Chief Minister H.N. Singh Deo's note to Sri P.M. Pradhan

Deputy Chief Minister.

Your note dated 10.12.70 based on the oral accusations by kendu leaves Contractors of the State, your Party-men of Cuttack and Puri district Committees and more pointedly, the imprecise Press Reports recently published regarding undue grant of relief to two persons in the matter of kendu leaf lease.

I recalled the cases and re-examined them in the light of and in relation to the pertinent points raised in your notes over-leaf and have also had a thread-bare discussion with the Minister concerned in the matter. The points raised by you, may, in precise terms, be as under:

I. Undue concessions on flimsy grounds have been granted to two persons, namely (i) D.C. Patel Group and (ii) Bithal Patel Group which resulted in heavy loss of Government revenue to the tune of Rs. 18 lakhs.

II. This colossal relief as has been granted is highly irregular and amounts to a distinct favour to those two particular persons given with a pre-designed motive, on the plea of helping them out of their financial difficulties; and as such, all other kendu leaves contractors will demand of Government the same measure of relief and if Government will be found to comply with their demands, more or less.
The misconceptions prevailing around the Kendu Leaves matter at present, appear to be largely due to some speculative nature of reports which some interested persons got circulated mainly as a propaganda stunt, to score some political advantages for themselves. I wonder how unfortunate it is that some of our own sworn friends and colleagues in politics should at all indulge in such kind of pettiness and unsavoury bickerings as to make much ado about nothing. When judged from an objective angle, the accusations appear not only wild, but stranger than fiction also. What I felt is that all are beating about the bush with their own picturesque presumptions, although at the same time taking much care to create-bazar-scenes by making unnecessary hullah. In such a context, it is really some thing noble and majestic for you to admit with your characteristic plain-speaking fashion "that you do not know what has happen in these cases actually" but, all the same, you thought it wise to bring them to my notice. As such, I am bound to appreciate you in this regard.

As the facts of the case stood, the field reports told a very alarming story about the performance of certain Kendu leaves Units for which corrective doses became necessary to restore them to their earlier good health. The symptom of progressive decline in production in the case of these few Units were noticed from 1969 production and it would certainly have been a costly error for any Government to ignore it off-hand. Hence was the need to diagnose the disease properly as to why production was going down in those cases.
You will agree that State Trading in Kendu Leaves is basically a commercial concept. For this trade to pick up buoyancy and record better out-turn from year to year, yielding corresponding larger income to the State, it is necessary that its sickness has got to be dealt with from commercial angle and given the matter-of-fact treatment which it sorely needed. Any superficial patting, will do it no good in the circumstances.

The field report assigned the following as mainly responsible for the backward march of these Units.

(a) Large-scale smuggling and (b) unusually high royalty factory which encouraged smuggling as a side effect.

The fact remains that with best of efforts of Forest staff and even with the aid of local Police staff at times, it was impossible to check smuggling because the mushroom growth of small Bidi-making Centres in the adjoining areas provided ready market for the smuggled staff which again coupled with the factor of too much disparity in the royalty rate as between those particular Units viz-a-vis the adjoining Units lent impetus to smuggling of leaves. The field report specifically stated that whether it was in the Bidi-making Centres or in the Fadles of other Units, it was natural to purchase leaves even at a higher rate as the purchaser of the smuggled staff did not have to make expenditure on account of pre-liminaries and other operations. This was primarily responsible for gradual fall in quality and quantity of leaves, year by year. Smuggling and unusually high royalty being the two factors inter-linked, it was impossible to halt smuggling in these particular cases without correcting the high royalty.
As for example, in case of Units 6 and 6-A the excess of royalty in 1968 was Rs. 1.28 lakhs when the rate of purchase price was much less. But in 1969, it sharply fall to Rs. 0.82 lakhs inspite of the unusually high purchase price on new tender. Further, in 1970, in place of the marginal excess previous year, the net loss in royalty was of the order of Rs. 1.16 lakhs which in term of over-all loss was as follows:

Net loss in Royalty

Add the excess of 1969 which should otherwise have come as income to Government if the smugglers had not taken it away. .... Rs. 0.82 lakhs

Rs. 1.16 lakhs

or say Rs. 2 lakhs.

During one year period, the decline in income in respect of these 2 units only, was of the order of Rs. 2 lakhs and on 1968 standard, the deterioration was to the tune of about Rs. 3 lakhs.

Actual production of leaves from 1968 to 1970 which is as follows gives a clearer picture of the nature and dimension of deterioration:

Units 6 and 6-A

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>12912</td>
</tr>
<tr>
<td>1969</td>
<td>8576</td>
</tr>
<tr>
<td>1970</td>
<td>6350</td>
</tr>
</tbody>
</table>

Meanwhile, if there was not so much deterioration as above from 1968 standard, Government's yearly income from these two Units alone would have been Rs. 15.06 lakhs. But actually it was Rs. 9.99 lakhs in 1969 and Rs. 7.35 lakhs in 1970.
In other words, Government had already lost Rs. 12.78 lakhs during these two-year period and would be losing more in progressive order if the present corrective measure had not been taken to stem the rot.

This substantial amount which was thus lost from Government revenue, ran down the drain to the body of smugglers who made windfall gains at the cost of the Government revenue as well as the trade, and who were getting themselves well organised from year to year by enlarging their activities and area of operation and pocketing the loot. There is positive reason to believe that they had perverted the checking staff and even had built up lobbies at top echelons of the administration and political circles, so as to oppose successfully any measure aimed at their total liquidation.

True, Government can realise penalty from the Agent for Shortfall, but that would retrieve the position only to a small extent, still leaving an impressive margin in terms of decline in net Government income which should otherwise have come the state. In any case, the penalty cannot be more than the net profit of the Agent for the year in accordance with the High Court Ruling. Therefore, it will be a very small amount and will be of no avail in material consideration......

Therefore, you will agree that in this matter no undue favour (rebate) has been given to anybody on flimsy grounds and whatever has been done has been on the basis of field enquiries and full consideration in the long term interest of government revenue. The statement that Rs. 20 lakhs
of income has been given as relief is thoroughly baseless and mischievous. A wrong impression has been attempted to have been created in the mind of the public by the motivated publications, that the purchasers are to pay lump sum fixed amounts to Government. This is far from the truth. The purchasers have stipulated in terms of price to be paid for each bag of leaves sold to them by Government. Since the production in terms of bags in these Units were going down, Government were getting less and less every year even though the price per bag was high. By reducing 20% of the price, if the old level of number of bags are reached, the profits shall go up by about 40% over and above the present level of Government income. Some may be building castles in the air, but those lakhs are not actually there and it must be remembered that they were never coming to Government regardless of whether this correction was administered or not. Rather, by this timely action, there is reasonable expectation that this sort of ever-increasing loss tendency would be successfully and comprehensively arrested.

In the circumstances, there was no question of showing any favour to any body, whoever was the purchaser or agent in these cases, that was entirely immaterial. Government had to do it in the interest of the State, so the question of serving the interest of some others does not arise. Furthermore, each case has to be judged on its own merits. Therefore, there is no question of showing considerations of every one indiscriminately.
In the nature of things, you will agree that there is nothing in the order which may be immoral, fishy or behind-the-scene in character. Everything is above board. As you have raised the issue with open mind, so I have given the genesis of this matter which will show how so wrong has been done or meant to be done by the said order. ...... 

A Press Note is being issued to clear the unnecessary mist that has gathered due to speculative and motivated propaganda now going on in newspaper and political circles. I hope you will now appreciate how dispassionately and objectively every thing has been done and how baseless and unwarranted imputations of ill-motives are ?
Annexure 15

AMRIT BAZAR PATRIKA DT. 15.12.70
JANA CONGRESS CIRCLES STILL NOT SATISFIED.
(From our special correspondent)

Bhubaneswar, December 14 -

The hitch between the partners of the State's ruling coalition Swatantra and Jana Congress sparked off a few days ago over grant of concession to some kendu leaves traders reached new pitch yesterday. A Jana Congress spokesman describing the Government Press Note on the subject as "totally unsatisfactory".

The spokesman told reporters that Jana Congress "persists in its demand for a thorough probe into the deal" and gave indications that the Party might even demand judicial enquiry.

The Jana Congress Deputy Chief Minister Mr. Pabitra Mohan Pradhan is known to have taken a strong exception to the grant of concession which is variously estimated in political circles to have inflicted heavy loss to the State Exchequer.

On being asked by reporters the Deputy Chief Minister Mr. Pradhan confirmed last night that he had sent a note to the Chief Minister on the issue, but he declined to give out the contents of his note.
It was, however, reported that Mr. Pradhan had asked the Chief Minister to stay execution of the concession order and get the matter discussed by the Cabinet or alternatively by at least seven members of the Cabinet belonging to both parties informally.

Questioned by the reporters Mr. Pradhan last night denied that he had received any reply from the Chief Minister on his note. However, he added, "the Chief Minister's reply might have reached my office, but I have yet to see it".

Asked by a reporter if the Deputy Chief Minister was consulted before the Press Note was issued Mr. Pradhan flatly denied any knowledge about it.

Jana Congress Party circles made no secret of intention to clinch the issue by demanding a thorough probe, which, according to them, could alone assuage the suspicious atmosphere created in the State over the deal."