Annexure

(Report of the Committee of Two Secretaries, Mr. G. C. Dash, Secretary Development and Mr. M. Ramkrishnayya, Secretary Finance on kendu leaves rebate question on 3, November, 1959)

On 26.10.59 we heard Shri Hiralal T. Sodha, advocate for the kendu leaves traders.

We also gave an opportunity to some of the bigger lessees such as, Sri Tribhuban Das Raghavaji, Sri Shivji Nathu Bhai, Sri Makhmanlal Agarwal, Sri Chaturbhuj Andorji, Sri Ramji, Purisotam and M/S Hazra and Co., to explain their case. We also met Sri Babu Bhai Patel who though not a lessee is said to be conversant with the problems of the trade and who has close connections with some of the lessees and the Association of the bidi leaf merchants. Some other lessees were also present at the hearing. It does not appear necessary to specify all the names as most of them were silent witnesses to the proceedings.

2. Shri Hiralal T. Sodha had earlier submitted certain statements relating to the business of M/S Hazra and Co., M/S Ramji Purisotam, M/S Jayantilal Darabhai and M/S Ramji Chakubhai, at the hearing the submitted two further statements, one relating to the lease of Pal Lahara area and another showing the rates at which sales were made to Pakistan during the year 1957-58 and 1958-59. The proprietors of M/S Hazra & Co., gave a complete and detailed list of the sales of his company from May, 1956 to March 1959 and produce, the bill books for verification with the statements. On behalf of M/S Ramji Purishotam also certain books were produced some of which showed the details of leases the firm had taken for running the business and the interest charges they have been called upon to pay.
3. The petitioners have made two alternative prayers: to give a rebate of 25% in royalty every year during the three years of the lease or to let them work their areas for one more year i.e. 1960 free of royalty. In support of their prayer they have urged the following grounds:

(a) Due to certain changes of policy in Pakistan exports to Pakistan have declined and they have thus lost the opportunity of selling their stocks in a high priced market, the main basis for their high turnovers in 1956.

(b) The prices in Calcutta market, where most of the Orissa leaves are sold, have fallen during the last two years.

(c) The average sale price per bag they have been able to obtain during the last two years is lower than the average cost price per bag.

4. Before we go into the merits of the contentions of the petitioners it is necessary to reiterate that there is no legal necessity for Government to take into account any fall in prices or changes in the policies of an importing country. The petitioners are carrying on the business of collection of kendu leaves under the terms of a contract. It for some reason or other the hopes they had entertained at the time of signing the contract have not materialised they should take the consequences. They cannot call upon the Government to reduce the lease amount. It will thus be clear that in entertaining and considering the requests of the petitioners for reduction of lease amount or extension of the period the Government will be acting outside the terms of the contract and in satisfaction of their interest in the maintenance of the existing trade channels of the kendu leaf business.
5. The grounds advanced by the petitioners may now be examined in detail. As regards the 1st ground, enquiry has been made from Government of India regarding the state of exports of kendu leaves to Pakistan during the last two years. The Ministry of Commerce and Industry have replied as follows:

"From the trade statistics available with us, we find that our exports in Biri leaves (kendu leaves) to Pakistan have been, more or less, steady during the past few years."

(Letter No. 41 (40) F.T.(A)/58 of G/I dated 30.6.58)

According to information furnished by our First Secretary (Commercial) Karachi, there has been no decrease in the imports of biri leaves from India into Pakistan.

According to our Statistics India exportes to Pakistan biri leaves worth Rs. 72.79 lakhs in 1957 and Rs. 74.3 lakhs during 1958. The new Government of Pakistan have not put any restrictions on the import of biri leaves from India" (Letter No. 41- FT(A)(27)/58 of Government of India dated 6.5.1959)

Prima facie these statements disprove the contentions of the petitioners. This will of course be a correct finding if all the export of kendu leaves from India to Pakistan are by way of import licence obtained from the Pakistan Government. The petitioners have claimed that kendu leaves were hitherto being sent to Pakistan in three ways.

(a) By means of import licences from Pakistan Government.
(b) By means of free trade in the border areas through consumers directly.

(c) by barter licences.

The information supplied by the Commerce and Industry Ministry applies entirely to the first method. There are no statistics in regard to the second and the third systems. The second system ostensibly called free trade through consumers provided a large leephole for smuggling wholesale transsactions. It is not an exaggeration to say that the exporters of Calcutta depended on this method a great deal for this high profits and this had a lot to do with the high offers made by the lessees in September, 1956. It has been claimed by the petitioners that as much as 50% of the leaves that entered Pakistan used to be sent under the guise of free border trade and barter trade. We have no means of checking these claims. It is not, however, unsafe to assume that sizeable quantities used to leave the country under these systems. It is well known that with the change in the political set up of Pakistan and the strict watch over the borders that was introduced, the scope for the so called free border trade and barter trade diminished. This has brought down the price in the Calcutta market. A high profit avenue being thus closed and the demand having thus been reduced relative to supply the prices began to decline as will be shown below.

6. As regards the second point we attempted to get a scientific analysis of the price trend. The Joint Director of Marketing was approached for the purpose. He, in turn, contacted the Marketing Department of the Government of West Bengal.
Earlier the Forest Utilisation Officer also made some enquiries in the Calcutta Market. The available information as reported by the Department of Marketing, Government of Est. Bengal as follows:

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<th>Sept</th>
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<th>Oct</th>
<th>Mov</th>
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<th>Sept</th>
<th>Oct</th>
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<td>59</td>
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<tr>
<td>Superior</td>
<td>125</td>
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<td>115</td>
<td>100</td>
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<td>11</td>
<td>121</td>
<td>131</td>
<td>121</td>
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<tr>
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<td>85</td>
<td>80</td>
<td>70</td>
<td>60</td>
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<td>Inferior</td>
<td>60</td>
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<td>40</td>
<td>35</td>
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(* No quotations for the inferior grade as no transaction are reported) From the above table it appears that prices began to fall sometime in the last quarter of 1957 and reached the bottom by the end of the year. No reports have been received from the Marketing Department of West Bengal for the year 1958. Had this information been available it would have been possible to present a connected picture on the basis of the data received from one and the same source. Some attempt has been made to fill the gap in our information by a study of the detailed statement of sales submitted by M/S Hazra and Co. His statement gives information regarding sale of leaves from May 1956 to March 1959 without specification of grade. The leaves were taken from Rairakhol area and should be deemed to be of the best quality. We may therefore assume that the prices given in the statement relate by and large to the first grade only. The average prices obtained by M/S Hazra & Co. during the three years, F.O.R. Calcutta have been calculated and on the basis of those average, the Calcutta selling prices have been calculated as to provide comparable data.
The derived prices are as to provide comparable data. The derived prices are as follows:

<table>
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<th>Period</th>
<th>Average</th>
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<tr>
<td>May '56 to Jan '57</td>
<td>127</td>
</tr>
<tr>
<td>May '57 to Jan '58</td>
<td>118</td>
</tr>
<tr>
<td>May '58 to Jan '59</td>
<td>110</td>
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</table>

The above average have been worked out by adding to F.O.R. Calcutta Prices a sum of Rs. 6/- to 7/- towards expenses and margin of the Calcutta merchant. These figures tally broadly with the information collected from the Marketing Department of West Bengal. If thus the gap in the information received from the Government of West Bengal is filled by the data obtained from Sri Hazra's statement it will be clear that the prices in 1958 continued to be on the decline and that the trend of fall that came to notice in November, 57, continued almost unabated.

Having thus satisfied ourselves that prices have shown a downward trend we have tried to calculate the degree of percentage of fall. It appears that the fall in 1958 in the superior varieties was of the order of 15% from the price level of 1956, the year in which the lessees offered tenders. In the medium varieties the fall was perhaps not much. In the inferior variety the fall is very steep indeed so that by 1959 they are not even being quoted. The C.C.F. has reported that the superior leaves from not more than 20 to 25% of the total leaves collected and that the quantity of leaves in the inferior variety has formed the bulk. The main market for superior leaves was Pakistan. As a result of the closure of some of the channels of export these leaves came to be sold in the country and the
consumers such as bidi makers began gradually to eliminate from their purchases as much of the inferior varieties as possible. The bulk of the collection being in the lower grades, the lessees faced with a situation in which they could not convert a good proportion of their collections into cash. Here appears to be crux of the whole matter. The lessees have elsewhere represented to the Chief Conservator of Forests that the quality of leaves has also gone down because of competition between one lessee and another. There may be some truth in this statement. Thus, by and large, our finding is that there has been a fall in the prices obtained for the leaves. On the basis of the ascertainable fall of about 15% in regard to superior variety of leaves, it will not be unsafe to assume that the over-all fall will be of the order of about 25% particularly in view of large collection of inferior leaves.

8. As regard the third point, we may say that it is difficult to verify the statement made by the lessees and assess the actual increase in the cost of production. No doubt royalty has been raised considerably over the level of the previous lease amount. We may also give credence to the statement that the labour charges had gone up. This will be in accordance with the general trend of increase in agricultural wages. This can not of course be assessed scientifically and mentioned in terms of figures. There is one item of increase which can also be recognised in the case of some lessees i.e. in regard to the construction of godowns. A number of units changed hands at the last settlement and the new lessees could not come to a
settlement with-hold ones for the purchase of the old godowns. Ultimately, the new lessees built their own godowns at considerable initial expenses. It can of course be said that Government can hardly be held responsible for such increase in costs and be asked to compensate. On the basis of the above findings we recommend as follows:

(1) Fluctuations in prices and the consequent increase or decrease in profits is natural in a trade and a trader is normally expected to set off the earnings in his good years against the losses of the bad years. Thus the most that the trader can expect from Government is a further opportunity to earn. To ask for a refund of the royalties already paid or payable is not proper. A reference to the table given in para 6 will show that the prices have again begun to move upwards a few months ago. Inquiries made during the last week of October in Calcutta through Joint Director of Marketing also show that the prospects of exports to Pakistan have slightly improved. How good the prospects are, it will be too early to say. The fact that the present lessees are asking for the extension of the lease for one year also goes to show that they too are not pessimistic of the future. In these circumstances the most that can be done is to give them an opportunity for working one year more. The question of giving a rebate for past years may be dropped. A refund of the part of the royalty already received by Government is not feasible either from the financial point of view or expedient from the point of view of findings given above.
(2) The next question is what terms should be offered for the extra year that is proposed. The prayer of the petitioners that there should be no royalty is an extraordinary one and may not be agreed to. Royalty must be paid, as the cost structure as well as price trends indicate a change in the circumstances that prevailed at the time of the last settlement, the royalty may have to be refixed, some reduction is indicated. The best course would be to adopt a slab system regulating the reduction progressively according to the increase registered in 1956. In other words, those units, which registered the highest increase, should now get the highest concession while those, which have increased least, will get the least reduction. The following slabs are suggested;

(a) Where increase in more than 300%, the lease money will be fixed at 45% of the current lease money.

(b) -do- is between 200-300% -do- 662/3% -do-

(c) -do- is between 100-200% -do- 75% -do-

(d) where increase is less than 100% or even no increase, the lease money will be fixed at 80% of the current lease money.

If these slabs are adopted the total income to the State will be Rs. 59,18,540/-. This means an overall reduction of 26%.

(e) If for any reason Govt. are agreeable to consider the prayer of the petitioners for some concession in the current year's royalty, they may adopt the above slab system for 1958-59 too. That would amount to making the total period of lease for four years, two years of which will be on the higher rates of royalty and two years on the reduced rates. That would be a fair settlement.
10. Our recommendation that one more year be given to the existing lessess has to be considered in the contest of the possibility of continuation of the present policy regarding the kendu leaves. Govt. are seriously considering a change in the system. The outlines of the new system are being submitted separately. It appears that the new system cannot be brought in to force immediately without detriment to our revenues. (Moreover, the present time does not appear to be opportune to change the system. There are so many uncertainties. Kendu leaf market is just now reviving and if a complete change is now made of the channels through which the trade will pass, serious difficulties may arise. It may be appreciated that whoever be the agent to collect leaves in Orissa his future will depend on the Calcutta market and the exports to Pakistan. The changeover from the present channels to the new channels would therefore, be smooth and not sudden.)

Sd/- G.C. Dash  
3rd Nov. '59.

Sd/- M. Ramkrishnaya  
3rd November, '59