000 MT of tea in 4 months. But reducing it, only 1550 MT were to be supplied by June 1984. Between October '83 and November, 1984, TTCI supplied 960 MTs of tea which involved a loss of Rs. 53 lakhs."

Justifying the deal, he further added:

"We are making entry in a non-traditional market. We have competitors. We have to establish our contracts by offering price reduction & other inducements."

4.6 On being asked why the Company suffered a loss of Rs. 53.78 lakhs on supply of 960 MT of tea, the TTCI informed in a written reply that the main reason for increased quantum of loss is due to rise of basic tea price at the time of execution of the order.

4.7 When asked about the cost of tea at the time of entering into the contract and at the time of its execution, a representative of TTCI stated during oral evidence:—

"The average price of tea at the time of entering into the contract was Rs. 26.84 per kg. The average price of tea at the time of execution of the order was Rs. 32.44 kg."

4.8 The Committee wanted to know whether it was brought to the notice of STC that the price of tea would not be remunerative, a representative from TTCI stated as follows:—

"We had brought the information to the notice of the STC. The actual supply was to start in the month of August."

4.9 The Committee wanted to know about exact period when the actual supply was started. The representative from TTCI informed that they started the supply on 23rd October, 1983.

4.10 The Committee observed that when in July 1983, the current price of tea after including other costs worked out to Rs. 33.68 per kg., why the Company did not refuse the execution of the order, knowing it fully well that execution would mean incurring revenue loss to the Corporation. The representative of TTCI stated as under:—

"The selling price of tea apparently may be low and it may appear that the Corporation will incur a loss but if you consider the export incentive, it is not so."

He further added in this connection:

"The export incentive was there. It was considered at the time of accepting the order, including the price of the export incentive."

4.11 The Committee wanted to know as to what was the relation between STC and TTCI at that point of time. The representative from TTCI stated as follows:—

"When we accepted the offer in the month of August 1983, the then Chief Executive of TTCI was also the Chairman of STC."

He further added:—

"LC was assigned to us by deducting 1% of the Commission. STC was safe in all respects."

4.12 The Committee wanted to know from the Ministry as to when did they come to know about the losses. The Special Secretary informed that the matter was brought to the notice of the Ministry immediately in 1983.

4.13 On being asked as to what steps were taken by the Ministry to reduce the losses, the Special Secretary stated:—

"TTCI suggested to the Ministry that the Ministry should take up the matter with STC and persuade them to bear the loss. They also suggested that a delegation should go to Iran to negotiate with the buyers for revision of price. The Ministry in fact sent the delegation to Iran in October, 1983, we tried to negotiate with the buyers in Iran but they did not agree for the revision of price and therefore the mission ended in failure."

4.14 When asked as to why soon after returning from Iran the contract was not terminated, the Special Secretary replied:—

"The contract was not fulfilled. Out of the 2000 tonnes they exported only 960 tonnes."

4.15 When asked as to what action was taken against STC for entering into such a contract with intent loss, he further replied:—

"We have not initiated any action against STC."

4.16 The Committee wanted to know as to why after two years only the Ministry took action to wriggle put of the contract, the Special Secretary stated:—

"It is because the Iran side has been representing to us that this contract should be fulfilled. They wanted that tea export should take place but they were not willing to revise the price. Even this year we have exported tea. This is a question of relationship. We cannot break the relationship."

4.17 The Committee wanted to find out from the Ministry the name of other parties besides TTCI to whom STC awarded the contract and the price at which it was awarded. The Ministry in a post evidence reply informed the Committee that based on the offer and samples for 3000 MT from M/s. TTCI, 1150 MT from M/s. G.I. Ltd. and 500 MT from M/s. Ruby tea, contract for 4650 MT for supply of various grades of tea at price range between Rs. 30.30 per kg. to Rs. 38.65 kg. was confirmed by GTC Iran on 15.6.83. Since there was no representative of TTCI present during negotiations STC was authorised to negotiate business on their behalf.

M/s. G.I. Pvt. Ltd., M/s. Rubby Tea's representatives were available for finalisation of tea. On finalisation of business however, it was envisaged by the then Chairman of TTCI and the then Chairman of STC that TTCI would not be in a position to execute the order as they anticipated some labour problem. Therefore, STC allocated 500 MT each to M/s. D.G. Ghosh and Co. and M/s Hindustan Sheet Metal Corporation. On noticing further TTCI's inability to ship the allocated quantity of 2000 MT of tea their quantity was further reduced to 1550 MT.

4.18 On a query whether the supplies were made from their stock or purchased from outside, the TTCI informed the Committee in the written note that they were purchased from Tea Auction.

4.19 The Committee desired to know whether any responsibility had been fixed for the lapses. The TTCI informed in a written reply as follows:—

"The affairs of the company were enquired by a high powered committee appointed by the Government. Although responsibility was fixed primarily on the Chief Executive of the Company, some officers of the company were punished and removed from the services of the company."

In this connection the special Secretary, Ministry of Commerce replied during oral evidence:—

"Two officers from the Ministry went to Calcutta to find out the details. One was the Director of Accounts Shri Sahni and the other was Shri Pawan Chopra, Joint Secretary, dealing with the subject. They made an inquiry at Calcutta. It was done in 1985."

The Special Secretary further stated:

"They said that certain allegation are there and they should be investigated. They specifically stated that two officers should be proceeded against. Their services were terminated."

4.20 When a query was made regarding the allegations against Shri Das Gupta, the then C&MD, the special Secretary replied during evidence:—

"They were referred to CBI in April, 1985. The CBI looked into that.... He resigned on 15th April, on 16th April a letter went from Secretary (Commerce), to Secretary (Personnel)."

4.21 When the Committee desired to know why the case was not referred to CBI before accepting his resignation, a representative of Ministry of Commerce stated during oral evidence as under:--

"He had submitted his resignation with some notice period. It appears that he requested that his resignation may be accepted by 15th April and it was accepted. It is mentioned in the noting also that when it was reviewed again, the Government felt that his resignation may be accepted and one may refer this matter to the CBI. This was approved

by the Government on 10th April, 1985. After that we made a reference to CBI on 16.4.1985."

4.22 The Committee find that State Trading Corporation of India entered into a contract with a foreign company for sale of 4650 MT of tea to Iran. For the execution of the contract STC entered into a back to back contract with TTCI for the supply of 2000 MT of tea which was subsequently reduced to 1550 MT. TTCI was able to supply only 960 MT of tea against this order and incurred a loss of Rs. 53.78 lakhs.

4.23 The Committee are dismayed to find that STC entered into the contract which had an inbuilt loss of 47.40 lakhs with Iran which lacks any justification. The Committee note that which STC protected their interests by retaining one per cent of tea sale proceeds as their commission, the burden of the unremunerative price was passed on to the TTCI who had to suffer heavy losses. From this the Committee cannot but conclude that the contract which was entered into with an inbuilt loss was totally ill-conceived and was entered into without taking into account the commercial interests of the TTCI.

4.24 The Committee were informed that the contract between TTCI and Iranian buyer was treated purely as a commercial transaction. The Committee were further informed that no action was initiated against the STC management for entering into a contract with an inbuilt loss. They recommend in future any contract entered into on behalf of STC or any other canalising agency should take upon itself the task of proper and effective monitoring of the contract. The Committee reiterate that no contract should be entered into with an inbuilt loss in the first instance.

4.25 The Committee find that the Ministry had come to know in 1983 itself that the contract had an inbuilt loss. A delegation was subsequently sent to Iran to persuade the buyer to increase the price of tea. Though the negotiation failed, the decision to withdraw from the contract was taken only after a period of two years, by which time TTCI also lost the market. The Committee cannot help but concluding that the Ministry have acted in an extremely lackadaisical manner. They strongly recommend that the Ministry should act in future as a nodal agency in discharging their functions more effectively.

4.26 The Committee find that the main responsibility for having entered into the contract rests with the then Chief Executive of TTCI. The Committee have already expressed their displeasure in the first paragraph of this Report over the way the Chief Executive was allowed to resign. The Committee fail to understand why the Ministry did not initiate any disciplinary action against the CMD; rather they referred the case to CBI to initiate criminal proceedings. The Committee at this stage hold the Ministry responsible for not effectively fulfilling its role as a monitoring agency. They are left with what they feel is an unerring conclusion that there seems to be an unholy nexus between the STC and the TTCI by allowing at the first instance the contract with the Iranian buyer.

CHAPTER V

IRREGULAR PAYMENT OF ADVANCES

5.1 It has been pointed out by Audit that in response to tender notice of November, 1978 for appointment of clearing and forwarding agent for export of tea to Lybia and Afganistan, six quotations were received. The quotation of 'A' was found to be exhaustive and as it had been catering to the Company's earlier shipment of tea to Afganistan since 1975-76, it was appointed on 15th March, 1979 for shipment of tea at the rate of Rs.72 per case to Libya and Rs. 43 per case to Afganistan. At the time of appointment of this firm in March, 1979, an advance of Rs. 89.38 lakh (which included bills worth Rs. 77.05 lakhs unadjusted) was already outstanding against the firm in respect of earlier shipments. In addition to this outstanding advance, freight advances of Rs. 181.78 lakhs were given upto 29th January, 1980 with the result that a total amount of Rs. 271.16 lakhs was outstanding against which bills of Rs. 256.09 lakhs were finally passed for payment and Rs. 15.07 lakhs were therefore, recoverable from the firm since March, 1980.

Firm 'A' in its offer of November, 1978, *inter-alia* has quoted the following rates:—

Afganistan	—Rs. 43 per case
Lybia	—Rs. 63 per case

5.2 While evaluating the offer, it was indicated that the offer of firm 'A' was exhaustive and they were doing the Company's Afganistan shipments since 1975-76. FA&CAO and the Chairman of the Company recorded that offer of firm 'A' appeared to be lowest and may be accepted. It was also recorded that efforts should be made to reduce the rate to Rs. 41/42 per case. However, in the letter of appointment issued on 15th March, 1979, the firm 'A' was appointed at the rates given below:—

Afganistan	—Rs. 43 per case
Lybia	—Rs. 72 per case

5.3 When the Committee desired to know the reasons for revising the rates from Rs. 63 per case to Rs. 72 per case, the TTCI stated in a written reply as follows:—

"A revised quotation from M/S. Avtar Singh & Co. dt. 6.3.79 is on record quoting the charges for Libya as Rs. 72 per case. It is noted that the appointment letter was issued to M/S. Avtar Singh & Co. dated 5.3.79. Reason for revision of rates in respect of Libya as also acceptance of the same is not revealed from record."

5.4 When the Committee wanted to know whether the approval of

the TTCI competent authority was sought for increasing the rates, the TTCI Stated in a written reply that nothing was found on record.

5.5 Asked whether efforts were made to reduce the rates, TTCI, informed the Committee in a written reply that nothing was available records.

5.6 When enquired from the Ministry of Commerce regarding the same, the Special Secretary replied during oral evidence:

“The Ministry is not directly concerned with decisions of these nature. These were not reported to the Ministry. Ministry was not aware of this increase.”

5.7 The Committee wanted to know from the Ministry as to when did the matter come to their notice, the Special Secretary stated in this regard as under:—

“We came to know about it only when Audit Report was received.”

5.8 On being asked if after the receipt of the Audit report the Ministry tried to ascertain the reasons for increase in the rates, the Special Secretary stated:

“We had asked for information from the TTCI in November, 1988 after the Audit Paras were received. We have not received any information from the TTCI.”

He further added in this connection:

“Perhaps the relevant files are not available with them. They were not in a position to send the reply. Even two days back, when I asked them about this, they told us that the papers were not available.”

5.9 When asked whether there were any laid down procedures for giving advances, the TTCI stated in a written reply that there were no laid down procedures for giving advances to the clearing and Forwarding Agents.

5.10 Asked what were the provisions in the agreement for payment of advances, the TTCI stated in a written reply:

“There was no formal agreement and there was no stipulation for payment of advance.”

5.11 When asked about the regulations and checks and balances in TTCI before sanctioning such advances, the TTCI informed in a written note that there are no laid down procedures for sanctioning of advance as advances are not given or entertained in the normal course. In utmost exigencies for commercial expediency, advances are given in some cases.

The Special Secretary, Ministry of Commerce stated in this regard as under:

“The decision as taken by Mr. Das Gupta. As per the usual trade practice, the advance is adjusted when the agents submit their final bills. But they should not have given the second advance when some amount in the first advance itself was outstanding.”

5.12 The Committee desired to know the details about the loans and advances made to different parties and its present position. The TTCI intimated the committee in a written note after the evidence as under:—

Name of Party	Unadjusted Advance as on 31.3.88 (Rs. in lacs)	R E M A R K S
M/S. Associated Tea Blended	16.06	Legal case pending for recovery of the amount with Hon'ble Calcutta, High Court,
M/S. Avtar Singh & Co.	15.07	-do-
M/S. Hindustan Tea Company	2.10	Since adjusted 0.50 lacs. Balance to be adjusted against Associate Company M/S. Hindustan Sheet Metal Company's dues from Corpn. of Rs. 2.64 lacs, which is pending reconciliation.
M/S. Jaison Trading Agencies.	1.15	Since adjusted against bills.
M/S. Madura Coates Limited.	0.46	-do-
M/S. Modi Service Pvt. Ltd.	0.35	50% Advance payment for Tea market study Adjust pending for bills.
M/S. S.M. Survey (P) Ltd.	0.10	Legal case pending.
M/S. Himalyan Tea Blending Co.	1.83	-do-
M/S. Mackinon Travel Service	0.41	Rs. 0.31 lacs already adjusted against bills.
M/S. Flow More Corporation	0.75	Rs. 0.44 lacs since realised adjusted.
M/S. R.L. Gaggar Solicitor	0.37	Pending adjustment with bills.
M/S. Sai Shipping Co.	5.00	Advance paid for ocean freight. Adjustment pending for bills.
M/S. Eagle Wood & Equipments Eagg. Co.	1.22	Advance for 2nd Blending Machine.
M/S. Bukhatir Mackinon	3.55	Payment to clearing & Forwarding company.
M/S. Heyshem Limited	0.95	Payment for Fumigation charge for export to tea to Libya.
Advance to Employee	6.87	Recovery made as per stipulation.
Total	56.24	

5.13 Audit has also pointed out that the payment of advances to the firm against the shipment of tea even though there was no provision for payment of any advance resulted in over payment of Rs. 15.07 lakhs with remote chances of recovery and the Company suffered loss of interest of

Rs. 25.76 lakhs upto September, 1989 (at average rate of 18% per annum). The management admitted (June 1986) that it was unusual and irregular so far as Government Establishment was concerned, but has not taken any action against the concerned officials to avoid such recurrence in future. The Company filed a legal suit at Calcutta High Court on 11th March 1982 after a lapse of fifteen months. It was stated (October, 1988) by the management that the case was still pending before the original side of the Calcutta High Court.

5.14 Asked by whom these advances were sanctioned the TTCI stated in a written reply that they were made under authority of the Chief Executive.

5.15 The Committee desired to know the action taken against the Chief Executive for not sticking to norms. The Ministry of Commerce informed in a written reply that:

"The Chief Executive had informed the Government explaining the circumstances under which the contract was given to M/S. Avtar Singh & Co. and the reasons for the advance payment.

It was informed by the Chief Executive that as per the trade practice, the freight amount is collected by clearing and Forwarding Agents to obtain Bills of Landing on behalf of Shippers.

As the Steamer Companies do not issue Bills in respect of freight, such payment are initially shown in the books of the Company as advance to the Clearing and Forwarding Agents, which are subsequently adjusted for the exact amount of freight shown on the Bill of Landing Considering the explanation given by the Chief Executive, no action was initiated against him.

However, on the basis of various other allegations against the then CMD, detailed Inquiry was conducted and it was decided to accept his resignation in April, 1985 and refer the allegations to the CBI for further investigation. The Government came to know about the advance payment and also that the Agents' licence was subsequently cancelled, only in June, 1984."

5.16 It was brought to the notice of the Committee that the Tea Trading Corporation was without a full time Chairman/Managing Director for long a time. When asked about the reasons for not appointing a full-time Chairman/Managing Director, the Special Secretary, Ministry of Commerce stated in this regard as follows:

"In August, 1989, the previous Managing Director retired. After that the PESB had selected a candidate in December, 1989 and sent its recommendation to the Appointments Committee of the Cabinet. The Cabinet did not accept its recommendations, but asked the PESB to select another candidate. The PESB held an interview in August, 1990 and sent its recommendations again to the Appointments

Committee of the Cabinet. The Appointments Committee of the Cabinet had asked them to get the approval of the new Minister. They got the approval of the new Minister and it is again being sent to the Appointments Committee of the Cabinet. Now the matter is with the appointments committee of the Cabinet."

5.17 When asked if in the absence of a full time Chairman-cum-Managing Director TTCI would not suffer the Special Secretary while answering stated as under:

"I fully appreciate your point. We will expedite the process of appointing full time Managing Director. This matter is with the appointments Committee of the Cabinet. Now we hope that it will be cleared in the next few days."

5.18 The Committee find that for appointment of clearing and forwarding agents for export of Tea to Libya and Afganistan, six quotations were received by TTCI... Firm, 'A' in the original offer of November 1978 had quoted a rate of Rs. 43 per case for Afganistan tea and a rate of Rs. 63 per case for Libya tea. The offer was evaluated as the lowest and exhaustive by TTCI. The Committee however regret to note that subsequently TTCI while issuing the letter of appointment against this original offer revised the rate for Lybian tea to Rs. 72 per case. The TTCI have neither been able to adduce the reasons for having enhanced the rates nor indicate whether the approval of the Competent Authority had been sought in this regard. The relevant records in this connection are also reported to be not available with TTCI. Considering the manner in which the rates were increased unilaterally by TTCI leads the Committee to the conclusion that the decisions were taken on considerations other than pure commercial interests of the organisation. They are also dismayed to note that even no enquiry was conducted in this case. They desire that now though belated, an inquiry be conducted in this regard to fix responsibility and take action against the erring officials. The outcome of the enquiry should be reported to the Committee within a period of 3 months. The enquiry should also cover the circumstances in which vital records of the transactions were destroyed.

5.19 The Committee are distressed to find that though the terms of the contract did not provide for giving advances yet the same were given to the forwarding and clearing agents by TTCI. In some cases in violation of the rules the company went to the extent of giving further advances to the agents even when the earlier advances were still outstanding against them. As on 31.3.88 a sum of Rs. 56.24 lakhs was still outstanding and pending settlement. The Committee desire that effective steps should be taken to recover the outstanding advance from different parties at the earliest.

5.20 The Committee find that the advances were given to the agents under the orders of the then Chief Executive who was allowed to demit office without taking action against him which has been commented upon by the Committee in the earlier paragraphs of this Report.

5.21 The Committee express their displeasure over the fact that though the affairs of TPCI are in such a mismanaged state, yet the company has been without a Chairman for about 2 years. Only a part time Managing Director is in charge of TPCI. The Committee feel that for streamlining the affairs of TPCI and to give it a purposeful direction it is imperative that a full time CMD be appointed. They, therefore, desire that, as assured by Special Secretary Commerce during evidence, the process of appointing a full time CMD, should be expedited and the action taken reported within three months.

5.22 The Committee were informed that the Ministry presents an annual report to Parliament and that in the 15th Annual Report of TPCI, which was presented in the year 1985 and which was the last report presented to Parliament, the Chartered Accountant of the Company had indicated that the system of internal audit needs to be enlarged both in the trading division as well as Garden Division. The Committee are perturbed to note that no report was presented to the Parliament after 1985. The Committee find that the Ministry failed to discharge their duties effectively in this regard which resulted in an avoidable loss of Rs. 40.83 lakhs. The Committee desire that in future the Ministry would safeguard the commercial interests of the organisation before entering into any contract.

NEW DELHI;
10 March, 1992

20 Phalguna, 1913 (Saka)

A.R. ANTULAY
Chairman,
Committee on Public Undertakings.

APPENDIX

Statement of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

Sl. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1.	1.52 to 1.54	<p>The Committee regret to note that Tea Trading Corporation of India suffered a loss of ₹.89 lakhs in setting up of a Joint Venture Company abroad. In spite of the fact that the Company did not have sufficient market inputs available with it before the setting up of the joint venture it went ahead with the project without making any proper study regarding the market conditions as well as the type of tea required in the region. The only basis for having embarked upon this project was stated to be the report of the Trade Development Authority. Since the same was not available with TTCI, the Committee doubt whether any market inputs were made available even by the Trade Development Authority to TTCI. They are constrained to note that the project was approved without taking into consideration basic factors such as the location, transportation cost and adequacy of blending facility with the result that the type of tea which was suitable for marketing in South-East and far East Asian countries was not available and the prices of tea ex-Singapore were not found competitive. The Managing Director, TTCI was candid enough to admit before the Committee that the desired expertise and the kind of efficiency that was necessary for entering into a joint venture particularly with a foreign collaborator was not available to the Company. The Committee express their strong displeasure over the casual manner in which the TTCI went ahead with the setting up of the joint venture incurring heavy losses in precious foreign exchange.</p>

The Committee note that the new Company i.e. 20th Century Beverages Pvt. Ltd. was incorporated on 20 December, 1981 and in January, 1982, TTCI remitted a sum of \$ 1,80,000 towards their share of equity. The collaborators i.e. Kellog 20th Century (KTC) however, never contributed its share which was 60% of the equity. It is surprising that the Company went ahead with the joint venture without verifying the financial standing of the collaborators and remitted the amount of \$ 1,80,000 without obtaining the share certificates. In fact, the amount remitted by it was shown as loan in the accounts of the joint venture. In the Committee's view this reflects poorly on the working of TTCI, who in total disregard of its commercial interests went ahead with the project.

The Committee also regret to note that the project was approved by Govt. without careful consideration of the basic points. Further, though the joint venture started facing problems soon after it started its operation the Ministry came to know about the losses incurred by it in February, 1984. The Ministry have put the blame in this regard on TTCI by stating that the matter was never brought earlier to their notice by the TTCI. While the Committee are unhappy over the failure of the management to keep the Ministry informed of the developments, they are also pained to find that no action seems to have been taken by the Ministry even after the matter was brought to their notice in February, 1984. The Committee are, therefore, constrained to observe that there was no effective monitoring system prevalent in the Ministry. They cannot help re-calling the sorry state of affairs in regard to Engineering Projects (India) Limited while dealing with equally distressing state of affairs of Tea Trading Corporation of India Limited. The line of action that the Committee have desired in the former case needs to be adopted in this case also. Indeed whether it is a matter of securing project abroad—EPIL—or the question of setting up of a joint venture in the foreign company—TTCI—the Committee desire that a High Powered Committee of experts be constituted by Government so that right

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from the conception of such an idea to completion of the venture the business policies and programme could be monitored from time to time at every stage. The High Powered Committee will function as a watch dog. They also desire that they be apprised of the action taken by the Ministry in this regard.

2. 1.55

The Committee are distressed to note that although as a result of the investigation made by the Ministry, the then Chief Executive appeared to be prima-facie at fault yet no departmental inquiry was instituted against him. He was instead allowed to resign quietly on 15 April, 1985 and the case was referred to CBI only on 16 April, 1985 i.e. one day after his resignation was accepted. The assertion made by the Ministry in this regard that at that time it was thought that protracted departmental action should be avoided by accepting his resignation is far from convincing. The fact that he was allowed to leave without being asked to account for the grave irregularities committed by him creates an impression that there was some nexus between the then Chief Executive of TTCI and the officials of the Ministry. The Committee, therefore, recommend that the circumstances under which his resignation was accepted should be looked into afresh and the responsibility on officers be fixed. The Committee would like to be apprised of the action taken in this regard within three months.

3. 1.56

The Committee regret to note that though the then CMD resigned in 1985, yet he continues to have direct or indirect dealings with TTCI. They desire that those responsible for this be adequately punished and the Committee informed accordingly.

2.22
to
2.24

The Committee note that TTCI entered into a contract with a foreign collaborator in November, 1981 for supply of 5000 MT of black superior tea. Though according to the terms of the contract TTCI was to supply 700 MT of tea every month, the Company could supply only 1426 MT of tea from February to July, 1982 and incurred a loss of Rs. 22.25 lakhs. To avoid further losses, the

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Company discontinued the supply of tea and the foreign buyer was intimated accordingly. The ultimate settlement reached with the foreign buyer resulted in a loss of Rs. 64.61 lakhs to TTCI on this deal. The reasons put forward by the Management for not being able to supply the required quantity of tea are stated to be non-availability of tea due to bad crop and the consequential rise in prices. The Committee are distressed to note that before entering into the contract the Company did not have any indepth study made of the market conditions and future forecasts. The Committee are constrained to observe that be it construction contract—EPI—or trade abroad—TTCI—the whole object smacks of total disregard of prudent commercial interest.

It is regrettable that although the contract was finalised with an inbuilt loss of Rs. 25 lakhs yet the matter was neither placed before the Board for their approval nor was the Ministry informed about the same. The decision to enter into the contract was stated to have been taken jointly by the Marketing Manager and the Chief Executive. The Board was informed about it only when a decision was to be taken to pull out from the contract. The Committee are also constrained to note that the contract did not contain a force majeure clause as is normal practice.

The Committee were informed that this particular contract also pertained to the period when the Chief Executive, during whose tenure the Singapore deal was entered into, was in office (commented upon in earlier paragraphs of this Report). At this stage the Committee can only express their displeasure over the fact that by entering into this agreement the commercial interests of the Company were relegated to the background by the then Management. In reality the interests of a few seem to have been kept uppermost before that of the Company.

5. 2.25

The Committee were informed that the proposal for revamping of TTCI is under the serious consideration of the Government. Some of the alternatives which are being examined include such

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the Ministry for long. It was only in December, 1983 that the matter was referred to the Board to accord sanction for writing off the amount after obtaining the approval of the Reserve Bank of India. The matter therefore needs to be thoroughly probed responsibility fixed and punishment meted out.

9 3.28

The Committee also take a serious note of the fact that though sufficient period has elapsed yet no approval has been received from the Reserve Bank of India for regularisation of the contract and for writing off the amount, with the result that the payment of three bills amounting to Rs. 94.57 lakhs is still withheld by the buyer. They recommend that the Government should take immediate steps to settle the matter through arbitration. The Committee would like to be apprised of the final outcome in this regard at the earliest.

10 4.22 to 4.24

The Committee find that State Trading Corporation of India entered into a contract with a foreign company for sale of 4650 MT of tea to Iran. For the execution of the contract STC entered into a back to back contract with TTCI for the supply of 2000 MT of tea which was subsequently reduced to 1550 MT. TTCI was able to supply only 960 MT of tea against this order and incurred a loss of Rs. 53.78 lakhs.

The Committee are dismayed to find that STC entered into the contract which had an inbuilt loss of 47.40 lakhs with Iran which lacks any justification. The Committee note that while STC protected their interests by retaining one percent of tea sale proceeds as their commission, the burden of the unremunerative price was passed on to the TTCI who had to suffer heavy losses. From this the Committee cannot but conclude that the contract which was entered into with an inbuilt loss was totally ill-conceived and was entered into without taking into account the commercial interests of the TTCI.

The Committee were informed that the contract between TTCI and Iranian buyer was treated purely as a commercial transaction. The Committee were

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further informed that no action was initiated against the STC management for entering into a contract with an inbuilt loss. They recommend in future any contract entered into on behalf of STC or any other canalising agency should take upon itself the task of proper and effective monitoring of the contract. The Committee reiterate that no contract should be entered into with an inbuilt loss in the first instance.

11 4.25

The Committee find that the Ministry had come to know in 1983 itself that the contract had an inbuilt loss. A delegation was subsequently sent to Iran to persuade the buyer to increase the price of tea. Though the negotiation failed, the decision to withdraw from the contract was taken only after a period of two years, by which time TTCI also lost the market. The Committee cannot help but concluding that the Ministry have acted in an extremely lackadaisical manner. They strongly recommend that the Ministry should act in future as a nodal agency in discharging their functions more effectively.

12 4.26

The Committee find that the main responsibility for having entered into the contract rests with the then Chief Executive of TTCI. The Committee have already expressed their displeasure in the first paragraph of this Report over the way the Chief Executive was allowed to resign. The Committee fail to understand why the Ministry did not initiate any disciplinary action against the CMD; rather they referred the case to CBI to initiate criminal proceedings. The Committee at this stage hold the Ministry for responsible not effectively fulfilling its role as a monitoring agency. They are left with what they feel is an unerring conclusion that there seems to be an unholy nexus between the STC and the TTCI by allowing at the first instance the contract with the Iranian buyer.

13 5.18

The Committee find that for appointment of clearing and forwarding agents for export of Tea to Libya and Afganistan, six quotations were received by TTCI.... Firm, 'A' in the original offer of November 1978 had quoted a rate of Rs. 43 per case for Afganistan tea and a rate of Rs. 63 per case for

Libya tea. The offer was evaluated as the lowest and exhaustive by TTCI. The Committee however regret to note that subsequently TTCI while issuing the letter of appointment against this original offer revised the rate for Lybian tea to Rs. 72 per case. The TTCI have neither been able to adduce the reasons for having enhanced the rates nor indicate whether the approval of the Competent Authority had been sought in this regard. The relevant records in this connection are also reported to be not available with TTCI. Considering the manner in which the rates were increased unilaterally by TTCI leads the Committee to the conclusion that the decisions were taken on considerations other than pure commercial interests of the organisation. They are also dismayed to note that even no enquiry was conducted in this case. They desire that now though belated, an enquiry be conducted in this regard to fix responsibility and take action against the erring officials. The outcome of the enquiry should be reported to the Committee within a period of three months. The enquiry should also cover the circumstances in which vital records of the transactions were destroyed.

14 5.19

The Committee are distressed to find that though the terms of the contract did not provide for giving advances yet the same were given to the forwarding and clearing agents by TTCI. In some cases in violation of the rules the company went to the extent of giving further advances to the agents even when the earlier advances were still outstanding against them. As on 31.3.88 a sum of Rs. 56.24 lakhs was still outstanding and pending settlement. The Committee desire that effective steps should be taken to recover the outstanding advance from different parties at the earliest.

15 5.20

The Committee find that the advances were given to the agents under the orders of the then Chief Executive who was allowed to demit office without taking action against him which has been commented upon by the Committee in the earlier paragraphs of this Report.

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16	5.21	<p>The Committee express their displeasure over the fact that though the affairs of TTCL are in such a mismanaged state, yet the company has been without a Chairman for about 2 years. Only a part time Managing Director is in charge of TTCL. The Committee feel that for streamlining the affairs of TTCL and to give it a purposeful direction it is imperative that a full time CMD be appointed. They, therefore, desire that, as assured by Special Secretary Commerce during evidence, the process of appointing a full time CMD, should be expedited and the action taken reported within three months.</p>
17	5.22	<p>The Committee were informed that the Ministry presents an annual report to Parliament and that in the 15th annual Report of TTCL, which was presented in the year 1985 and which was the last report presented to Parliament, the Chartered Accountant of the Company had indicated that the system of internal audit needs to be enlarged both in the trading division as well as Garden Division. The Committee are perturbed to note that no report was presented to the Parliament after 1985. The Committee find that the Ministry failed to discharge their duties effectively in this regard which resulted in an avoidable loss of Rs. 40.83 lakhs. The Committee desire that in future the Ministry would safeguard the commercial interests of the organisation before entering into any contract.</p>
