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THE INDIAN COTTON MILLS' FEDERATION
BOMBAY

Final Report of the Sub-Committee on weak and marginal units, as amended at its meeting on 19th October, 1966.

The Sub-Committee under the Chairmanship of Shri Naval H. Tata met on 14th and 27th September, 1966, and gave careful consideration to the problems of weak and marginal units. In its deliberations, the Sub-Committee had the benefit of valuable suggestions made by some of the Member Associations and Members of the Committee.

The Sub-Committee which analysed the problems of the weak and marginal units felt that weak units could be properly described by the term 'uneconomic units'. Having regard to the difference in the nature of relief measures necessary for uneconomic units and marginal units, the Committee felt that separate recommendations should be made for (1) uneconomic units, and (2) marginal units. The relief measures recommended for marginal units are meant for toning up the health of the industry in general so as to prevent marginal units from falling into the category of uneconomic units. The following are the recommendations :

1. Uneconomic Units :

Uneconomic units should be given the same concessions and facilities that are made available to mills taken over by Government as an unemployment relief measure. The concessions which are contemplated are :

(i) Deferment of payment of provident fund and bonus;

(ii) Deferment of payment of excise duty;

(iii) The above relief should be available for a limited period of three years.

(iv) To enable rationalisation of labour there should be full co-operation from both the Government as well as the workers and Mills should be allowed to work additional shifts wherever possibl

(v) More flexibility in regard to production of controlled categories with the overall limit of 50%.

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(vi) Freedom from the obligation of payment of retrenchment compensation, if such a concession is made available to Government run mills.

To decide which mills qualify for the above set of concessions, an Expert Committee should be set up to investigate the financial and technical position of the mills. The Expert Committee should consist of two representatives from the Central Government, two from the Federation and one from the lending institutions (such as IDB, IFC, ICICI etc.).

The Expert Committee may recommend a scheme of rehabilitation and the quantum of relief and financial assistance needed for the uneconomic unit under investigation.

If the Expert Committee certifies a mill as being eligible to the above concessions, then apart from extending these concessions, the mill should be entrusted to an Administrative Committee consisting of a representative of the Central Government, a representative of the ICMF, a representative of the regional association to which the mill belongs, a representative of the regional research association, a representative of the previous management, a representative of the financial institution and a representative of the trade union. While under the control of the Committee of Administration, the mill should not declare any dividends or bonus shares. Nor would the managing agents of the mill be entitled to receive any managing agency commission.

2. <u>Marginal Units</u> :

If appropriate steps are not taken, the marginal units of today are likely to become uneconomic in the near future. Hence it is essential to take general measures to tone up the health of the industry as a whole so that marginal units are prevented from falling into the category of weak units.

Besides suggesting the following general remedial measures, it is the considered view of the Sub-Committee that as an immediate relief measure, it is essential that limits of loans laid down by the Reserve Bank against hypothecation of stocks should be relaxed in favour of the

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marginal units so that such units may not come to grief for want of working capital.

The Remedial Measures :

(i) The Sub-Committee is of the view that the problem of uneconomic and marginal units is a continuing one and it is necessary to keep a constant vigil on it. It, therefore, felt that the Sub-Committee set up by the Federation should become a permanent feature. The Sub-Committee should keep the matter under its constant review and if necessary, recommend to the Committee of the Federation, such measures as in its view, are necessary for helping the marginal units from time to time. The meetings of the Sub-Committee should be held normally on the same day as the meetings of the Committee of the Federation.

(ii) The root cause of the present plight of the industry is the enhanced excise duty. To help the marginal units, it is necessary that the excise duty structure be rationalised so that the duty burden is reduced on cloth which is marketed as grey cloth. If possible, the duty on bleached cloth should also be kept at a low level.

(iii) Excise duty on yarn should be reduced.

(iv) The inroads made by the powerloom sector on account of the excise duty concessions enjoyed by it vis-a-vis the mill sector are having a deleterious effect on the health of the mill industry. To make the mill industry more competitives, it is essential that the present excise duty differential between mills and powerlooms is reduced. The excise duty differentials between mill cloth and powerloom cloth which now exist at three stages, viz. processing, loomshed and spinning should be reduced at all stages and in doing so the reduction in excise duty on yarn suggested under item (ii) above should also be taken into consideration.

(vi) The Federation should impress on the Government about the urgent necessity for making available long term loans on soft terms to marginal units to enable them.to rehabilitate. In assessing the quantum of such loans to these units, the value of fixed assets should be determined at their market price and not at depreciated book value.

(vii) The taking over of uneconomic units by the more prosperous units requires to be facilitated. This specially calls for a modification of the tax law so that the present impediments in the way of prosperous units taking over uneconomic units are removed.

(viii) The Federation's policy should be oriented towards helping the weak units. In this connection a suggestion was made for distribution of foreign cotton to all mills. In any case the Federation should examine the feasibility of this suggestion and also consider what other measures are necessary for orienting its policy for helping weak units.

In the present context of the difficulties of the industry, the Sub-Committee felt that more requires to be done to put the industry's case in the proper perspective before the public and Government. It, therefore, recommended that the Federation should undertake a programme of publicity for educating public opinion through publication of articles in the leading newspapers and journals. In such articles, special attention might be given to the need for highlighting the causes of the industry's plight with some reference to the incidence of high excise duty, increased cost of raw materials and wages. The Committee further recommended that in the preparation and publication of these articles leading members of the industry should be requested to extend their help.

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29.3.1967