REPORT OF THE INDUSTRIAL LICENSING POLICY
INQUIRY COMMITTEE ON CERTAIN ALLEGATIONS
AGAINST BIRLA GROUP OF INDUSTRIES CONTAINED
IN SHRI CHANDRA SHEKHAR'S MEMORANDA.
INDUSTRIAL LICENSING POLICY INQUIRY COMMITTEE

Examination of Certain Allegations
Regarding Birla Companies Referred to the
Industrial Licensing Policy Inquiry Committee

The Government on 25th August 1967 sent the Committee extracts of certain allegations against some companies in the Birla Group that had been brought to the notice of the Minister of Industrial Development & Company Affairs. By this letter the Committee was requested to look into the allegations since they had a bearing on industrial licensing. After some correspondence ultimately the position was that the Committee was asked to look into the allegations in respect of certain Industries listed below:

1. Hyderabad Asbestos Cement Products Ltd.
2. Orient Paper Mills Ltd.
   (A) Amlai Unit
   (B) Bilaspur Unit
   (C) Brajrajnagar Unit
3. Rayon Grade Pulp (also whether Birlas control 75% of the rayon yarn industry)
5. Hindustan Aluminium (at Mirzapur)

and also (6) Huge amounts of loans obtained by Birla from Government financial institutions.

2. In examining these allegations the Committee has taken into consideration material that has come to its notice in the course of the inquiry conducted by it under the terms of Reference under which it was
In this background the Committee now proceeds to deal with the allegations.

 Companies, the official agencies concerned and any other interested and affected parties to state what they have to say in regard to the allegations. What the Committee has done therefore is merely to collate the facts and evidence regarding these allegations which were available in the records of Government furnished to the Committee, to the extent that they came within the Terms of Reference of the Committee.

In this background the Committee now proceeds to deal with the allegations.
"The essential raw material for Asbestos Cement product is asbestos fibres and since this is not available in India in the required quantity and quality, foreign exchange is allotted to this industry for importing asbestos fibres from foreign countries.

In 1955 the capacity of this company was 20,000 tons. The present capacity is 2,20,000 tons. In spite of the Central Govt.'s view in 1963 that no further licensing will be given, Hyderabad Asbestos Cement products continued expanding their capacity without any industrial licence being granted by the Government and in the result, they expanded from 48,000 tons to 2,20,000 tons without any authority, permission or licence from the Government. When the company approached the Government for foreign exchange for this increased capacity which was unauthorised, the Government officials, instead of questioning this unauthorised expansion, approved and rectified the industrial licence of this company for 2,20,000 ton capacity."

2. The allegation will be dealt with by us under two heads since the Hyderabad Asbestos Cement Products Ltd. has two factories; the first at Sanat Nagar in Hyderabad, established in 1948; the second in Ballabhgarh, Punjab, established in 1964.

3. Below are given the figures of the actual expansion of production in the two factories we are concerned with:

<table>
<thead>
<tr>
<th>Unit</th>
<th>Date of application</th>
<th>Date of License</th>
<th>Existing Capacity</th>
<th>Additional Capacity</th>
<th>Total Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanat Nagar</td>
<td>7.4.58</td>
<td>25.11.58</td>
<td>30,000 tons</td>
<td>-</td>
<td>30,000 tons</td>
</tr>
<tr>
<td></td>
<td>23.2.59</td>
<td>12.10.59</td>
<td>30,000 &quot;</td>
<td>30,000 &quot;</td>
<td>60,000 &quot;</td>
</tr>
<tr>
<td></td>
<td>12.8.63</td>
<td>12.2.64</td>
<td>60,000 &quot;</td>
<td>60,000 &quot;</td>
<td>1,20,000 &quot;</td>
</tr>
</tbody>
</table>
4. We propose to take the expansion in the two factories separately since they are covered by grant of licences given at separate times.

5. The Hyderabad Asbestos Cement Products Ltd. was originally a Government company under the Government of Hyderabad (later of Andhra Pradesh) and its first Managing Agents were M/s. Khan Bahadur Ahmad Alladin & Company. It would appear that the company was in financial difficulties and according to the company's Annual Report for 1956, Birla Bros. were appointed Constituted Attorneys to the Managing Agents. The Report states that "Birla Bros. took over the Management" of the company early in 1956.

6. The company started with the establishment of a factory for production of Asbestos Cement Products in Sanathnagar, Hyderabad. The production in this factory of Asbestos Cement and accessories was 2,967 tons in 1955, 3,181 tons in 1956 and 19,360 tons in 1957.

7. Asbestos Cement was brought under the purview of the Industries (Development & Regulation) Act, by the Amendment Act of 1956. A Notification was issued on 1.2.1957 inviting applications for COB by 1.8.1957. Hyderabad Asbestos, however, applied for a COB licence only on 7.4.1958.
8. In the application for the licence, it was stated that the company had imported two plants with a capacity of 2,500 tons per month each (30,000 tons per annum), out of which one plant had been commissioned and was in operation. The second machine was not commissioned due to lack of demand as well as lack of finances. However, since the second plant was also being brought into commission, a request was made in the application that total installed capacity should be registered at 5,000 tons per month or 60,000 tons per annum.

9. A licence was granted on 27.11.1958 only for a capacity of 30,000 tons per annum of A.C. sheets, Moulded Goods and Pipes and Fittings. The company was advised to apply for a licence for substantial expansion when the second machine was installed and commissioned.

10. In 1958 the production was about the same as in 1957. The Board, however, mentioned that the second machine was under erection and it was expected that it would be commissioned in 1959 while Machine No.1 would have to be shut down for overhaul after the new machine was commissioned.

11. The company submitted an application on 23.2.1959 for expansion of capacity from 30,000 tons per annum to 60,000 tons per annum. It was stated that demand had increased and that the second plant could be commissioned with only a negligible expenditure of foreign exchange. The erection of the second machine was completed and it was commissioned in November 1959. The Annual Report for 1959 shows that an amount of Rs.66,000 was spent in 1958 and Rs.1,11,000 in 1959 for additions to the plant and machinery.

12. The Development Wing pointed out that the targeted capacity for asbestos cement was 3,00,000 tons while the capacity already installed was 1,96,000 tons. Additional capacity had not been licensed mainly because of difficulties in foreign exchange. The scheme of Hyderabad Asbestos was recommended as, according to the
Development Wing, it had an advantage over all the other schemes proposed at that time inasmuch as no foreign exchange was involved in the import of capital equipment. Capital equipment for a new plant, it was stated, would cost at least Rs.20 lakhs. The grant of the licence was therefore recommended. The licence for a further 30,000 tons was granted on 13.10.1959, the main condition being that the Government did not commit themselves to provide any special facilities with regard to supply of raw materials.

13. Production exceeded 25,000 tons in 1960 and reached almost 40,000 tons in 1961. In 1962, it was a little less than 60,000 tons, the authorised capacity.

14. After the declaration of emergency in 1962, it was found necessary that the production of A.C. Sheets should be maximised. Therefore, the allocation for import of raw materials for Asbestos was increased and the producers were advised by Government to maximise production. The various producers indicated the extent to which they could increase production, and it appears that Hyderabad Asbestos were able to increase their production more speedily because they themselves were in a position to manufacture the machinery required for the purpose. As a result, their production in 1963 reached 90,000 tonnes. As the company had already increased its production as a result of Government's appeal, the D.G.T.D. advised the company to apply for a substantial expansion licence under the IDRA for regularising the increase in capacity.

15. Accordingly the company applied on 12.8.1963 for a substantial expansion licence which would increase their installed capacity from 60,000 tons to 1,20,000 tons. This licence was granted on 12.2.1964. Thus, through the grant of this licence, third in the series of the licences granted in respect of production in the Sanatnagar Unit, the installed capacity of the Sanatnagar Unit rose to 1,20,000 tons.
16. It would be noted that the grant of a substantial expansion licence in this case on 12.2.1964 was permitted since the expansion itself was undertaken in response to Government's appeal during the Emergency to maximise production of Asbestos Cement products.

**Ballabhgarh Unit:**

17. On 7.6.1963 the company applied for a licence to permit them to set up a factory in Ballabhgarh (Punjab) for a capacity to produce 42,000 tons of products (36,000 tons of A.C. Sheets and 6,000 tons of A.C. Pressure Pipes).

18. The Licensing Committee at its meeting held on 20.12.1963 approved 4 fresh schemes for Asbestos Cement production, 1 for each region, with a total capacity of 1,37,000 tons. Among these 4 schemes was the scheme put forward by this company for the new unit at Ballabhgarh. The Licensing Committee approved this scheme for the Northern region. For the other three regions, an existing producer (A.C.C.) was approved for the Eastern region and two new producers were granted licences for the Western and Southern regions. The capacity licensed on 2.5.1964 for the Ballabhgarh factory was 42,000 tons and production started in September, 1964.

19. Actual production, however, by January 1965 exceeded 4,800 tons of sheets per month as against the licensed capacity of 3,000 tons per month. So far as production of A.C. Pipes was concerned, production was within the licensed capacity.

20. The company made an application for a substantial expansion licence with regard to Ballabhgarh Unit on 31.3.1965, requesting permission for addition of capacity of 36,000 tons for A.C. Sheets and 24,000 tons for A.C. Pipes, i.e. a total addition of capacity of 60,000 tons.

21. What is important to note is that this application for substantial expansion was made after the production of A.C. sheets in the factory had already exceeded that permitted under their first licence, granted on 2.5.1964.
22. The State Government (then of Punjab) recommended issue of a licence. The D.G.T.D. noted its recommendation in these terms:

"...In other words, additional capacity of 2,50,000 tonnes would need to be established during the Fourth Plan period ... Having regard to the present shortage of A.C. sheets ... there is need to license yet another scheme which could be implemented within the third Plan itself. The scheme of Hyderabad Asbestos Cement Products Ltd., Ballabgarh, is such a one. This party was licensed a capacity of 42,000 tonnes (including 36,000 tonnes for A.C. sheets and 6,000 tonnes for pressure pipes) in May 1964 and they were able to commence production by September 1964. In fact, the plant and equipment which they have already set up for A.C. sheets are adequate to cover the expansion in this field applied for by the party."

The licence was ultimately issued on 14.9.1965 for substantial expansion to the extent of 60,000 tons of which 36,000 tons was for Asbestos Cement Sheets and 24,000 tons of A.C. Pressure Pipes.

23. In the Ballabgarh case therefore the grant of the substantial expansion licence seems to have been made after production of A.C. sheets had already surpassed the installed capacity. Therefore the grant of the licence only amounted to giving recognition to the extra capacity already installed.

In the records we do not find that prior to the regularisation of this excess capacity, any questions were asked of the company regarding the installation of higher capacity than the licensed capacity, which was in clear violation of the terms of the licence.
Industrial licence was issued in 1956 to Orient Paper Mills Ltd. for establishing a new plant at Amlai with a capacity of 30,000 tons pulp and 30,000 tons paper. They did not take any action on this but in 1958 they applied and got industrial licence for additional 12,000 tons of pulp.

In 1958, Government allowed the Orient Paper Mills Ltd. to negotiate a loan from the EXIM Bank. This permission of the Government to negotiate with the EXIM Bank was itself a special step. In other cases, the negotiations were done by the Government and only the foreign exchange was given to the Indian entrepreneurs. The actual benefit of the loan was retained by the Exchequer. At the time of giving this permission, the details of the amount and capacity of the plant which was to be established by this loan, were not examined by the Government. Birlas negotiated for a loan for the plant with a capacity of 72,000 tons of paper and 1,08,000 tons pulp though they were holding the licence for only 30,000 tons and 48,000 tons capacity respectively. They applied to EXIM Bank first for 15 million dollars, then for 17 million dollars and finally raised it to 18.5 million dollars. It would be interesting to know why the Government did not exercise any check or scrutiny of the specifications but allowed them to negotiate a loan for a much bigger plant. Normally, when a loan is negotiated with an international institution, application is submitted to the Government for scrutiny, both
as regards specifications of the equipment, the conditions of the loan, and total amount of foreign exchange applied for. In this case, however, this was not done. After the EXIM Bank agreed in principle to give the loan, the Capital Issues Committee approved the loan without scrutiny of the plant.

This fact is further strengthened by their recent application by which they want the capacity of their plant to increase 1,08,000 paper and 1,08,000 tons pulp justifying that they would require only 43,00,000 worth of foreign exchange for buying the balancing equipment.

It will thus be seen that a larger capacity has been established by Orient Paper Mills at Amlai in contravention of the industrial licensing provisions.

In this connection, it is interesting to know that there is a report from the Forest Department of the Government of India which says that forests can sustain a plant of 100 tons capacity only."

2. Orient Paper Mills were given a licence on 12.6.1956 for the establishment of a paper unit at Amlai with a capacity for 100 tons per day of paper and board; the capacity was also validated later for 100 tons per day of pulp. It is understood that the licence was revalidated on 30-3-1957, 10-2-1958 and 30-12-1959 (on this last occasion for pulp only). The licence in respect of paper expired on 12-6-1959. The licence was revived later through the grant of the substantial expansion licence on 15-7-1960. The time limit for implementation of the original licence (12-6-1956) was extended on 11-4-1961 to 14-4-1963.

3. The Orient Paper Mills applied in 1957 for substantial expansion of capacity by another 100 tons per day, but this application was rejected. The Company
We could not secure the files containing the application for licence for the Amlai Unit and subsequent files for the period 1956 to 1959.
the can and the remaining 50% from the soft currency area. The Company made two import applications on 30-9-1959 for G.G. licences worth Rs. 7 crores for
150 ton pulp and 100 ton paper plant. It may be noted that though the Company at the time had a licence only for a 100 ton pulp unit, the Government approved a licence on 30-10-1959 for Rs. 5.5 crores on the basis that 50% would be imported under the EXIM Bank loan and 50% on deferred payment basis.

5. On 15-12-1959, the Company applied for an industrial licence seeking substantial expansion licence for 50 tons per day both for paper and paper pulp. For implementing this proposal, the Company also wanted permission to import capital equipment worth Rs. 1.5 crores, the foreign exchange cost of which was proposed to be met under the EXIM Bank Loan. Thus the total foreign exchange requirement increased to Rs. 7 crores, the figure originally mentioned in the applications dated 30-9-1959 and in respect of which approval was accorded only for Rs. 5.5 crores. This would appear to represent an obvious effort to make up the original amount asked for by giving a different reason.

6. The justification put forward for this substantial expansion was that a Government Sub-Committee which examined the question of raw materials for paper had mentioned that an adequate quantity of raw materials was available at the site for 150 tons paper production per day. On 30-12-1959, the Company modified its application, suggesting that the application dated 15-12-1959 should be considered only for substantial expansion of paper and paper board; it put in a fresh application for substantial expansion of capacity for pulp. No
additional foreign exchange for import of capital equipment was required for the addition to pulp capacity since this was included in the earlier proposal, which had been sanctioned by the Government on 3-10-1959. Therefore the amount of Rs. 1.50 crores in foreign exchange for import of capital goods was proposed only for the expansion of capacity for paper.

7. The Company had also applied for a paper pulp unit with a capacity of 50 tons per day at Bilaspur and this had been approved by the Licensing Committee some time in 1959. A licence was however not issued as the Railways advised that they could not arrange for the transport of raw material for that unit. The Company then proposed that the capacity approved for Bilaspur be merged with the capacity of the pulp plant at Amlai. As the substantial expansion of the pulp unit was thus to be effected by merging the two capacities, a licence for substantial expansion for paper pulp was granted on 11.1.1960, without reference to the Licensing Committee, by which the capacity for pulp was increased from 100 to 150 tons.

8. It was decided that 'effective steps' may be taken in six months and the substantial expansion should be completed within 12 months. It may be noted that the original licence had not been implemented at the time when even this substantial expansion licence was granted. On 29-4-1961 extension of the time was granted, and 12 and 36 months were permitted for taking 'effective steps' and for completing the substantial expansion respectively. Thus, an order extending the time limit for implementation was made three months after the original time limit for implementation had expired.

9. Regarding the application for substantial expansion of the capacity to manufacture paper, the
application was supported by the Development wing on the ground that substantial expansions were considerably less costly than setting up new units and could also make additional capacity available more quickly. But in this case the main unit had not yet been established and hence the validity of this argument is doubtful. The substantial expansion licence was recommended by the licensing Committee on 2-2-1960. When the question of the issue of the new licence was under consideration, it was noticed that the firm was holding a number of licences for a unit which had yet to come into production and no import licence of any kind had been granted. The substantial expansion licence was actually issued on 15-7-1960. It may be noted that the substantial expansion licence was issued both for paper and pulp, though a substantial expansion licence for pulp had already been issued on 11-1-1960 and only the application for paper effectively remained to be disposed of. The result of this is that the Ministry considers that the licensed capacity for pulp and paper is 150 tons each while the Company claims that it has been issued licences with capacity of 200 tons per day for pulp and 150 tons per day for paper.

10. In the meantime, discussion about capital goods imports was continuing. In the C.G. Committee meeting on 20-8-1960, the representative of the Ministry of Finance indicated that the project would be proposed for assistance under the Development Loan Fund. It was agreed that if the D.L.F. authorities had no objection to entertain more than one request for loan from the same party, the Government need not object to the party approaching them directly. In July 1960, the earlier permission for capital goods imports with a condition that 50% of imports would be from Germany or a soft
currency area was modified, and permission was given to negotiate the entire import of Rs.7 crores (including the additional Rs.1.50 crores for the substantial expansion of paper capacity) from the U.S.A. This amount was equivalent to $15 million.

11. From the records studied by us it is apparent that, even before this time, as a result of the negotiations that Shri Birla had been permitted to conduct in 1959, the EXIM Bank had approved in principle the grant of a loan to the extent of $18.5 million. After the Company was permitted in July 1960 to negotiate for $15 million worth of imports from U.S.A. it informed Government that the foreign exchange requirements had increased to $18.5 million. The Company stated that it wished to import a boiler and power plant costing $3.5 million, again the exact amount that made up the difference between the amount originally asked for and the amount sanctioned. This request was supported by the Development Wing on the basis that indigenous supplies were limited and that the Company had negotiated a loan on the basis of the major portion of the plant being procured from the U.S.A. to fit with the detailed engineering of the project. A clearance for the import of equipment worth $18.5 million was therefore recommended.

12. It may be added that the Development Wing estimated at that time that the foreign exchange cost would be about Rs.1,950 per ton of licensed capacity "which was not unreasonable". Yet, later in 1963, when the D.G.T.D. was making a review of the paper and pulp industry and its further expansion, it took the view that new units would require foreign
In November 1962 the Company once more approached the C.G. Committee. It requested that the amount of $1.5 million remaining from the loan negotiated with the EXIM Bank by Shri G.D. Birla should be permitted to the Company to meet the increase in the cost of plant and machinery as a result of price escalation and also to meet the cost of imported spare parts which had not been included in the main order. After examination by the Development Wing, the Company was permitted to utilise the whole loan of $18.5 million for import of plant and machinery including spares and payment for engineering services and supervision. Thus, in the end, the Company succeeded in ensuring that it was permitted to use the whole amount of $18.5 million which apparently Shri Birla had negotiated with the EXIM Bank by the end of 1959. It will thus be seen that while an amount of $13.5 million had been originally considered adequate for a capacity of 150 tons per day of paper and pulp, the actual foreign exchange finally permitted was $18.5 million, i.e. Rs.8.78 crores.
14. The result of this permission regarding utilisation of foreign exchange was that for the purpose of expanding capacity by 15,000 tons per annum, foreign exchange was allowed. Against this, in 1962, two Birla concerns were permitted substantial expansions at far lower cost. The Brajprajnagar unit was allowed expansion by 11,600 tons with a sanction of Rs. 33.5 lakhs for imported plant and equipment. Sirpur Paper Mills was allowed an expansion by 12,000 tons with a sanction of Rs. 24.9 lakhs for imported plant and equipment. In both these cases the imports were from U.S.A.

15. The State Government of Madhya Pradesh had expressed concern about the implementation of the Amlai licence. They had raised this issue in July 1959, and they went on emphasising that no further extension should be granted. The Government of India on the other hand considered that as construction had begun by the beginning of 1963 and firm orders for machinery had been placed, there was no cause to worry and production would commence by 1964. It was also indicated in a letter to the State Government, dated 23-5-1963, that no further extension would be granted to the Company.

16. The Company submitted a new application on 31-7-1963 for substantial expansion of capacity for paper from 48,000 tons to 120,000 tons per annum. This was justified on the plea that the
17. The Company had requested for further extension of time up to 30-6-1964 on the plea that the project was making good progress. The extension was granted, though a clear assurance at the highest level had been given to the State Government in May 1963 that no further extension would be given. Another extension was requested in July 1964 up to 30-6-1965. The State Government had objected to the repeated grant of extensions (State Government's letter dated 20-8-1964). The extension was,
13. The Company renewed its request for substantial expansion in May 1965. It was also claimed that as a result of certain improvements in the technique of production, the pulp manufacturing capacity from the existing installation could be increased by nearly 60%. It was pointed out that a part of this could be supplied to small paper units in the vicinity or, by drying the pulp, even over longer distances. The D. G. T. D. in May 1965 pointed out that though the licence issued to the Company was for 48,000 tonnes of paper, the machine installed was capable of producing 70,000 tonnes. With an additional equipment only of about Rs. 40 lakhs for the pulp unit and at a total cost of Rs. 1 crore, an additional production of 30,000 tons of pulp could be achieved. The scheme would be completed within a year and considerable relief could be provided to a number of small paper mills which had to rely on imports of pulp. The country was then importing about 30,000 tons of unbleached pulp from the U.S.S.R. It was also pointed out that a new independent pulp unit would involve an investment of about Rs. 7 crores, take at least 3 to 4 years to materialise and would probably be uneconomic.
Thus, the G.D.G.T. firmly supported the proposal.

19. The Company submitted a formal application for substantial expansion on 17-6-1965. It took advantage of the error in the issue of S.E. licences in January and July 1960, wherein the pulp capacity had been licensed twice and claimed that they already had a licensed capacity of pulp for 72,000 tons per annum (200 tons a day) and wanted substantial expansion by 36,000 tons so as to reach a pulp capacity of 108,000 tons. The D.G.T.D. supported this application on the grounds already mentioned above with only the proviso that the Madhya Pradesh Government should assure the Company of the supplies of bamboo and hard wood from adjacent areas. The Ministry reiterated this recommendation, specifically stating that the machinery imported by the Company from the U.S.A. was claimed to be adequate to produce 72,000 tonnes of paper per annum and 108,000 tonnes of pulp because of the improved technology and with some minor additions. The Licensing Committee recommended on 21-9-1965 the issue of a Letter of Intent subject to arrangements for imports of plant and machinery and arrangements for procurement of raw materials from the State Government to the satisfaction of Government and on condition that production of pulp over and above the Company's requirements would be available for sale to other paper mills at a reasonable price. The Letter of Intent was issued in August 1966. It may be noted that the industry was delicensed by stages in 1966. Pulp, both wood and chemical, was delicensed on 13th May, Newsprint and writing/printing paper on 20th July, and packaging paper paper/straw boards on 13th December.
We have given above all the facts regarding grant of licence as well as import of capital goods in relation to the various applications of the Orient Paper Mills. We now deal with the allegations seriouly:

(i) An industrial licence for production of 18,000 tons of pulp and 16,000 tons of paper was granted to the Orient Paper Mills Ltd., in 1960 (not in 1958), though by this time no sanction had been taken by the firm towards implementation of the licence to produce 36,000 tons of paper and pulp respectively granted on 12-6-1956.

(ii) It is true that the Company was authorised to carry out negotiations with the EXIM Bank for a loan. We have been informed that it is the normal practice, when loans are negotiated for private sector projects from institutions like the EXIM Bank, that once the Government has agreed in principle that a loan for a particular project may be negotiated, actual negotiations are carried on by the representatives of the companies concerned with the assistance of the officials of the Indian Embassy. The final terms have however to be approved by the Government. In the case of Orient Paper Mills and the negotiations by Mr. Birla, there was nothing special in the authority given to negotiate.

However, the question of whether adequate supervision was exercised over the amount actually utilised towards capital goods imports is a different matter and the facts given above would indicate that adequate supervision was not exercised.

(iii) Regarding the benefit of the loan being retained by the exchequer, this is not correct and in the case of project loans, loan amounts
became available to the party concerned as and when necessary for the importation of plant and equipment.

(iv) Regarding the allegations to the character of the loan negotiated, it is clear that
the negotiations on behalf of the Orient Paper
hills covered a size of a plant larger than that
for which licence was granted, namely, 200 tons
of pulp, whereas the licence was for 100 tons.

(B) Bilaspur Unit:

Allegations:

21. "For Bilaspur, Birla Bros. got licence
for establishing a plant of 50 ton capacity
but did not proceed with it. Mc Leods applied
for an industrial licence for establishing a
plant of 100 tons capacity in that area.
They also got the industrial licence but
because of the all pervading influence of
Birlas, McLeods could not get the bamboo
lease in the Bilaspur area and that is why
McLeoda could not proceed with their projects.
Later on Bilaspur forest was leased to Amlai
factory and their plan of establishing a plant
of 200 tons capacity based on Sandol forest
and Bilaspur forest came to fruition. Thus
they effectively prevented McLeoda from getting
into this Business."

22. As mentioned above, it seems that the Company
had applied for 50 tons per day pulp plant at
Bilaspur which was approved by the Licensing Committee. It was taken in
to account in granting the substantial expansion licence for
dpaper pulp at Amlai.

but the licence was actually not issued. The approval of
this proposal
24. "Without any industrial licence and without any import licence, they surreptitiously managed to establish a Duplex Board machine at Brajrajnagar. They were given import licence for spare parts for the existing machine. Under these licences, instead of importing the spare parts for which the licences were given, they imported parts for a completely new Duplex Board machine. These parts are not interchangeable with those used in the existing paper machine because the width of the Duplex Machine is different from the existing ones. If the specifications of these spares are checked, this can easily be established. This is in contravention not only of the Industrial Regulations Act but also of the import and export regulations.
In 1958-59, they applied to the Industrial
Inquiry Committee for a license to
Brajrajnagar and that they be given the industrial
license. Surprisingly, the Inquiry Committee
without any scrutiny as to how that plant came
into existence, rejected the industrial license
and thus they became entitled for spare parts —
wire and felts.”

25. The Brajrajnagar Unit had been established in
1936-37. Apparently, after the enactment of the IDRA, it
was registered for a capacity of 61,000 tons.
The actual production of the unit was much less.
It seems to have been 31,000 tons in 1956, 40,000
tons in 1958 and exceeded 61,000 tons only in 1961.
Data obtained by us do not indicate that there was
any issue of a licence to this unit during 1958-59.
The Company applied in September 1963 for a
substantial expansion licence which was granted in
February 1964. Its production remained at 64 to 65
thousand tons between 1962 and 1967.

26. Regarding the allegation that the import
licence for spare parts was utilised for importing
parts for a completely new duple board machine,
this matter does not come within the scope of the
inquiry that has been conducted by the Committee.
Whether this allegation is correct or not can only
be established by examination of the records of the
Chief Controller of Imports and Exports.
(3) RAYON GRADE PULP

Allegations -

"Birlas applied for industrial licence in 1960 in the name of Manjushree for establishing a plant in Assam. A licence was granted for 54,000 tons capacity per year. Foreign exchange was also given for the same but for some reason or other, they could not proceed. In 1965 they applied for additional licensing capacity for establishing two plants, one in the name of Kesoram Rayons and another under the name of Century Rayon for establishing a plant in U.P. Similarly, they applied for another plant in 1965 under Gwalior Rayon for establishing a plant in Mysore. They applied for a third plant in Himachal Pradesh. They already have a plant in Kerala.

In this connection, it may be observed that National Rayon were given a licence for establishing a plant in Mysore and the necessary import licence was also given, but the scheme could not materialise due to some objection or other raised by Government officials at the instance of Birlas to frustrate the scheme of National Rayon."

2. We give below the list of applications for licences for production of Rayon Grade Pulp made by concerns belonging to the House of Birla.

(i) Gwalior Rayon was the first to enter the industry and they obtained a licence for 36,000 tons in March, 1958, with a substantial expansion licence for 18,000 tons in January, 1961.

(ii) Manjushree Industries applied in April, 1960, for a new unit in this industry to be
located in Assam and in February, 1961, was granted a licence for a capacity of 54,000 tons.

(iii) Applications were also made by Gwalior Rayon in August, 1965, for a unit in the Mysore State for a capacity of 72,000 tons.

(iv) Century Rayon applied in October, 1965, for a new unit to be located in Uttar Pradesh with a proposed capacity of 100 tons Rayon Grade Pulp per day.

(v) Kesoram Industries applied in November, 1965, for a new unit in Assam capacity 100 tons per day.

(vi) In March, 1966, Kesoram Industries applied for a new unit in Uttar Pradesh with proposed capacity of 100 tons per day.

The industry was delicensed in May, 1966, before final decisions were taken on the last four of these applications.

3. The establishment of rayon grade pulp units depends greatly upon the availability of suitable raw materials such as bamboos or after 1964, eucalyptus. These multiple applications made by the House of Birla for locations in different parts of the country where raw materials were available is an indication of their objective of preempting all potential locations for the industry. The position at present is that except for two small units, Travancore Rayon with a capacity of 6,000 tons per year, who produce cellulose pulp, and South Indian Viscose with a capacity of 21,600 tons per year, who produce rayon grade pulp, Birla controls the remaining capacity - a fully implemented capacity of 54,000 tons per year and capacity under construction of 60,000 tons per year.
4. The approval of the first application of Gwalior Rayon has some special features that may be noted. Gwalior Rayon had already undertaken the establishment of a unit in Kerala and a capital goods import licence had been issued to it before the industry was brought under the Industries (Development & Regulation) Act by the Amendment Act of 1956. In 1957, as a result of the foreign exchange difficulties, it was decided to review all the capital goods import licences that had remained unutilised up to that time. Ultimately, after discussion, an import licence of Rs.3.05 crores was granted on 25-8-59. This was made a cash licence on 14-1-60. On 10-3-60, Gwalior Rayon applied for substantial expansion in Kerala, within two months of their being permitted the import licence of Rs.3.05 crores. Their industrial licence of 21-3-58 remained to be implemented. On 12-4-60, the Licensing Committee decided to approve the scheme, without enquiring whether the raw materials required for expansion would be available; it was decided that this should be certified by the State Government. The licence was issued on 17-1-61.

5. Another application from the Birla Group for rayon grade pulp was received in April, 1960, from Manjushree Industries for a new unit in Assam. No question was raised about the competence of Manjushree industries either by way of experience or finance. The authorised capital of Manjushree Industries was Rs.5,000. While the DGTD officially recommended rejection, as a Sahujain Unit had already been licensed for Assam, the Ministry took the line that as the State Government were supporting the
two years to implement the licence and in August, 1963, proposed a transfer of the licence to Kesoreo Industries of the Birla Group. The plea was then put forward that Kesoreo would be able to find capital and also were in the field of rayon yarn manufacturing. Even at that stage, when this matter was taken to the Licensing Committee in July, 1964, with a suggestion that Manjushree's licence might be revoked, the Licensing Committee recommended that in view of the need for a large unit in Assam, the entrepreneur might be given an opportunity. So, the licence was not revoked. It remains unimplemented and was not revoked until the industry was delicensed in 1966.
8. Kesoram Industries of the Birla Group sent their own application on 20-11-1965 mentioning that a licence might be given to them in lieu of Manjushree which would be surrendered. The Assam Government was against granting this licence, fearing that Kesoram, like Manjushree, would not do anything to implement the licence. When they sensed that the Assam Government was not ready to support the application, a fresh application was made for an undertaking in Uttar Pradesh, after consultation with the Planning Commission. Before any decision could be taken on the application, the industry was delicensed in May, 1966.

9. Regarding National Rayon, this firm was granted a licence on 19-1-1961 for the establishment of a new undertaking in Mysore State for the manufacture of 30,000 tons of rayon grade pulp per annum. The Company entered into a foreign collaboration and the C.G. import licence against loan from United States Loan Fund was also approved. When it was, however, observed in 1963 that sufficient progress was not being made, a show cause notice was issued and in the reply the party stated that owing to gregarious flowering of bamboo in the areas allotted to them, the State Government was unable to meet the raw material requirements. As the State Government would take at least another six years for supplying eucalyptus, another suitable raw material, for the industry, implementation would have to wait for that period of time. The firm therefore requested in December, 1963, for extension of the validity of the licence. The State Government's position was that it had made
an offer in August, 1964 to the company for the supply of eucalyptus after a period of 7 years provided the company took up the work of construction of factory etc. after a period of 4 years from 1964 so that by the time it was ready, the factory could come into production. The State Government considered (vide their letter dated 18-1-65) that the National Rayon Corporation had not shown the required interest in the matter. The licence was therefore revoked in March, 1965. A representation was received from the firm (vide letter of 20th March, 1965) stating that effective steps had been taken and financial commitments made and therefore Government should reconsider the decision to revoke the licence. As this was agreed to, this company made a new application on 5-6-65. The DGTD commented regarding this that as the plantation of eucalyptus had yet to be undertaken by the State Government and this could not materialise before 1973-74, it was premature to license the scheme. The Government of Mysore, which was addressed on 10-6-65 for their comments on the application, did not send any comments till 13-12-1965.

10. In the meanwhile, Gwalior Rayon made an application on 4-8-65 for setting up a new unit in Mysore for rayon grade pulp. Representatives of this company apparently held discussions with the State Government and it was decided that raw materials of flowered air dry bamboo as well as air dry eucalyptus would be made available in sufficient quantities. The Mysore Government in its comments received on 15-9-65 indicated that raw materials on the above mentioned basis would be available. The DGTD commented that the Kerala Unit
was experiencing various difficulties. The application of Gwalior Rayon was not complete in many respects but, it was observed by the DGID, to have been made "with a primary object of staking their scheme for raw material resources (both existing and that to be created)." There was a firm - Greater Mysore Rayons - which held a letter of intent, though it was thought that there was no prospect of their implementing the project. Both the applications were held over for further decision. As the industry was delicensed in May, 1966, no final decisions were taken.

11. It is thus apparent that in the case of Rayon Grade Pulp Industry, the House of Birla made definite efforts to obtain a monopolistic position in the industry. Regarding the scheme of National Rayon, there appears to be no substance in the allegation that it did not materialise because of the objections raised by Government officials at the instance of Birla. The Scheme was based on the use of eucalyptus and after the licence was granted to the company on 19-1-61, no attempts were made to establish a new undertaking. Indeed it was not possible to make a start as supply of eucalyptus was not available. The Gwalior Rayon Scheme was based on the use of bamboos in the initial stage and later of eucalyptus. Since Gwalior Rayon offered to use even flowering bamboos for the purpose for the first few years and later eucalyptus when it became available, their scheme appears to have received preference.
3(a) RAYON YARN

Allegation:

"During the last five years, the Birla have extended the production of synthetic fibres. They control 75 per cent of Rayon Yarn in India."

2. The table below provides information about the licences and installed capacity in regard to certain man made fibres which may be considered as belonging to a common category, viz. cellulosic fibres.

<table>
<thead>
<tr>
<th>License</th>
<th>Capacity Licensed Installed (in million Lbs.)</th>
<th>% to total capacity Licensed Installed</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Viscose Staple Fibre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Gwalior Rayon (Birla)</td>
<td>48.0</td>
<td>48.0</td>
</tr>
<tr>
<td>2. South India Viscose (Naidu, G.V.)</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>56.0</td>
<td>56.0</td>
</tr>
<tr>
<td>II. Viscose Filament Yarn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Indian Rayon (acquired by Birla)</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>2. National Rayon (Chinai)</td>
<td>18.0</td>
<td>18.0</td>
</tr>
<tr>
<td>3. Travancore Rayon (Muthiah)</td>
<td>11.0</td>
<td>7.0</td>
</tr>
<tr>
<td>4. South India Viscose (Naidu, G.V.)</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>5. Baroda Rayon (Chinai)</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>6. J.K. Rayon(J.K.)</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>7. Century Rayon (Birla)</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>8. Kesaram Rayon (Birla)</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>81.0</td>
<td>77.0</td>
</tr>
</tbody>
</table>

Birla : 30 million lbs. (or 37%), including 4 million lbs. (or 9.8%) representing Indian Rayon acquired.
<table>
<thead>
<tr>
<th>Licensee</th>
<th>Capacity</th>
<th>% to total capacity</th>
<th>Licensed Installed</th>
<th>Installed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>III. Acetate Staple Fibre</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modern Mills (not a Large House)</td>
<td>4.0</td>
<td>Revoked</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IV. Acetate Rayon Yarn</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Sir Silk (Birla)</td>
<td>8.0</td>
<td>4.0</td>
<td>30.0</td>
<td>100</td>
</tr>
<tr>
<td>2. Modi Industries (Modi)</td>
<td>8.0</td>
<td>Revoked</td>
<td>30.0</td>
<td>-</td>
</tr>
<tr>
<td>3. Modern Mills (Not a Large House)</td>
<td>3.0</td>
<td>Revoked</td>
<td>11.0</td>
<td>-</td>
</tr>
<tr>
<td>4. Hindustan Cellulose &amp; 7.5</td>
<td></td>
<td>Revoked</td>
<td>29.0</td>
<td>-</td>
</tr>
<tr>
<td>Paper Mills (Birla)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>(Birla: 59% of licensed and 100% of installed capacities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(4) CENTURY CHEMICALS

Allegations -

"Hindustan Insecticides Ltd. is a public sector undertaking. It is being run efficiently and is making a profit. The country's annual requirements of DDT is about 7,000 tons per annum. The HIL has so far produced 2,800 tons and shortly it will be increasing its production to 4,200 tons. This public sector company has submitted a feasibility project for an additional 4,000 tons of DDT. While there is considerable scope for HIL itself to expand and meet all our requirements since they are the only people who have the know-how, for reasons not easy to understand, a Birla company, M/s. Century Chemicals were given a licence by the Ministry of Petroleum & Chemicals disregarding the effect of such an action on HIL. It would be interesting to know when the licence was applied for and how quickly it was granted. Applications were not invited from any other company before giving this licence. Even the application of HIL for expansion was not considered. In fact, they were discouraged from expanding. In this connection, following two enquiries should be made:

(i) How Century Chemicals' licence application happened to come and was approved and granted in great haste?

(ii) Why HIL was not asked to apply or their application was not considered when they
were already in the line and when they are the only people in India who have the necessary technical know-how?"

2. The manufacture of pesticides is included in Schedule 'E' under the Industrial Policy Resolution of 1956. Hindustan Insecticides Limited, a public sector concern, has pioneered the production of DDT in India. It has two units, one at Delhi and another at Alwaye (Kerala) with a total capacity of 2,800 tons of technical D.D.T. A substantial expansion regarding the Delhi Unit was licensed in November, 1965, to the extent of 1,400 tons and it was implemented in May 1969.

3. The manufacture of D.D.T. was on the banned list from 5.12.61 for all and from 27.4.64 for new schemes, mainly because of shortage of basic raw materials. Because of this shortage, it seems that more than half the capacity already installed had been lying idle.

4. It appears that when proposals in this area for the Fourth Five Year Plan were under consideration, the had Hindustan Insecticides Limited suggested a target of 13,000 tons of D.D.T. in the Feasibility Report prepared by them for their expansion. But apparently this target was considered high and it was decided that licensing might be restricted to about 8,400 tons per annum. The Hindustan Insecticides claimed that they had adequate land in their possession at Alwaye where a second factory could be set up. Principal raw materials like chlorine and oleum could also be available from other Government companies situated nearby. They could put up a plant into production within approximately 20 months from the time formal authorisation
36

and allocation of funds was approved by Govt. The
import content of the plant and equipment would be limited
to about 25 per cent of the total project cost.
5. The position in 1966, therefore, was that
production of D.D.T. was 2,800 tons, all being produced
by H.I.L. and the expansion of Delhi Unit of H.I.L.
was under implementation.
6. On 9.4.1966, Shri Himmat Singh, a Member of
Parliament, wrote to the Minister for Petroleum and
Chemicals enquiring about the policy for D.D.T. licensing.
On 21.4.66, the Minister sent a reply that proposals
for the manufacture of D.D.T. in the private sector
were under active consideration. It may be noted that
the item was still in the banned list at this time and
there seems to be no record about any proposals pending
with the Ministry at that time. On 5.6.1966, the
Advisor, Petro-Chemicals, made a recommendation that
D.D.T. may be removed from the banned list and included
in the merit list. No reasons in support of this
recommendation were put forward. On 25.6.1966, the
D.G.T.D. in its comments on the recommendation, suggested
the continuance of the ban until such time that the supply
position of basic technical materials improved. They
drew attention to the fact of existing idle capacity in
the industry. However, on 3.7.1966, the Minister of
Petroleum and Chemicals, approved the suggestion of the
Advisor and sent it for consideration by the Licensing
Committee. The latter agreed to the proposal on 4.8.1966.
As a result, D.D.T. was removed from the banned list on
27.9.66 and put on the merit list.
7. An application dated 13.10.66 for the manufacture of 3,000 tons per annum of D.D.T. and 9,000 tons per annum of H.H.C. from Century Chemicals, Bombay, was received by Government on 20.10.66. The scheme envisaged import of equipment of c.i.f. value of Rs. 50 lakhs from the U.S.A. The applicant mentioned that they had their own caustic soda plant to meet the requirements of chlorine and benzene requirements would be met by NOCIL. The Maharashtra Government while recommending the application, pointed out that no foreign collaboration was involved and indicated the possibility of establishing substantial export (though the applicant had not put forward any programme of export of the item). The Ministry of Agriculture commented that the requirements of D.D.T. had been assessed at 7,000 tons as against the existing production of 2,800 tons and a capacity of 1,400 tons under implementation. The D.G.T.D. pointed out that the Gujarat Petro-Chemicals Complex (public sector) might include a capacity of 4,000 tons per annum and therefore, there was no need for further capacity unless this scheme failed to materialise.

8. In the Ministry it was pointed out that Gujarat Petro-Chemicals proposals had been dropped and that there was no scope for further manufacture of D.D.T. in H.I.L. It was also emphasised that the firm had indicated that they would be in a position to export, though this was not mentioned in the application of the firm. The estimated cost of imported machinery could be reduced by further scrutiny. Moreover, a view seems to have
been taken at the highest level in the Ministry that the manufacture of technical D.D.T. has not been reserved exclusively for the public sector and that it would not be right to continue such a reservation. In a meeting dated 19.1.67 held in the Ministry, when the Fourth Plan targets of D.D.T. and further licensing of schemes were discussed, it was observed that the "Time was ripe for allowing a private sector party to set up a plant for the manufacture of D.D.T." and it was decided that the case of Century Chemicals for the grant of a Letter of Intent should be recommended. The approach seems to have been that if the item was given to FzL it would be "tantamount to reserving the item for public sector, which (was) not the intention of Government, as it (was) desirable to have a degree of competition between the private and public sectors." It appears that at the same time FzL were also asked to examine the feasibility of putting up a 6,000 ton D.D.T. plant based on cheaper raw materials.  

9. The application of Century Chemicals was considered at the meeting of the Licensing Committee on 28.2.1967. The grant of a letter of Intent was recommended on the following conditions.

a) that the technical know-how which is available in the country should be utilised;

b) that the import of equipment etc. should be settled to the satisfaction of Government;

c) that after meeting the requirements of DDT in the country, surplus should be exported;
and d) that the distribution of technical material to various formulators will be done by the Company and a minimum of 50% should be so distributed.

The Letter of Intent was issued on 29.3.1967.

10. On 7.4.1967, the Company wrote to the Ministry of Petroleum and Chemicals that it would not be possible for HIL to supply technical know-how for D.D.T. manufacture to the Company because of the H.I.L.‘s commitment to its foreign collaborators. Moreover, technical process had undergone substantial improvement during the previous ten years. Permission was therefore sought to send representatives abroad for exploring the possibilities of foreign collaboration. While the request was initially not accepted, on a further representation, the proposal was approved in May 1967. This was apparently done without inquiring from the HIL whether it would be possible for them to provide technical know-how to the Company. It was only later in September 1967 that such an inquiry was made in reply to which the HIL stated that while they would prefer that Government should approve their own project for further expansion, in the case the Government decided that HIL should give the process know-how for the plant to be set up by Century Chemicals, the matter could be taken up with the Board. Further, while HIL did not think that its agreement with Technical Enterprises, New York (their technical collaborators) put any
restrictions on HIL regarding transferring the know-how, they had also written to the collaborators for permission to utilise the drawings and lay out for the installation of a new plant.

11. In November 1967, a representative of Century Chemicals, along with the representative of their proposed collaborator M/s. Technical Enterprises, the same as had collaboration with Hindustan Insecticides, discussed the matter with Government officials. Later the foreign collaborator wrote to Government that technology had undergone considerable change and that if the new process was adopted, a saving of Rs.600 per ton in the raw material alone was likely. The collaborators were also prepared to explore ways and means of saving foreign exchange. It is understood that the matter has not been finally decided.

12. The facts regarding the application of Century Chemicals Ltd. have been given above, and in their light, we now deal with the two questions that are posed in the allegation:

(i) Regarding the allegation that the licence application of Century Chemicals had been filed, approved and granted in great haste, the following facts are relevant.

Firstly, in April 1966, in answer to an M.P., a reply was sent by Government that proposals for manufacturing DDT in the private sector were under active consideration. The records however do not
indicate that any proposals were pending with the Ministry at that time for taking this item out of the 'banned list'. Secondly, the application of Century Chemicals for a licence was filed within a very short time after the removal of the item from the 'banned list'. Thirdly, the Letter of Intent was granted five months after the application was received though the D.G.T.D. did not recommend its issue.

(ii) Regarding the second allegation, namely, why HIL was not asked to apply or their application was not considered when they were already in the line and when they were the only people in India who had the necessary technical know-how, the following are the facts:

Firstly, it is not clear that the HIL were asked for their views on the question of the alleged new technical know-how, despite the fact that the collaborator put forward by Century Chemicals was M/s Technical Enterprises, the collaborator of the HIL. Secondly, the question of HIL being asked to apply or their application being considered did not arise after the decision was taken to allow a "private sector party to put up a plant for manufacture of DDT". We find that the reason recorded for taking this decision was that "it was desirable to have a degree of competition between the private and public sectors."
(5) HINDUSTAN ALUMINIUM, MIRzapur

Allegations:-

"Though aluminium is reserved for the public sector under the Industrial Policy Resolution, yet Birlas were allowed to put up a plant at Mirzapur."

2. The two main points arising out of this allegation are: (i) the permission to develop the plant in the private sector and the licence given to the Birlas, and (ii) the question of electric power from Rihand Dam being made available at concessional rates. We deal with these separately.

I - ALUMINIUM PLANT IN PRIVATE SECTOR

3. Proposals for the development of aluminium industry in the Second Plan period were initially prepared by a Committee of Experts appointed by the Ministry of Commerce and Industry in October, 1955. The Committee in its report, submitted in September, 1956, had suggested planning of two units, each of 10,000 tons per annum; one at Mettur to bring it into production as soon as possible in the Second Plan period and another based on Rihand Dam so that it should come into existence during the last years of the Second Plan. The plants were to be so planned that they could be later expanded to a capacity of 20,000 tons per annum. The Planning Commission had decided to give high priority to the further development of the aluminium industry. It was considered that the industry was highly capital intensive and involved complex technical knowhow, which was monopolised by a few world-wide companies; further, plants much larger than those then in operation in India were thought to be necessary. Hence it was doubtful if
private enterprise would find the required resources. It was also
emphasised that the State had interest in the industry both as
supplier of power required for it and as customer for important
products required for power transmission, aircraft and other
purposes. It was, therefore, stated "in view of these various
considerations, it may be necessary for the Govt. to foster the
establishment of a new unit, possibly through the National Industrial
Development Corporation (NIDC), so that an additional capacity of
10,000 tons of aluminium per annum may be brought into existence
1960-61."

4. The National Industrial Development Corporation was entrusted
with this task and a French consulting firm was employed for examin-
ing the availability of bauxite resources and working out proposals
for setting up two aluminium plants, as suggested by the Expert
Committee. The representative of this firm, understood to be one of
the well-known experts in the field, surveyed the various occurrences
of bauxite in India and submitted his report on 25.11.1957. One of
the points made in the report was regarding the very attractive
features of the potential bauxite deposits at Amarkantak.

5. At this time i.e., when the National Industrial Development
Corporation was asked to do this work in 1956, the private sector
had not shown much interest in the development of the aluminium
industry. However in the second half of 1957 with the foreign
exchange difficulty that the country faced, a special attempt was
being made by Government to attract foreign private investment. When
the then Finance Minister visited the United States to attend the
annual meetings of the I.M.F. and the I.B.R.D., he attempted to
emphasise among audiences of potential American investors the
importance that the Government of India was going to attach to the

(1) Second Five Year Plan, "Programmes of Industrial Development"
(Part 52)
role of the private sector and foreign private investment. At the same time, a delegation of industrialists sponsored by the FICCI and supported by Government visited the U.S.A. and other foreign countries. The purpose of this visit was to establish contacts with foreign industrialists to create a suitable climate abroad for increased investment in India, and also to explore the possibilities of collaboration agreements to establish new industries. The delegation was headed by Shri G.D. Birla. One of the points mentioned in the report of the delegation was that while the delegation did not make direct deals, the individual members on their own account initiated various projects. It was during this visit that the possibility of establishing an aluminium plant in India on the basis of American collaboration was explored.

6. We have not been able to locate any records which indicated how and when a decision was taken regarding the development of the aluminium industry in the private sector. It appears from a noting of the Chief Industrial Adviser of the Ministry of Commerce and Industry that the question of permitting the private sector to develop the aluminium project was considered just before the Finance Minister went to the U.S.A. for the visit mentioned earlier. There was a discussion between the Prime Minister, the Finance Minister and the Commerce and Industry Minister so as to evolve a picture of the specific industries which could be thrown open for development in the private sector even among those which had been included in Schedule 'A' and Schedule 'B' of the Industrial Policy Resolution (aluminium falls in Schedule 'B'). The Adviser thought that it was on the basis of decisions taken during this discussion that both Shri G.D. Birla and Shri Venkataswami Naidu were encouraged to contact possible American collaborators for the two proposed aluminium plants.
7. According to a noting by the then Minister of Industry, the Government decided to throw open the aluminium industry to the private sector because the Government's hands were too full with various other industrial projects. The aluminium industry was comparatively a simple line, already well established in India, not requiring major technical know how and therefore, could be established easily. It was also a very profitable line and therefore private industry could be expected to take it up. At another stage, the Minister pointed out that it was because of the resources position that the Government decided on the establishment of only two aluminium plants and even these could not be in the public sector because of the deterioration in the foreign exchange resources position. Therefore, in the middle of 1957, it was thought advisable to permit private parties to negotiate for these two plants with foreign collaborators, provided the Indian parties found their own internal resources and negotiated suitable deferred payment terms for the foreign exchange required for the import of plant and machinery on terms acceptable to the Government of India.

8. It is apparent that this decision was taken some time during the second half of 1957. M/s Pechiney, the French firm, were however not informed about this and they went ahead with their work for the National Industrial Development Corporation on the assumption that the development of the projects would be in the public sector through the National Industrial Development Corporation. As mentioned earlier, the report of the expert sent by then was signed on 25.11.1957. On 30th November, 1957.
Shri G.D. Birla wrote to the Secretary, Commerce and Industry, "You were good enough to ask us to take up the project of aluminum at Rihand". He put forward certain preliminary proposals about the project which were mainly that an aluminum plant with a capacity of 10,000 tons per annum was to be set up at Rihand through a new company, power was to be supplied at specially cheap rates by the U.P. Government and collaboration on suitable terms was to be entered into with Kaisers of the U.S.A. Shri Birla was then advised to file an application under the Industries (Development and Regulation) Act, for an industrial licence which was done on 5th December, 1957.

9. While this was being processed, on 13th December, 1957, the Ministry informed Shri Birla that he might proceed with the preliminary report investigations on the understanding that if the engineering side was found to be satisfactory on completion, the actual project might be proceeded with, subject to the condition that the entire foreign exchange expenditure for the import of capital equipment would be covered by the participation of the Kaiser's interest in the capital of the processed company or from loans from the Exim Bank and the ICA on terms acceptable to the Government of India. That the Government, even before considering the grant of licence, had decided to assist this project to the Birlas is further indicated by the letters written by the Ministry to various governmental authorities when the Kaiser team of technicians came to investigate bauxite deposits, indicating that Government had approved in principle the
Birla proposal for setting up an aluminium plant. Similarly, the Government indicated to some private parties who evinced interest in the development of the aluminium industry that they should contact Birla Brothers or Shri Venkataswami Naidu who had been chosen by Government for the development of the two proposed projects. Again, M/s. Pechiney complained to Government regarding being kept in the dark on this matter and expressing regret that they were left out because they agreed to negotiate with the Government instead of with the private sector. The Chief Industrial Adviser in his reply to them suggested that they should now deal with the private sector and especially the two parties - Birlas and Naidu - who were endeavouring to process the two schemes.

10. Though various technical matters remained to be sorted out before a licence could actually issue, the Government had made it clear that the Birlas could rest assured that the Government had a greed to their setting up the project. The Minister for Commerce and Industry in a letter to the State Government of Uttar Pradesh, dated 1/2nd August, 1958, pointed out, "Shri Birla had already been officially advised by the Ministry that his proposal is accepted in principle subject to the details being satisfactory, etc." A Conditional Letter was issued on 20.1.1959 stating that the Government of India had no objection to the grant of a licence provided that certain conditions were satisfied, especially regarding engineering and project studies being completed to the
satisfaction of Government, the question of power supply being settled, the foreign exchange expenditure being met through capital participation and credits on terms acceptable to Government and the terms of foreign collaboration being approved by Government. Questions relating to terms of foreign collaboration continued to be discussed between Government and the Birlas for some time. While it was felt earlier that aluminium manufacture being a simple process, not requiring major technical knowhow, could be handled by the private sector, it was now observed that the terms proposed for foreign collaboration were very costly.

11. The manner in which the case was being handled is indicated by the fact that in August, 1959, the Minister of Industry in a note pointed out that the Development Wing had not so far examined the case and that this should be now done. It seems however that it was realised that as a result of the approval given by Government to conduct negotiations, both the parties had "mutually unnecessarily over-committed themselves". It was therefore found that the terms that were now being proposed, even though they were not found to be quite appropriate, had to be accepted. Various objections raised on the Government side to the terms of foreign collaboration, the capital structure proposed, as well as the proposal to have a Managing Agency were withdrawn and a licence issued in September, 1959.

12. In conclusion, it may be stated that aluminium being in Schedule 'B' of the Industrial Policy Resolution,
it was not reserved for the public sector. Different
reasons have been stated at different times to justify the
decision to permit the development of the industry in the
private sector. Further, the decision in principle to
permit Birlas to set up the plant based on Rihand power
seems to have been taken before any application from the
Birlas was received and the decision was maintained
in spite of difficulties that were later observed
regarding the conditions under which Birlas were able
to develop the project.

II - POWER FOR ALUMINIUM PLANT AT RIHAND
13. One of the main arguments in favour of the
development of the power project at Rihand Dam had been
that it would provide power which could be of great use
in the development of industry in the Eastern districts of
U.P. which are some of the most backward and under-
developed in the country. However, when the question of
exploiting the bauxite resources located in Madhya Pradesh
was considered by the Expert Committee in 1955-56, it
was indicated that the plant should be based on Rihand
power. Shri Birla in his letter of 30th November, 1957,
had pointed out the importance of the U.P. Government
providing power at especially cheap rates. In a further
letter to the Minister of Industry in December, 1957, he
pointed out that while the U.P. Government was anxious
to help, the Government of India should impress on them
that the supply should be at the cheapest possible price
"I have told you that some of the State Governments are
prepared to give bulk supply at Rs. 100 per KW/year. As
this would be the first big project in U.P., I hope the U.P. Government would be generous in this behalf."

14. In February, 1958, the U.P. Government wrote to the Government of India to say that the State Government would have no difficulty in arranging the requisite power for these projects. The Planning Commission, however, appears to have raised objections, pointing out that the State Government which had earlier promised to make electricity from Rihand available to the Railways were now reluctant to fulfil the promise. At a meeting held in April, 1958, even the Finance Minister seems to have inquired as to how it was agreed to give a licence for aluminium industry at Rihand before the question of power availability was checked up. In a meeting held in March, 1958, by the Chief Minister of U.P., the Chief Industrial Adviser to the Ministry of Commerce and Industry pointed out that about 60 to 65 MW would be needed by 1960-61 for a 20,000 ton plant; further 135 MW would be needed later when the factory expanded to 40,000 tons. The Chief Minister pointed out that the Rihand Dam Project had been planned basically to supply power to the Eastern districts of the State and that the supply of bulk power to the aluminium plant would have to be arranged keeping this in view.

15. At the same time, the Chief Minister objected to the Planning Commission's representative raising objections to the proposal for grant of a licence based on considerations relating to the supply of power. In a letter dated 24th July, 1958, to the Planning
The Birla representatives at the meeting might not be too troublesome, but if the power was to be provided for a 20,000 ton plant, there would be.

It was pointed out on behalf of the UP Government that if power was to be supplied only for a 10,000 ton plant, the unremunerative rate might not be too troublesome, but if the power was to be provided for a 20,000 ton plant, there would be difficulty. The Birla representatives at the meeting

- The Chief Minister also suggested to the Central Government that they should set up a thermal plant at Mohulsarai to provide power needed for Railways as well as for industries. The UP Government, however, made a tentative allocation of power from Rihand which after providing for the requirements to the aluminium project (58.5 MW), the railway electrification and other large major loads, allowed only 8.5 MW for miscellaneous loads. This was pointed out by the Planning Commission in May, 1958, enquiring whether the UP Government could afford to allocate one-half of the total power from the project at an unremunerative rate. A question was raised how the UP Government would be able to service the Central loans on the basis of such a distribution of power produced. In a meeting held in May, 1958, of a committee appointed by the Chief Minister of UP, regarding the supply of power for the aluminium project, it was pointed out on behalf of the UP Government that if power was to be supplied only for a 10,000 ton plant, the unremunerative rate might not be too troublesome, but if the power was to be provided for a 20,000 ton plant, there would be difficulty.
indicated that a rate higher than Rs. 150 per KW/year might be ruled out straightaway. Moreover, the Birlas had indicated that they were thinking of further expanding the plant to 40,000 tons or even more. It was made clear that no commitment regarding the supply of power for this expansion could be made.

Finally, in April 1959, the U.P. Government confirmed in a letter to Shri G.D. Birla that the Government would supply at 90% load factor a maximum of 55 MW of power from the Rihand Power Project, at the rate of Rs. 150 per KW/year and that the rate would be fixed for a period of 3 years. It was also mentioned that power used for industrial purposes was being exempted by the State Government from payment of electricity duty and, therefore, Hindustan Aluminium would also enjoy this exemption. The rate decided on may be compared to the rates charged in the Eastern areas which seem to have exceeded Rs. 400 per KW/year.

The question of power again came up when in 1960 the Hindustan Aluminium brought up the question of expanding their capacity from 20,000 tons to 50,000 tons. For this purpose, it was proposed that they should be permitted to have a captive thermal station so as not to tax further the already severely committed Rihand Station. It was suggested that the thermal power station would produce power at about the same cost as the cost at which it was obtained from Rihand, and that the foreign exchange requirements would be met from loans from various American sources. An objection
was raised that power production falls under Schedule 'A' of the Industrial Policy Resolution. While the Industrial Policy Resolution provided that in appropriate cases, privately owned units might be permitted to produce an item in Schedule 'A' for meeting their own requirements, the Planning Commission raised the question whether this would be an appropriate case for such a departure from policy. It was pointed out that Government's attempt at obtaining foreign exchange resources for further expansion of power supply had not been very successful and if such resources were going to be available, they could be used for the overall plan of power development instead of for the benefit of a particular private concern. The exemption to Schedule 'A' was meant to apply to standby captive consumption was meant to apply to standby plants of a small size and not to a major power station.

However, at the highest levels in the Government of India, it seems to have been felt that an advantage of permitting the Birlas to put up their own power station would be that the power that was being supplied to them from Rihand would be released. While an objection had been raised from CWPC that the cost of power from the proposed station might be too high (about Rs. 200 per KW/year) it was thought that this was a matter for the entrepreneur to consider. The Finance Ministry also supported the proposal on the basis that the Birlas would give up Rihand power which they were using in large quantities and release it for the use of the State.

In October, 1962, it was pointed out that the Prime Minister
was going to visit the Rihand Dam as well as the
aluminium plant in a month or so. An enquiry was made
to the Planning Commission why the proposal was being
held up, also drawing attention to Shri G.D. Birla's
statement to the Prime Minister that enormous
administrative delays in decision-making were producing
a bad effect in the U.S.A. The Planning Commission
replied that outstanding proposals concerning the captive
power plant were being speedily processed and were to
be decided on merit.
20. The proposal was approved early in November, 1952
on condition that foreign exchange would be arranged
separately, that the U.P. State Electricity Board would
control the price at which the power would be supplied,
and that the Government would have the right to acquire
the power plant at its depreciated value any time from
10 years after the commencement of its production. It
may be noted that the principal argument earlier put
forward that the setting up of the captive plant would
lead to a release of the Rihand power already committed
to the plant, was nowhere mentioned. This condition was
thus not included when finally the proposal was approved.
21. Regarding the allegation that the Birlas were
allowed to utilise almost the entire power from Rihand Dam,
the facts reveal that the Birlas were given 55,000 KW out
of the total capacity of 110,000 KW available from Rihand-
Dam. Regarding the allegation that Birlas obtained
another 55,000 KW of power from Rihand Dam after the
expansion of their factory, no facts are available with us.
2. The allegation firstly deals with loans, and a specific figure relating to loans granted has been given. The second part of the allegation refers to credit facilities in general which may be taken to be related more to the financial assistance provided by the institutions in various forms and not merely to loans. We deal with these two parts separately as follows:

Part I

3. In the first part, mention is made of the loans obtained by the companies belonging to the House of Birlas from the public financial institutions, from the commercial banks and from sources such as the Cooley Fund. As the working of the private commercial banks was not within the scope of enquiry of our Committee, we have not examined the extent to which
loans and advances have been granted by these institutions to Birla companies. In addition to the public financial institutions, including the State Bank of India and its subsidiaries which were covered by the Committee's overall enquiry, we have also obtained information from Government about the loans sanctioned to these companies from Cooley Fund and other such foreign sources. The details of the loans granted to these companies by these various institutions and sources during the years 1965-66 and 1966-67 are given below:

Total Loans Granted by Public Sector Financial Institutions during 1965-66 and 1966-67

<table>
<thead>
<tr>
<th>Assistance Sanctioned</th>
<th>Total Assistance Sanctioned</th>
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<tbody>
<tr>
<td>to Birla Group of Companies</td>
<td>1965-66</td>
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</tbody>
</table>

A. Term Loans

1. IFCI (July-June)
   i) Rupee
      1.40** 1.17 2.57
      (6.7) (10.0) (7.9)
   ii) Foreign Currency
      3.57** 0.48 4.05
      (3.2) (12.1) (30.5)
   iii) Total
      4.97** 1.55 6.52
      (16.5) (10.5) (14.5)

2. ICICI (April-March)
   i) Rupee
      0.75 0.45 1.20
      (12.3) (7.8) (10.2)
   ii) Foreign Currency
      1.02 1.33 2.35
      (5.7) (21.1) (9.8)
   iii) Total
      1.77 1.78 3.55
      (7.4) (14.8) (9.9)

3. IDBI (July-June)
   i) Direct Loans
      0.83 1.88 2.56
      (1.9) (7.9) (4.3)
   ii) Refinance
      1.61 0.88 2.59
      (7.7) (4.6) (6.1)
   iii) Total
      2.29 2.86 5.15
      (4.0) (6.3) (5.1)
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<tr>
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<th>Assistance Sanctioned to Birla Group of Companies</th>
<th>Total Assistance Sanctioned</th>
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<td></td>
<td>1965-66 1966-67 Total</td>
<td>1966-67 Total</td>
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<tr>
<td>4. SBH (April-March)</td>
<td>0.80 0.00 0.39 0.52 1.65 7.17</td>
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<td></td>
<td>(14.4) (5.5) (12.4)</td>
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<tr>
<td>5. Total 1 to 4</td>
<td>3.83 5.08 16.21 116.01 74.32 190.33</td>
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<td></td>
<td>(8.5) (8.5) (8.5)</td>
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<tr>
<td>6. Cooley Ltd (April-March)</td>
<td>0.79 5.00 7.79 N.A. N.A. N.A.</td>
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<td>7. Others (April-March)</td>
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<td>(CDIE foreign banks, etc.)</td>
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<td>2.67 7.18 3.65 N.A. N.A. N.A.</td>
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<td>8. Total (5+6+7)</td>
<td>17.39 19.36 33.65 N.A.</td>
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**B. Short-term Loans**

SBI and its subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>(Calendar year)</th>
<th>(6.0)</th>
<th>(11.0%)</th>
<th>(6.0)</th>
<th>780.36</th>
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N.A. = Not Available
* * = Cancelled subsequently
A = Include Rs.2.52 crore sanctioned which was cancelled subsequently.
@ Includes assistance provided to United Commercial Bank Limited in respect of loans advanced by the bank to industrial concerns, amount sanctioned being Rs.2.02 crores.
@ Loans amount to Rs.57 million, which has been converted into Indian currency at the rate of Rs.7.40 per dollar.

**G** These are additional credit limits sanctioned/distributed during 1966-67.

Figures in brackets are percentages to respective total assistance.

4. It will be seen that the amount of term loans sanctioned to the Birla group of companies by the three term financing institutions (IFCI, ICICI and IDBI) and the State Bank of India together was Rs.16.21 crores during 1965-66 and 1966-67. Comparing the amount granted to the Birla group as compared to the total.
term loans sanctioned during these two years, we find that the term loans sanctioned to the Birla group constituted 14.5% of the total in the case of IFCI 9.9% in the case of ICICI, 5.1% in the case of the IDBI and 12.4% in the case of the SBI, thus constituting a total of 8.5% of the total amount sanctioned by all these four institutions together by way of term loans. It may be further noted that the IFCI and the ICICI grant loans in the form of foreign currency. Out of the foreign currency loans given by the two institutions during these two years, companies belonging to the House of Birlas obtained 30.5% of the total in the case of the IFCI and 9.8% of the total in the case of the ICICI.

5. If we add to the term loans granted by these four institutions the loans granted by other sources such as the Cooley Fund and other foreign sources, the total amount of loan assistance from public sources provided to the companies belonging to the House of Birlas during these two years amounts to Rs.33.65 crores.

6. In addition, the credit limits provided by the State Bank of India and its subsidiaries to the Birla group of companies during these years were at the level of Rs.46.46.

7. Taking the term loans and the short-term credit limits together, we find that the total amount of credit facilities made available to the companies belonging to the House of Birlas during these two years amounts to over Rs.80 crores. This amount
does not include the credit facilities made available by the private commercial banks.

**Part II**

8. Financial assistance is provided to business concerns not merely through the grant of loans but through underwriting of shares and debentures with considerable development of the underwritten amounts. In our main report, we have shown how this has taken place to a significant extent in the case of all the financial institutions and this works more to the advantage of the Larger Houses than in the case of others. We have also indicated how in the case of the LIC and UTI, underwriting of shares and debentures is for the purpose of subscription to the issues and the amounts subscribed directly go to the companies and can thus be treated as financial assistance granted to the companies concerned. The LIC and the UTI also subscribe to rights issues the proceeds of which again directly go to the companies concerned.

9. Concerning the market purchases of the LIC and the UTI, in the main report we have stated:

"...when the management of a concern is in need of funds for one reason or the other, it may find it useful to sell to the LIC and the UTI - directly or indirectly - parts of its shareholding in the controlled concern with the confidence that these sales will not have any adverse effect on control over the concern. At the same time, such a transaction will directly