P. A. C. No. 474

PUBLIC ACCOUNTS COMMITTEE (1975-76)

(FIFTH LOK SABHA)

HUNDRED AND SEVENTY-EIGHTH REPORT

CASH ASSISTANCE FOR EXPORT OF MAN-MADE FABRICS

MINISTRY OF COMMERCE

[Paragraph 29 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil)]

LOK SABHA SECRETARIAT
NEW DELHI

April, 1976/Vaisakha, 1898 (S)

Price : Rs. 1.60

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATIONS

Sl. No.	Name of Agent	Sl. No.	Name of Agent
	ANDHRA PRADESH		MAHARASHTRA
1.	Andhra University General Co-operative Stores Ltd., Waltair (Visakhapatnam).	10.	M/s. Sunderdas Gianchand, 601. Girgaum Road, New Princess Street, Bombay-2.
2.	G.R. Lakshmipaty Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	11.	The International Book House, (Private) Limited. 6, Ash Lane, Mahatma Gandhi Road, Bombay-1.
	ASSAM	12.	The International Book Service, Deccan Gymkhana, Poona-4.
3.	Western Book Depot, Pan Bazar, Gauhati.	13.	Charles Lambert & Company, 10, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.
	BIHAR	14.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	15.	Deccan Book Stall, Fergusson College Road, Poona-4.
5.	M/s. Crown Book Depot, Upper Bazar, Ranchi.	16.	M. & J. Services, Publishers Represenatives, Accounts & Law Book Sellers, Bahri Road, Bombay-15.
	GUJARAT		MYSORE
6.	Vijay Stores, Station Road, Anand.	17.	People Book House, Opp. Jaganmohan Palace, Mysore.
7.	The New Order Book Company, Ellis Bridge, Ahmedabad-6		RAJASTHAN
	HARYANA	18.	Information Centre, Government of Rajasthan, Tripolia, Jaipur City.
8.	M/s. Prabhu Book Service, Nai Subzi Mandi, Gurgaon.	19.	M/s. Usha Book Depot, 585 A, Chitra Bazar, Tripolia, Jaipur.
	MADHYA PRADESH		UTTAR PRADESH
9.	Modern Book House, Shiv Vilas Palace, Indore City.	20.	Law Book Company, Sardar Patel Marg, Allahabad-1.

Corrigenda to 178th Report (1975-76) presented to Lok Sabha on 30.4.1976.

Page	Line	For	Read
(iii)	29	Shri H.C. Paranjpe	Shri H.G. Paranjpe
4	25	small.their	small, their
6	34	each	cash
7	5	46	1
15	26	lok	look
48	21	be	the
51	37	on	no
53	14	Delete the word 'be-'	
68	20	Etate	State
70	11	1.23	1.123
71	7	1.24	1.124
71	26	out	but

CONTENTS

536 LS—1.

PUBLIC ACCOUNTS COMMITTEE

(1975-76)

CHAIRMAN

Shri H. N. Mukerjee

MEMBERS

2. Shri T. Balakrishniah
3. Shri Chandulal Chandrakar
4. Shri Chandrika Prasad
5. Shri Darbara Singh
6. Shri C. C. Gohain
7. Shri Pampan Gowda
8. Shri Raja Kulkarni
9. Shri Shyam Sunder Mohapatra
10. Shri Priya Ranjan Das Munsi
11. Shri Narendra Singh
12. Shri Noorul Huda
13. Shri Shibban Lal Saxena
14. Shri N. K. Sanghi
15. Shri Somchand Solanki

*16. Shri Mohammed Usman Arif
*17. Shrimati Pratibha Singh
*18. Shri V. B. Raju
19. Shri Gulabrao Patil
*20. Shri T. K. Srinivasan
*21. Dr. K. Mathew Kurian
22. Shri Rabi Ray

SECRETARIAT

Shri Avtar Singh Rikhy—*Additional Secretary.*

Shri H. C. Paranjpe—*Chief Financial Committee Officer*

Shri N. Sunder Rajan—*Senior Financial Committee Officer*

*Ceased to be Members of the Committee consequent on retirement from Rajya Sabha w. e. f. 2-4-1976.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this one Hundred and Seventy-Eighth Report on Cash Assistance on Man Made Fabrics—Paragraph 29 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil).

The Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil) was laid on the Table of the House on 30th April, 1974. The Committee (1974-75) considered Audit Paragraph 29 at their sitting on the 5th July, 1974 (FN & AN).

On 20th August, 1974, a sub-Committee consisting of the following Members was appointed to undertake a detailed examination of the question of cash assistance and other incentives for export performance during the years 1970—73 with reference to paragraphs 28, 29, 30 of the Report of the Comptroller and Auditor General of India for 1972-73, Union Government (Civil):—

Shri Jyotirmoy Bosu—*Chairman*
Shri T. N. Singh—*Convener*
Shri Sasankasekhar Sanyal
Shri P. Antony Reddi } *Members*

The Sub-Committee examined Audit Paragraphs 28 and 29 at their sittings held on 8th and 14th January, 1975 (AN). The Sub-Committee, however, did not examine paragraph 30. The Committee (1975-76) considered and finalised this Report at their sitting held on 28th April, 1976 based on the evidence taken and further information furnished by the Ministry of Commerce. The minutes of the sittings of the Committee form Part II* of the Report.

For facility of reference the conclusions/recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, the recommendations/observations of the Committee have also been reproduced in a consolidated form in Appendix.

---

*Not printed. (One cyclostyled copy laid on the Table of the House and five copie placed in the Parliament Library.)

The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1974-75) and the Sub-Committee on 'Cash Assistance' (1974-75) in taking evidence and obtaining information for the Report.

The Committee also place on record their appreciation of the assistance rendered to them in the examination of the Audit Paragraphs by the Comptroller and Auditor General of India.

The Committee would also like to express their thanks to the officers of the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 29, 1976
Vaisakha 9, 1898 (*S*).

H. N. MUKERJEE.
Chairman,
Public Accounts Committee.

REPORT

CASH ASSISTANCE FOR EXPORT OF MAN MADE FABRICS

Audit paragraph

1.1. Man-made fabrics—commonly known as art silk fabrics—are made either from fibres like viscose rayon (which is produced from natural fibrous materials like wood pulp), or from synthetic fibres like nylon or polyester (which are produced from manufactured chemical substances like caprolactum).

1.2. Man-made fabrics industry in India is decentralised. The main centres of production are in Gujarat, Maharashtra, Punjab and Mysore. There are about 1.06 lakh power-looms and 4.30 lakhs handlooms, 656 warp knitting machines, 169 raschel knitting machines and 19 raschel looms annually producing about 92* crore metres of art silk fabrics worth more than Rs. 450 crores. Ninety per cent of the power-looms are in units having 1 to 10 powerloom each. The handlooms are entirely in units of 1 to 10 handlooms. There are 307 units for warp knitting machines, and raschel knitting machines and looms.

1.3. Man-made fabrics are one of our non-traditional items of export. The principal countries importing them from India are Sudan, Singapore, Afghanistan, Yemen, Uganda, Nigeria, United Kingdom, United States of America, Canada and France.

1.4. India's exports of man-made fabrics have been as follows:

Year	(Rupees crores)
1965-66	4·94
1966-67	2·99
1967-68	1·50
1968-69	3·62
1969-70	5·06
1970-71	6·23
1971-72	8·25
1972-73	9·62

*Hand book of statistics on cotton textile industry (6th edition) issued by the Cotton Mills Federation, Bombay.

1.5. Following devaluation of the Rupee in June 1966, all existing export incentives were withdrawn by Government, as it was considered that devaluation would bring a windfall gain to exporters. For selected non-traditional exports like engineering goods and chemicals, however, Government introuced other new measures of incentives like import replenishment of raw materials, cash assistance, etc.

1.6. Cash assistance is sanctioned from the Marketing Development Fund and is normally intended to bridge the gap between the cost of production of an export product and the f.o.b. realisation. It is usually restricted to 25 per cent of the "value added," *viz.*, the amount arrived at after deducting the value of the import content from the f.o.b. realisation.

1.7. Under the Government's policy for registered exporters for 1968-69 and 1969-70, exporters of nylon fabrics got replenishment of imported nylon yarn from the State Trading Corporation at the rate of 1.20 kg. against each kg. of nylon yarn used in exported fabrics. From 1970-71, import replenishment was also allowed against rayon and polyester fabrics. The scale of replenishment was also enhanced, ranging from 1.20 kg. to 1.30 kg. of nylon/rayon/polyester yarn against each kg. of the respective yarn used in the unblended export products. Certain specified blended products were also eligible for import replenishment—the level of replenishment being 24 to 36 per cent of the yarn content. In 1971-72 certain more blended products were included in the list of eligible items, and from that year replenishment was 24 to 50 per cent of the yarn content of exported blended fabrics.

1.8. From 1967 cash assistance is being given, by the State Trading Corporation, to those exporters who effect their exports through that Corporation. The latter was to recoup the amount from the profit it was expected to earn through distribution of imported nylon yarn, a canalised item to be sold by it in the domestic market at Re. 1 or Rs. 2 below the price of indigenously produced nylon yarn. A subsidiary organisation of the Silk and Rayon Textiles Export Promotion Council, known as Rayex (India) Ltd., Bombay, was associated with the scheme, and was authorised to negotiate and book export business on behalf of the State Trading Corporation.

1.9. In 1967 the State Trading Corporation sanctioned cash assistance for export of man-made fabrics at rates varying between 10 per cent and 33 per cent of f.o.b. realisation, after having consultations with the Textile Commissioner, Bombay, and the Silk and

Rayon Textile Export Promotion Council, Bombay. While sanctioning this the Corporation did not take into account the actual cost and f.o.b. realisation but adopted an *ad-hoc* approach.

1.10. With the idea of reviewing the existing rates of cash assistance, the Corporation obtained from the Silk and Rayon Textiles Export Promotion Council in July 1971 certain data relating to cost and f.o.b. realisation. The material furnished by the Council was not certified on the basis of any strict cost scrutiny. The State Trading Corporation concluded that the cash assistance was not justified on economic grounds; but in view of the fact that the exporters had been receiving massive assistance in the past, it was considered inexpedient to withdraw the assistance completely at once.

1.11. With effect from 1st August, 1971 the rates of cash assistance were revised by the State Trading Corporation as follows:

	Rates from March 1967 to July 1971	Rates from August 1971 to December 1971
	(Per cent of f.o.b. value)	
I. Velvets	33	20
II. *Fabrics other than velvets;*		
Below 100 deniers	20	20
100-119 deniers	30	25
120-199 deniers	33	25
200 deniers and above	15	15
Spunrayon fabrics	33	25
Filament and spunrayon mixed fabrics	30	25
Acetate fabrics	As per denier used	25
Nylon fabrics	10	5

1.12. The revised rates were to be in force up to 31st December, 1971 and were thereafter to be discontinued.

1.13. The Silk and Rayon Textiles Export Promotion Council represented to the then Ministry of Foreign Trade in August 1971 against the above decision of the State Trading Corporation. The latter, however, informed Government that in the past the cash assistance had been more or less *ad-hoc* and had not been subjected to strict cost scrutiny, and that when attempts were made to ascertain the costs the industry had been reluctant to provide data. The Corporation also explained that with the increased import entitlement announced in Government's registered exporters policy for 1971-72, it was necessary to take a fresh look at the question of cash assistance.

1.14. The State Trading Corporation extended the revised rates of assistance upto March, 1972, and on 31st December, 1971 asked the Silk and Rayon Textiles Export Promotion Council to collect and submit cost data in a form which had been finalised in a meeting with the Council and the Textile Commissioner, Bombay. It was specified that the cost data should cover all the sorts exported by each of the selected parties and should be certified by a Chartered Accountant, and that they would be subject to verification by the Corporation's cost accountant.

1.15. The number of exporters registered as associates of the State Trading Corporation (or Rayex India Ltd.) at that time was about 165. The Export Promotion Council sent the prescribed form to only 29 selected manufacturer—exporters and in February, 1972 forwarded to the State Trading Corporation certain cost data submitted by 14 of the 29 parties and explained that any of the units being small. their method of keeping accounts was different, and as such they could not give the required break-up of cost. The Council also claimed that these units did not have qualified staff to compile data which could be certified by a Chartered Accountant.

1.16. Meanwhile, in January, 1972 the State Trading Corporation also called for, from the Cotton Textiles Export Promotion Council, cost data of exported rayon—cotton mixed fabrics. This Council wrote to the State Trading Corporation on 14th February, 1972 that the rates of cash assistance for cotton textile exports, (which were subsidised from a fund financed partly by the industry and partly from the Marketing Development Fund) were determined broadly on the basis of domestic price level and not on the cost of production. The Council said that it was not considered worthwhile to make any costing exercise for rayon-cotton mixed fabrics.

1.17. Citing the above letter, the Silk and Rayon Textiles Export Promotion Council wrote to the State Trading Corporation on 16th February, 1972 that a similar approach should be adopted for man-made fabrics, so that the rates of cash assistance were realistic.

1.18. Government decided in a meeting with the Silk and Rayon Textiles Export Promotion Council on 6th March, 1972 that cash assistance at the existing rates should continue for one year and that the cost data furnished by the Council should be examined by a working group or independent agency. Shortly afterwards the Corporation extended cash assistance at the existing rates (with a reduction in the case of velvets) upto March, 1973, subject to amendment or withdrawal at three months' notice. The Export Promotion Council was informed that cost data for representative export qualities should be submitted, and that they would be examined by a working group to be constituted by Government.

1.19. In May 1972 Government appointed a working group consisting of representatives of the Textile Commissioner and the State Trading Corporation, a Cost Accounts Officer of the Ministry of Finance and the Secretary of the Silk and Rayon Textiles Export Promotion Council.

1.20. The report of the working group was prepared in January 1973. The group had obtained cost data only from 3 manufacturers of fabrics. The cost data furnished were not certified by any Chartered Accountant. Although the group visited these mills, it did not undertake, "due to the limitation of time," any detailed checking of data with accounts books, but considered the result of sample-checking as "more or less satisfactory." These three mills were taken as representative of the cost trends in the filament and spunrayon fabrics. The working group noted that separate data for export production were not maintained and could not be identified, and that there was also no uniform system of cost compilation among the firms. It was, however, considered that from the data submitted by one of the three firms its non-export cost could be identified and the overheads of this firm were taken as representative of the other firms also. While weighing the relative merits of considering marginal costs and total costs, the working group in its final report indicated that the bulk of the production of most of the units engaged in production of exportable qualities was for export, and therefore it was difficult for them to absorb the entire fixed cost in the domestic sale. However, the working group itself had pointed out that export production of one of the three mills, from which data had been obtained and which was taken as representative of the three mills and the whole industry, constituted only 25 per cent of its total production.

1.21. According to the report of the working group, export losses were in the range of 23.6 to 42 per cent of f.o.b. realisations in case total costs were considered, and between 7.3 and 28.6 per cent in case marginal costs were considered. The majority recommendation of the group was that cash assistance should be continued at the existing level. The officer of the State Trading Corporation who was a member of the working group recorded a separate note stressing that the cost data given by the industry were not fully representative.

1.22. On 1st September, 1973 Government advised the State Trading Corporation of its decision to continue the cash assistance during 1973-74 on the same lines as in 1972-73.

1.23. Favourable factors are said to exist at present in the international market for growth of export of filament rayon fabrics, which constitute 75 per cent of the total yardage exported or two-thirds of the value of India's export trade in man-made fabrics. The advanced manufacturing countries are said to have gradually withdrawn from this field and a large demand for Indian supplies is said to exist in the world market.

1.24. Only those who export through the State Trading Corporation are entitled to cash assistance. The total export on 1970-71 were Rs. 6.23 crores, exports through the State Trading Corporation being Rs. 3.77 crores. In 1969-70 there were 8 exporters who claimed exports of over Rs. 10 lakhs each and they accounted for 54 per cent of the total exports. Of those eight, five were merchant-exporters who accounted for 28 per cent of the total exports. It is reported that the manufacturer-exporters procure the cloth partially from other units instead of exporting their own products which, because of their superior quality, are meant for the internal market. The industry suffers from a structural handicap because most of the producing units are small. It may not be certain that the full benefit of the cash assistance goes to the actual producers. Whether any advance is being made by the industry to overcome its structural weakness is not known. Only 2 per cent of the industry production is exported and, for its exports, the industry also receives excise drawback raw material at or below international prices and replenishment licence for dyes and chemicals. Whether there should be, in addition to the above facilities, each assistance at as high a rate as 20 to 25 per cent seems to deserve consideration.

1.25. The State Trading Corporation has been annually importing about 40,000 tonnes wood pulp for production of cellulosic filament yarn which goes into manufacture of art silk and about 15,000 tonnes of caprolactum for production of nylon filament yarn which in turn is used for production of nylon fabrics. Our country does not yet produce caprolactum. Our indigenous production of rayon grade pulp in 1972 was 86 thousand tonnes. Import of the pulp was a little less than half thereof. Thus, the net foreign exchange earnings from our exports of man-made fabrics are much less than the export figures shown on page 46, (*vide* paragraph 1.4).

1.26. Government authorised the State Trading Corporation in June and September 1973 to increase the sale price of imported caprolactum and also to sell imported nylon yarn at the price of indigenous nylon yarn, mainly to finance the cash assistance for export of man-made fabrics.

1.27. The State Trading Corporation informed Government that the margin accruing from sale of imported caprolactum and nylon yarn would only be Rs. 2.18 crores in 1973-74, and that since the cash assistance was expected to be about Rs. 3 crores for the year, Government might reimburse the balance. The Corporation had pointed out to Government in the past that the sale proceeds of imported nylon yarn were not adequate to meet the cash assistance. It has demanded reimbursement of the following losses incurred by it in previous years on this account:

	(Rupees in lakhs) (+profit;- loss)
1967-68	+ 75·25
1968-69	- 73·87
1969-70	- 57·05
1970-71	- 54·03
1971-72	- 160·48
1972-73	- 164·5
	- 434·68

[Paragraph 29 of the Report of the Comptroller and Auditor General of India for the year 1972-73. Union Government (Civil)].

1.28. Since it was considered that the devaluation of the Rupee itself would bring a windfall gain to exporters, all existing export incentives were withdrawn by Government. The Audit paragraph, however, points out that cash assistance for the export of man-made fabrics at rates varying between 10 per cent and 33 per cent of the f.o.b. realisation had, however, been sanctioned in 1967 by the State Trading Corporation.

1.29. The Committee desired to know the justification for giving a cash assistance for export of man-made fabrics immediately after devaluation and the factors influencing the decision. The representative of the Commerce Ministry stated in evidence:

> "Following the devaluation there was a very sharp fall in the exports of man-made fabrics. The figures would speak for themselves. In 1965-66 the export was Rs. 4.94 crores which came down to Rs. 2.99 crores in 1966-67. The exports in the second half of 1966 were only Rs. 1.3 crores as against Rs. 2.2 crores in the corresponding period of the previous year. Therefore, in the first six months of 1967 there was a further fall and the exports were only of the order of Rs. 18.65 lakhs. We saw that the fall was almost continuous and had to be arrested. If we wanted the exports to pick up some means had to be found for promoting exports. It was in this context that the new scheme of cash assistance was introduced."

1.30. The Committee asked how devaluation could have an adverse effect. The witness replied:

> "Export incentive that was available to industry prior to devaluation was a very attractive one in the form of replenishment by way of yarn 70 per cent of the f.o.b. value of export. This stood abolished with devaluation. Therefore, immediately a change had come about in the type of incentive that is available to the industry. After devaluation on taking into account the f.o.b. realisation that was possible and our yarn prices and other duties paid by the industry, we found that we are priced out by the world market. We have never been competitive in the world market."

1.31. Asked whether immediately after devaluation, prices in the external market proved disadvantageous to the country, the witness replied:

> "Before devaluation the amount of exports that was taking place was very limited. Before devaluation, the type of exports were like Sarees to countries with Indian population. This did not make any difference or impact whatsoever on the sophisticated markets of the western world and new efforts had to be put in. We could not rely on the old type of exports. This is what has in fact happened. After devaluation certainly it should have picked up. The evidence is that this did not pick up. Production had to be encouraged

of the varieties that are needed for exports. If I may say so, with all respect, the basic decision of 25 per cent etc. was taken after a certain amount of scrutiny."

1.32. In a written reply the Ministry stated:

"After devaluation the export promotion scheme was withdrawn with effect from 6th June 1966. With the abolition of export promotion scheme, the export of artsilk fabrics more or less came to a standstill. Judging from the past performance and trends obtaining during January—May 1966, the Ministry were of the view that there was a good export potential for this item and exports of the order of Rs. 5 crores could be attained during 1967. It was therefore essential that suitable measures were taken to revive the exports.

The Commerce Ministry considered this matter carefully and came to the conclusion that the main reasons for the failure of export performance was to be found in the very high prices of domestic yarn/synthetic yarn as compared to the then prevalent world prices of similar yarns. The loss in exports after paying local prevalent price for yarn and allowing for conversion costs was of the order of 25 per cent to 37 per cent.

The Commerce Ministry, therefore, felt that having regard to basis in-balance between indigenous and imported yarn prices and other factors which make for higher conversion costs, a reasonable cash assistance was necessary."

1.33. In reply to another question whether it would be correct to conclude that the decision to grant cash assistance was a crash decision, taken without proper data, the witness stated:

"The devaluation came in June, 1966. After having studied the position for six months, the decision was taken. The January 1967 note of the Ministry did say 'that this is the way, the export is behaving and in our opinion, this is the assistance that is needed to correct and restore the export figure' and on that basis, a decision was taken."

1.34. According to the Audit paragraph, the cash assistance had been sanctioned by the State Trading Corporation in 1967, after consultations with the Textile Commissioner and the Silk and Rayon

Textiles Export Promotion Council and that while sanctioning the assistance, the Corporation did not take into account the actual cost and f.ob. realisation, but adopted an *ad hoc* approach. Asked why the cash assistance was fixed on an *ad hoc* basis, the representative of the Commerce Ministry stated:

> "This scheme of assistance was started in 1967. At that time, it had to be introduced on some assessment which was made at the time. It is mentioned in the Audit para that this was an *ad hoc* assessment. But we would not quite agree with the point made in this para. It says:
>
> 'While sanctioning this assistance, the Corporation did not take into account the actual cost and f.o.b. realisation but adopted an *ad hoc* approach'.
>
> We submitted our remarks to the CAG. Of course, I must confess that we submitted them in more than one instalment. By the time the second and third instalments were submitted to the CAG, it was a little late and the Audit para had already been printed. We had pointed out even in those remarks that the assistance which was given at the initial stages was on the basis of some assessment that had been made at that time. I would like to read out the relevant portion from that:
>
> 'When calculating the gap between the domestic price and export price, we found several cases where the gap was in fact very much more than 33 1/3 per cent'.
>
> This view was put forward by the S.T.C. It was examined and then it was decided what the fair basis should be. In fact, the figure that was thought of was even 33 1/3 per cent. On 10th March 1967, a letter was issued from the Ministry to the S.T.C. that the cash assistance may be paid at the rate of 25 per cent of the total f.o.b. realisation but in any individual case, it should not exceed 33 1/3 per cent."

1.35. The Committee desired to know whether any study was undertaken before the decision to grant cash assistance was taken. In a note, the Ministry of Commerce informed the Committee that studies had been conducted by the Silk and Rayon Textiles Export Promotion Council and the State Trading Corporation.

1.36. The Audit paragraph points out that cash assistance is normally intended to bridge the gap between the cost of production of an export product and the f.o.b. realisation and that it is usually restricted to 25 per cent of the 'value added', which is the amount arrived at after deducting the value of the import content from the f.o.b. realisation. Asked whether the cash assistance for man-made fabrics was not worked out in relation to the added value, the representative of the Commerce Ministry replied:

> "The scheme was introduced not on the basis of percentage of value added but on the basis of percentage of f.o.b. realisation. It has got to be admitted that this is the way the scheme was introduced."

He added:

> "The 25 per cent of the f.o.b. realisation happened to be—we have got figures from year to year—much less than what was the difference between the f.o.b. realisation and cost of production. In other words, it was 40 per cent in some cases and even 45 per cent in some other cases. We were restricting it to 25 per cent. We thought, as a scheme it was a fair way of dealing with it. As regards the principle of 'value added', it is principle which is being applied for direct assistance from the Marketing Development Fund. This particular assistance was not provided from the Marketing Development Fund. I know the principles ought to be broadly the same, whether the assistance is from this fund or that fund. It was not, in fact, paid out of the Consolidated Fund of India. It was meant to be met by the S.T.C. from their own internal earnings, from nylon/yarn sale, etc. We did try to adopt what we thought was a fair approach in terms of possible f.o.b. realisation and possible cost of production as we know it."

1.37. To another question, whether tthe Ministry, at that time, were guided by the Export Promotion Council, the witness replied:

> "We had no doubt base information from the Export Promotion Council. The STC was also asked about it. They had made an assessment. They gave us their own evaluation of the assessment. Although it is not very clear to me from the records, I believe, there were discussions held and, ultimately, an agreed view taken was 25 per cent to 33 1/3 per cent."

The witness added:

"The Government letter to the STC was addressed in March 1967. From March 1967 to September 1967, time was taken in actually determining item-wise, the assistance that should be paid out. In fact, the exporters, I understand, did not actually receive any assistance during the period because the calculations were still being worked out."

1.38. In a note furnished subsequently in this regard, the Ministry of Commerce have stated:

"In the initial period, it was not possible for State Trading Corporation to obtain fully authenticated cost data covering exportable qualities manufactured by important sections of the industry. The basis adopted for 1966-67 and thereafter was the difference between (a) domestic procurement cost and (b) international FOB price. Domestic procurement cost was calculated on the basis of (i) cost of yarn and (ii) cost of conversion into fabrics, (iii) dyeing and printing costs, and (iv) packing, forwarding and incidental charges. These rates were fixed in consultation with the Silk and Rayon Textiles Export Promotion Council.

State Trading Corporation tried its best to examine as carefully as possible domestic procurement costs and fair FOB realisation. Due to much of the production being based in the small scale sector, the collection of data relating to domestic procurement costs became extremely difficult. However, based upon examination of the data furnished by Silk and Rayon Textiles Export Promotion Council within the direction given by the Ministry of Commerce, *vide* their letter No. 6(i)Tex(F)/67 dated 10th March 1967, State Trading Corporation fixed the percentages of cash assistance for various export qualities—under intimation to the Ministry of Commerce. The study revealed that the gap between domestic procurement costs and FOB realisation exceeded 33.3 per cent in several cases."

1.39. The Committee asked whether any guidelines had been issued by Government to the State Trading Corporation in regard to the administration of the scheme of cash assistance. The Ministry replied in the affirmative and furnished a copy thereof issued in their letter

No. 6(1)/67-Tex(F) dated the 10th March 1967, the relevant extracts from which is reproduced below:

"It will be seen from the export instructions issued that all exports by exporters/export organisations who want to avail themselves of the facilities and assistance that will be provided by STC, will be canalised through STC. At the same time others who do not want the facilities and assistance that will be given by STC will be allowed to export freely by licensing authorities on presentation of shipping documents in the prescribed form and manner provided those documents are accompanied by certified copies of firm offers or sale contracts from the overseas buyers. To such of those exporters and export organisations who desire to avail themselves of the facilities and assistance that STC will be providing as associates of STC, a cash assistance not exceeding 25 per cent of the total f.o.b. value of export of cellulosic artsilk fabrics and mixed fabrics, other than pure synthetic fabrics, will be made by the STC depending upon market conditions for different products and different markets. This supplemental assistance would, however, be subject to a cut off point of 33.3 per cent of individual items within the overall 25 per cent ceiling.

The STC will also supply to such exporters indigenously produced viscose rayon yarn at a concessional price. The indigenous rayon spinning industries have been persuaded to part with 10 per cent of their production at a concessional price. For example they have agreed to supply 120 d bright first quality yarn at Rs. 10 per kg. which is Rs. 2 per kg. lower than the ex-factory price of Rs. 12 per kg. On the basis of the allotment letters issued by the STC, the yarn earmarked for export purposes under this policy will be supplied by the spinning units to the approved associates of STC direct.

The amount spent by way of supplemental cash assistance should be recouped to begin with from the STC's general profit on the import of synthetic yarn and its distribution through them.

These facilities and assistance will be available for export of cellulosic art silk fabrics and mixed fabrics where the cellulosic yarn content is 70 per cent or more.

The facilities and assistance to be granted under this scheme will not be available against exports made to Nepal, Afghanistan, Sikkim, and Bhutan. In the case of Afghanistan, however, only such exports which have been made against free foreign exchange will be taken into consideration for the issue of facilities and assistance provided in the scheme.

The STC will finalise with the help of an Advisory Committee (with the Textile Commissioner as Chairman and a Director of STC as a member together with a representative of AMFI and any other representative the STC may co-opt) and in consultation with the CCI&E the details of the procedure to be followed for effecting exports by exporters and/or export organisations in association with them and the basis on which supplementary assistance by way of supply of indigenously produced rayon yarn at concessional price and the grant of cash assistance will be made available by the State Trading Corporation. In working out the details of the procedure to be followed, the STC may kindly take into consideration the points brought out in Annexure 'A' to this letter."

1.40. As regards the basis adopted by the State Trading Corporation for the payment of cash assistance, the representative of the Corporation stated in evidence:

"Assistance will be given by the STC depending upon the market condition in different markets. The basis adopted at that time was in conjunction with the Export Promotion Council keeping in view the domestic cost and the f.o.b. realisation. Later on, however, we were reviewing this entire question from time to time and we felt there should be more detailed cost scrutiny."

Asked whether the Government's approval was obtained for the grant of what, *prima facie*, appeared to be an *ad hoc* assistance, the witness replied:

"We kept the Government informed."

Asked at what level the decision was taken, the witness replied:

"This was done at the level of the STC."

1.41. The Committee desired to know whether the decision to grant cash assistance had the Minister's approval. The Secretary, Export Production stated:

"This question of 1967 letter was preceded by an examination of the market conditions, scrutiny of the prices ranging internally and in the foreign markets, cost of production, etc. and this decision to issue a letter was taken at the highest level."

Asked whether the case had been submitted to the Minister, the witness replied:

"Certainly, Sir."

He added:

"It went even higher than that."

1.42. The Committee asked whether the Finance Ministry had agreed to this *ad hoc* grant of cash assistance.

The Financial Adviser to the Commerce Ministry stated:

"After devaluation a Working Group of senior officers was constituted to study the effects of devaluation on the exports and the emerging patterns and steps necessary to correct them. One such item was of cellulosic art silk fabrics. Assessment at a very senior level was made and in this particular case the approval at the highest level was obtained. Finance was represented in the Working Group."

1.43. Subsequently, however, the Secretary, Export Production informed the Committee as follows:

"In the morning, I had made a statement to say that the matter relating to the price had been looked into at the highest level. I have been trying to lok into the papers again. I have not been able to find the papers, in order to say exactly at what level this was finally approved. I must correct myself, Sir."

The Financial Adviser also stated in this context:

"I would also like to correct the impression which I had given."

He added:

"The matter did go to the highest level once. After that there were some discussions. But before the final orders were issued whether they again got the final clearance is a matter to be checked up."

1.44. When asked whether it was not necessary to obtain the specific approval of the Finance Ministry on such schemes, the representative of the Commerce Ministry replied:

"From the papers that we have, we have not been able to find any specific reference to the Ministry of Finance made on the subject. The only thing that we have been able to locate is the minutes of the meeting from which it appears that the decision has been taken on that and the matter could be verified further if you wish."

The Secretary, Export Production stated in this context:

"It is true that Finance is consulted. It is not always that Finance is specifically consulted on the file because in this Committee the Finance Secretary is there as a member. From the decision taken in the meeting it could be said that the Finance had agreed."

In a note furnished subsequently in this regard, the Ministry of Commerce stated:

"The whole scheme was submitted to the Committee of Secretaries of which Secretary, Ministry of Finance was a member and was present and it was approved by the Committee."

1.45. In reply to another question whether the State Trading Corporation had obtained the approval of the Government for paying cash assistance without adequate cost scrutiny, the Ministry of Commerce, in a note stated:

"It was left to the discretion of State Trading Corporation to determine actual amount of cash assistance with reference to market conditions of different products and as between products for different markets."

1.46. It had been stated by the Ministry of Commerce with reference to the grant of cash assistance for the export of engineering goods that the cash assistance was designed to reduce the gap between the cost of production and f. o. b. realisation. Drawing attention to this, the Committee desired to know why the same principle had not been applied in the case of cash assistance for man-made fabrics and no cost study was made on the basis of cost of production and f. o. b. realisation. The representative of the Commerce Ministry stated in evidence:

"In the case of art silk....it has not been possible to base the system on purely the difference between the f.o.b. realisation and the cost of production. In the case of textiles in particular the pull of the domestic market and the prices that are available to the manufacturer in the domestic market have got to be taken into account in determining the pattern. But having said this I would also like to add that this scheme was not directly one of cash assistance by the Government; the STC, out of earnings arising out of its raw material sales, had built up a fund from which it was making available this cash assistance. It was not directly an outgo from the Consolidated Fund."

The witness added:

"In the case of cotton textiles, there is a scheme which has been in force for a number of years, and the fund here is provided by the ICMF (Indian Cotton Mills Federation) and MDF (Marketing Development Fund) together. The assistance is given on the basis of the difference between the domestic procurement price and the f.o.b. realisation."

The witness further stated:

"The principle on which the MDF assistance is based is also the difference between the f.o.b. realisation and the domestic cost of production. Of course the words 'cost of production' are rather important and it depends on how one applies the words 'cost of production'. Here, we have gone on the basis that it is the f.o.b. price minus the domestic procurement price—which is much the same thing."

1.47. Since the domestic procurement prices were very high, the Committee desired to know how these could be adopted as the basis for any calculation of cash assistance. The witness stated:

"This is an industry where the level of exports touched rather a high figure just prior to devaluation and dropped sharply after that. It was necessary to bring in a scheme whereby exports could be maintained and intensified.

One fact of the matter cannot be ignored in all textile exports and particularly art silk, namely, that the price realisation will be always lower in the export than in the domestic market, given the general situation of the domestic market today. Therefore, if the exporters have to be persuaded to export the product, assistance became necessary. But we applied the caution of limiting the amount of assistance to what we felt to be the gap between the *f.o.b.* realisation and domestic production cost. I would not say that it was calculated meticulously but, broadly speaking, it did conform to this principle."

1.48. According to the Audit paragraph, the rates of cash assistance on exports of man-made fabrics were revised by the State Trading Corporation, with effect from 1 August, 1971. The Committee desired to know the basis on which the reduced rates of cash assistance were determined in respect of velvets and fabrics other than velvets. In a note, the Ministry of Commerce stated:

"According to State Trading Corporation the revision of cash assistance percentages in respect of (i) velvet and (ii) fabrics other than velvet was based on the study of cost data furnished by Silk & Rayon Textiles Export Promotion Council. Although the data furnished were not quite comprehensive, they nevertheless, indicated that cash assistance could be reduced without any adverse impact on exports."

1.49. The Committee learnt from Audit that in August 1971, the State Trading Corporation of India had pointed out to the Ministry of Foreign Trade that while grants from the Marketing Development Fund were governed by strict scrutiny by the Ministry of Finance, assistance by the State Trading Corporation had been more or less on an *ad-hoc* basis and had not been subjected to cost scrutiny. Emphasising the need for cost scrutiny the Corporation had stated:

"This we feel is essential lest there be a question asked by Parliament or its Committees about the basis for Public Sector agency favouring an industry with such massive assistance of over a crore of rupees for an export of more 3-4 crores, without having before it a cost structure of the industry justifying such assistance both in principle and the quantum."

1.50. The Audit paragraph also points out that the Silk and Rayon Textiles Export Promotion Council had represented to the then Ministry of Foreign Trade, in August 1971, against the decision of the State Trading Corporation to discontinue the payment of cash assistance at the revised rates after December 1971. The State Trading Corporation had, however, informed Government that in the past the cash assistance had been more or less *ad-hoc* and had not been subjected to strict cost scrutiny, and that when attempts were made to ascertain the costs the industry had been reluctant to provide data. The Corporation also explained that with the increased import entitlement announced in Government's registered exporters policy for 1971-72, it was necessary to take a fresh look at the question of cash assistance.

1.51. The Committee enquired into the action taken by the Ministry on the communication of August 1971 from the State Trading Corporation. The Secretary, Export Production replied in evidence:

> "From 1967—71 when the scheme worked, there was no such thing brought to the notice of the Government. Only in 1971 the STC felt that the cash assistance given by them will not have been arrived at on the basis of a strict cost scrutiny. The STC, therefore, actually wanted that they should look at the cash assistance problem *de novo*. This action, of course, brought some results although belatedly."

The witness added:

> "The STC started its enquiries in May 1971. Until the end of July 1971 the STC received certain costings of about 70 per cent of the rayon goods exports and three costings of nylon goods which were not considered to be fully representative and they did not receive anything about the blended fabrics. On an examination of this data, the STC felt that there was a need for some rethinking. In the case of rayon fabrics which consisted 75 per cent of the total yardages exported or two-thirds of the value of the exports, the STC found, it seems, that the industry received raw materials at prices which were probably below the international prices and they had certain other benefits in the matter of replenishment licences for dyes and chemicals."

1.52. The Committee asked what action was taken to review the position between 1967 and 1971. The representative of the Commerce Ministry stated:

"During 1967—71 the scheme was being administered by the STC on the guidelines that have been laid down in the 1967 letter. There was a situation where they and the exporters as well as the Textile Commissioner's organisation were engaged in assessing the prices that were being realised from time to time and the assistance was being paid on that basis.

Secondly, another relevant factor is the price realisation in the domestic market and the price realisation in the export market which had always to be kept in mind."

1.53. In a written reply furnished in this regard, the Ministry stated:

"State Trading Corporation in consultation with Silk & Rayon Textiles Export Promotion Council was periodically reviewing domestic procurement costs and international prices. Exports having stabilised during the period 1968 to 1970, it was considered advisable to reduce cash assistance where necessary, based upon a more scientific analysis of the costs of production *vis-a-vis f.o.b.* realisation by exporters."

1.54. The Committee asked whether the State Trading Corporation had, earlier than August 1971, brought to the notice of Government that when attempts were made by it in the past to ascertain the costs, the industry had been reluctant to provide data and if so, what action was taken by Government at that time. In a written reply, the Ministry of Commerce stated:

"Government was informed from time to time of the difficulties that Export Promotion Council was experiencing in various meetings."

1.55. The Committee desired to know the action taken by Government on the representation of the Export Production Council submitted in August 1971 and the suggestion of the State Trading Corporation that it was necessary to have a fresh look at the question of cash assistance. In a written reply, the Ministry of Commerce stated:

"The matter was discussed in a series of meetings with the State Trading Corporation and Silk & Rayon Textile Export Promotion Council. It was decided that State Trading Corporation should analyse the cost data furnished by the Council and keep the Ministry informed of the result of such analysis."

1.56. Asked whether the State Trading Corporation had tried to ascertain the costs from the industry before August 1971, the Ministry of Commerce, in a note, stated:

"Due to the peculiar nature of art-silk industry, it was not possible for either State Trading Corporation, Silk & Rayon Textiles Export Promotion Council or Textile commissioner to obtain precise cost data—quality—wise—from the industry. As such, State Trading Corporation from the very start (*i.e.* from March 1967) had no alternative but to extend cash support on the basis of cost data collected by Silk & Rayon Textiles Export Promotion Council, even though they were not fully representative.

The cash assistance scheme was extended from year to year on the basis of:

(a) Reviews of domestic procurement costs prepared by Silk & Rayon Textile Export Promotion Council;

(b) Reviews of international prices provided by the Council and State Trading Corporation's general market intelligence."

1.57. The Committee desired to know the considerations on which Government had decided in March 1972 to continue the cash assistance, even though adequate data were lacking. In a note, the Ministry stated:

"The main consideration was that since contracts by the exporters were taken on a long term basis any disturbance to the cash assistance scheme would cause severe disruption in acceptance of such long term contracts by the exporters."

Asked at what level this decision was taken, the Ministry, in a note, stated:

"The decision was taken by the Secretary, FT, after a meeting in Bombay on 6-3-1972. From the records, it appears that the papers were not submitted to Minister for his approval."*

---

*The Committee were also informed in this connection that the decision of the Secretary had been communicated to the State Trading Corporation from Bombay on 10 March 1972 by means of a Telex communication from the Textile Commissioner, a copy of which is reproduced in Appendix I.

1.58. The Committee learnt from Audit that in connection with the decision of Government taken on 6 March 1972, the State Trading Corporation of India had represented to the Ministry of Foreign Trade on 9 March 1972 as under:

"The industry has put State Trading Corporation in a vulnerable position because if State Trading Corporation is asked by a Public Committee about the basis on which it gave assistance of 33 per cent we can only plead that it was a matter of negotiation rather than proven financial data. To remedy this situation, we asked the industry a year ago to give us this data but signed by their own chartered accountant. This, under one pretext or another, they have consistently evaded. The data they gave us was practically worthless. For instance, they have shown a loss of nearly 90 per cent in some instances. It is either incredible that anyone could have exported at such a loss or unpractical that despite the assistance of 25 per cent we should be exporting something where there is a total loss of 90 per cent. Furthermore, the basis we wanted to adopt was the logical one of marginal costing, but this was also not acceptable to them. Instead they even pleaded that we should reduce the incentive—and we did to 25 per cent—on the basis of haphazard figures furnished by them. Their whole behaviour in this matter leads to the unmistakable impression that with all the assistance they receive, including yarn at below international prices, even the 25 per cent is more than can be justified. This we wanted to test, but have received no cooperation from them."

1.59. Even though the number of exporters registered as associates of the State Trading Corporation or Rayex India Ltd., in December 1971, was about 165, the Export Promotion Council had sent the proforma prescribed by the Corporation, for the collection of cost data, only to 29 selected manufacturers, out of which only 14 had responded. The Committee, therefore, desired to know the basis on which these 29 manufacturers were selected by the Export Promotion Council. The Secretary, Rayon & Silk Textile Export Promotion Council stated in evidence:

"We selected these units on the basis of the specialisation they had acquired in the manufacture of certain exported qualities. So, we sent the proforma for collecting the cost data to these 29 units. Out of them, 14 sent the cost data and the remaining said that the proforma was so much complicated that they would not be able to give the cost data in the form in which it was desired. Some of them replied that they no longer produced these qualities for export."

Asked whether the proforma was complicated, the witness replied in the affirmative. To another question as to who had prepared the proforma, the witness replied:

"It is the Cost Accountant of the STC."

The representative of the State Trading Corporation, however, stated in this context:

"What we have asked for is the normal information that is expected from a manufacturing unit, but as the Chairman and Secretary of the Export Promotion Council have pointed out, a lot of these factories have not been keeping their books of accounts in the manner they should."

1.60. The Committee asked how the Working Group appointed by Government in May 1972, to examine the cost data furnished by the Council, had obtained cost data only from three manufacturers. The representative of the Commerce Ministry stated that the Working Group had not actually selected the units as such. He added:

"I have learnt from the Working Group that their attempt was to obtain information from all the members and all the units. But they were able to obtain the data only from the three units even though 24 units were requested for the cost data."

The witness further stated:

"All of them were medium scale units. It appears that was the criteria they adopted."

He added:

"With reference to the exported variety, the bulk of the export of these varieties was being undertaken only by these 24 units. It appears that was the rationale for their being selected. Among the producing units, the final exporting units are less in number. Out of them, we had to make a choice of 24 units.

The witness stated further:

"The member of the Working Group says that there were the only three companies who had published accounts, ready materials and data available on which to base their inquiry and conclusion."

1.61. In a note furnished subsequently in this regard, the Ministry of Commerce stated:

"The majority of the manufacturers—exporters of artsilk fabrics are small units who do not have proper accounting system and they could not have submitted detailed accounts as per proforma circulated by State Trading Corporation. The cost data furnished by 14 units, which are comparatively large units were also not found properly furnished by the State Trading Corporation.

The three units are fairly large sized and composite, *i.e.*, they have their own preparatory, weaving and processing department. These units are also known to produce goods of acceptable quality and can be treated as representative units for purpose of export production. The qualities that these units produce for export, represent the main sorts among rayon filament, spun and mixed fabrics and as such the working group considered that study based on these sorts could be taken to represent the cost trend in the group of filament rayon and spun rayon items."

1.62. Pointing out that the Working Group had prepared its report in seven months, the Committee asked why more time was not given if this period was not adequate. In a written reply, the Ministry of Commerce stated:

"The cash assistance scheme was available to the exporters till end of March 1973. It was necessary to have the recommendation of the Working Group before that date. The Working Group was given a time of three months in the first instance which was extended till 30th, November 1972 later because the Group had not been able to complete its work in time.

The minutes of the 3rd meeting of the Working Group held on 11-10-1972 records as follows:

'It may be mentioned that due to the limitation of time a detailed checking of the data with the book of accounts could not be undertaken. However, on the basis of sample checking the data can be considered, more or less satisfactory'."

1.63. In view of the remarks of the State Trading Corporation in their letter dated 9 March 1972, the Committee desired to know the steps, if any, taken by Government. The Secretary, Export Production stated:

"The Working Group's report says that the members of the Group and the officers went to the units concerned and worked out a detailed costing sheet."

1.64. Asked whether the Senior Cost Accounts Officer had always participated in the deliberations of the Working Group, the witness replied:

"I understand that he attended three meetings out of five that were held."

The Chief Cost Accounts Officer, Ministry of Finance, stated in this connection:

"Out of five meetings held, our representative could not attend the first meeting. The second meeting was attended by our officer. The third meeting could not be attended. The fourth and the fifth meetings, our representative attended. But in the initial stages when the data were collected, our representative could not participate there. He in fact informed the Secretary of the Working Group that he had no opportunity to scrutinise the data and he will not be able to comment unless he had an opportunity to scrutinise the same. However, the final meetings were held on the 7th and 8th December in Bombay. Our Senior Cost Accounts Officer was also present and he signed the final report."

1.65. The Committee desired to know when the draft report of the Working Group was sent to the Senior Cost Accounts Officer. The Secretary, Export Production stated:

"I understand the report was drafted and the draft was considered at this final meeting of the Group and he also participated in the considerations."

1.66. The Committee's attention had been drawn by Audit to a letter dated 27 October 1972 written by the Senior Cost Accounts

Officer to the Joint Director in the Office of the Textile Commissioner (who had been appointed Chairman of the Working Group), wherein he had stated as follows:

> "I find from your letter of the 16th October that the report prepared by Shri.......... Director, Economics and his costing staff were discussed and it was decided to adopt it also. While I cannot object to what the other members of the Working Group prefer to decide, I, as a Member, cannot concur with their views unless I am satisfied with the data supplied by the different units of the industry and the basis of the cost computations."

1.67. Asked by the Committee to comment on this communication, the representative of the Commerce Ministry stated:

> "I know about this letter of October 1972 in which he has stated like this. But the point was that subsequently when the report was signed in December 1972, in the subsequent two meetings he had attended, he participated in the discussions of the Working Group and I also understand that he also visited some of the units. In October 1972 he had made this point that he had not had the full opportunity of going through the data."

1.68. In reply to another question whether the Senior Cost Accounts Officer had visited any of the units, the witness stated:

> "It appears from the report of the Chairman of the Group—I have to rely on this; this is a matter of fact that this was brought to the notice of the person and then he visited all the three units referred to here."

1.69. The Chairman of the Working Group stated in this context:

> "The report which was first prepared by us was some time in October with the help of the Cost Accountant in the Office of the Textile Commissioner. Of course the data which was then submitted to STC was analysed and a report was prepared. But, as this report was not accepted by the Ministry of Finance's Cost Accountant, the Ministry directed him that unless he went through it and unless he approved of it, we should not accept the report of the Working Group. Therefore, we did call Shri........ and then both Shri............ and Shri.......... visited all these mills—three or four mills—from whom we have collected the data. The data was also revised in the manner

in which it was required by the STC's proforma. Earlier the report was prepared on the basis of the information furnished by the mills to the STC. The Cost Accountant said again that it must be in the manner he wanted."

1.70. When the witness was asked whether it was not realised earlier that without associating the Chief Cost Accounts Officer of the Ministry of Finance, they had no right to proceed in the matter, he replied:

"Mr. .... had attended the earlier meeting in which we had decided to collect the information from the various mills. As we could not get more information and, as only the data which was made available to us by the STC was analysed and as the time was limited, I tried to finalise the report. But, that was not agreed to because the Cost Accountant's man had not agreed to it. Therefore, we went through the process again. We took another two or three months."

Asked whether the accounts were certified by Chartered Accountants, the witness replied:

"They were not certified by the C.A."

The witness added:

"For the items which were exported mainly, we called for the data. We did not get the data for the various items. We got the data only in respect of rayon filament, rayon fabrics of 100 to 200 deniers only."

1.71. To a question whether the Senior Cost Accounts Officer had signed the Report without having been supplied the cost data of the units as desired by him, the Ministry of Commerce, in a written reply, stated:

"The Senior Cost and Accounts Officer analysed the data collected and worked out both total cost and marginal cost."

1.72. The Committee desired to know whether it was not possible to ascertain the cost data by a sample survey of the small units. In a written reply, the Ministry of Commerce stated:

"The smaller units which are in the decentralised sector and scattered in different parts of the country are not maintaining the necessary records of cost data. The final items exported are finished products while the smaller units produce grey fabrics only. The cost data which would be useful for the purpose of the Working Group should be (a) cost of production of fabrics grey and (b) cost of processing finishing, packing etc. Information as at (b) could not be obtained from the smaller units. Besides, it could be reasonably assumed that where there is bulk production and also integrated production, the cost of the end products will be comparatively less as compared to the production by smaller units carrying out production pertaining to one stage only."

1.73. The Committee asked why no such effort was made to ascertain cost before deciding to pay or continue payment of cash assistance. In a written reply, the Ministry stated:

"As the export trade had been developed after a great deal of effort by the Export Promotion Council, any uncertainty about cash assistance scheme would have adverse effect on export trade. The tempo that had been built up during the past few years could be continued only by long term contracts. Consequently, it was decided that the uncertainty about cash assistance should be removed so that contracting of export business could continue uninterrupted."

1.74. The Committee desired to know how the cost structure in the small scale sector was worked out by the Export Promotion Council. The Chairman of the Council stated in evidence:

"We have to look at the composition of the textile, the structure of the textile, it is known by the rate paid per pick etc. and what is the yarn which is used in those textiles and so on. We know the type of yarn which is used for getting that textile. As you know the basic cost is raw material. Price of raw material is known as that price is quoted. It is determined and agreed. For any given quality of textile the 60 to 70 per cent value is the value of the raw material, and that is only of the yarn. Costing becomes easy. They have different norms for the yarn going into the cloth. Suppose we want quality of 80, that would come to 40 or 45 paise per metre. There are different norms for dyeing. For plain it is 30 to 40 paise; for two colour something else and so on. There are certain norms fixed by the industry which are recognised as standard norms. Therefore, in a particular quality if we know the yarn price we can calculate the cost price of it."

The witness added:

"When this scheme was introduced for 6 month period we did not go into cost data in the manner as we do now. At that time export was at zero level. We thought that whatever products are available in the market, if we can sell those products in the overseas market we could do that. The effort failed. After that the system was changed. Cash assistance was brought in. Rates were introduced. Periodically the Council gets the cost data from the industry. We check the cost data. We call the people who have submitted the cost data; we get it corrected; and send it either to the STC or Ministry for their examination."

1.75. The Committee desired to know the factors which rendered difficult the estimation of the cost of production of man-made fabrics. The representative of the Ministry of Commerce stated:

"There are a large number of units in different stages of production, machinery, equipments etc., and the age of the equipments and so on. These are spread throughout the country. Therefore, we said it is not perhaps feasible so far for us to get the cost of production of any but a few of the organised units and so on. That was the real difficulty...on the basis of established norms. That is to say, a figure of cost of production which is available, which is prevalent over the units as a whole, assistance based on those norms is paid by them from time to time."

1.76. Since the Chairman of Silk & Rayon Textiles Export Promotion Council had earlier stated that the cost price of the fabric could be worked out on the basis of the price of yarn which constituted the major element of the cost, the Committee asked why it was not possible to adopt the formula indicated by the Chairman of the Council. The representative of the State Trading Corporation stated:

"The difficulty is this. Small scale people do only one part of the job. There is another unit for printing; a third one and so on."

The witness added:

> "Since we wanted factual information on cost data this Committee was formed. They were able to go into all aspects of this cost of production on the basis of the number of units that they visited."

The Secretary of the Export Promotion Council stated in this context:

> "These exportable qualities are manufactured mainly in the decentralised sector. These are manufactured in different stages. One is done by the first manufacturer upto grey stage. Then it is taken for dyeing and then it is taken up for printing and so on. As such we have been trying to get cost data. I may say, even the Textile Commissioner's office has not been able to obtain the cost data as it is being done in the modern times, that means, cost accountancy and all that. We had worked out certain standard norms which are accepted by the industry even when I have got to go to get these manufactured for the domestic sales. It depends upon the quality, the density of the fabric, the width of the fabric and the rates are fixed as per the cloth and accordingly this is being paid. There is a cheaper item on which we pay quarter paise per pick whereas in respect of another item which may also be small-value item we may be paying 1½ paise per metre."

The Chairman of the Council added:

> "This is the basis on which we gave the cost data to STC at that time, but they insisted that it should be one certified by a Chartered Accountant, and it was not at all possible."

1.77. Asked why it had not been possible to get the accounts certified by a Cost Accountant, the Chairman of the Council stated:

> "There are a large number of varieties and a large number of manufacturers, and they normally do not keep these books of accounts."

He added:

> "In fact, these small scale manufacturers buy from day-to-day this yarn and they are selling also every day.

1.78. The Committee desired to know how the Silk and Rayon Textiles Export Promotion Council maintained a watch on the international market trends. The Chairman of the Council stated:

"Through the commercial newspapers and magazines and if need be, surely we write to the Trade Commissioners overseas and find out, if we have a problem about the market prices overseas."

Asked if there was any international Silk and Rayon Market Bulletin, the witness stated:

"Japan Textile News is considered to be the international market price information."

1.79. The Committee were informed by Audit that the Ministry of Commerce stated (December 1973) as follows:

"The Working Group set up for analysing the cost data of different exportable varieties of art silk fabrics submitted its recommendations for the continuance of cash assistance in January 1973. These recommendations were the Joint recommendations of Shri................Director, Office of the Textile Commissioner, Shri .... Senior Cost Accounts Officer, Ministry of Finance and Shri......... Secretary, Silk and Rayon Textiles Export Promotion Council. The State Trading Corporation's representative, Shri..............Financial Manager, also endorsed the recommendations but added a note to the report in which he recommended Government taking a decision on the following points:

(a) Whether cash assistance may be calculated on the basis of marginal cost or at a rate between marginal and total cost.

(b) The period for which the cash assistance has to be disbursed by State Trading Corporation may be decided and Government may provide funds to State Trading Corporation for cash assistance.

The above points were considered by the Government and it was decided that:—

(i) rate of cash assistance may be on the basis of a rate between the marginal cost and total cost as recommended by the Working Group;

(ii) the period for which cash assistance was to be distributed was fixed as upto 1973-74. The State Trading Corporation was also directed to sell caprolactum/DMT imported by it at the rate of spot selling prices of these items and utilise the profits for disbursement of cash assistance."

1.80. Asked whether the concept of marginal cost or total cost was adopted, the representative of the Ministry of Commerce stated:

"Pecularities of the studies—organisation plus difference in qualities, etc. have been pointed out and it has been recommended by the Study Group that the existing percentage of cash assistance will be proper. They have not specifically said but apparently they have taken a mid-point view between the marginal cost concept and the total cost concept. The Textile Commissioner has also recommended that the existing rate of cash assistance would have to be continued in view of the Study Group Report. STC Member of the Study Group, no doubt, made an observation. It did not mean a minute of dissent but it said it would be for Government to decide which of these two concepts should be adopted. Meanwhile, as the Report came in decision was taken that the existing cash assistance rate should be continued in 1973-74. In fact STC Member's observation is for a rate in between the marginal and the total cost."

1.81. The Committee learnt from Audit that on the basis of the data of one of the mills which was taken as representative, export losses were 23.6 to 42 per cent of f.o.b. realisation on total cost basis and 7.3 to 28.6 per cent on marginal cost basis. As only 25 per cent of its production was for export, the Committee asked whether the loss determined on the marginal cost basis was not more realistic for determining the rate of cash assistance. The Committee also desired to know how the rates of cash assistance between 20 per cent and 25 per cent were justified on the basis of the data relating to this particular mill, even in the context of the decision to allow cash assistance on the basis of a rate between the marginal cost and total cost. In a note, the Ministry of Commerce stated:

"For the purpose of working out the costs, the Working Group had to choose such units which were in a position to submit the data in the manner in which it was required as per the proforma drawn by the State Trading Corporation. The Working Group considered that these three units which were exporting more than 25 per cent. of their production and whose products were fairly acceptable in the foreign markets, could be representative units for purposes of export production. Besides the Working

Group also took into consideration that these three units were fairly large sized ones having an integrated preparatory, weaving and processing establishments so that the costs of different elements could be fairly realistic with them.

In making the statement that in the case of 'most of the units which are engaged in the production of exportable qualities the major production is for exports and it would be difficult for them to absorb the entire fixed costs in the domestic sale', the reference was to the structure of the art silk industry which consisted of powerlooms in the decentralised sector mostly ranging between 1 to 10 powerlooms and such of the units which contributed to export production would be engaging major portion of their looms for export production only. The total exports would not be merely by these three units, but would be substantially contributed by a large number of small scale units referred to above.

The Group compiled the data both on total cost and marginal cost. The data so compiled are given in the Annexure to the Report. It will be seen from the statement that the trade loss indicated on the basis of total cost ranges between 23.57 per cent to 42.03 per cent of the f.o.b. realisation, while if marginal cost basis is adopted the indication will be between 7.28 per cent to 28.62 per cent. The present cash assistance is 25 per cent of the f.o.b. realisation for this group [qualities falling in the group made of (i) 100 dn. and above but below 200 dn. (ii) Spun Rayon and (iii) Filament and spun rayon mixed]. Taking into consideration the trade loss as shown in the statement and the special features of this highly decentralised industry, and the fact that in working out the above costs, no provision has been made for minimum bonus payable nor has there been taken into account any margin over and above bare cost, the Working Group recommended that it would be equitable and fair if the existing scheme of cash assistance with differentials for different deniers was continued for the groups of Rayon and Spun yarn items exported."

1.82. The Committee asked whether the small manufacturing units were represented on the Export Promotion Council or exported their products through the State Trading Corporation. The representative of the Ministry of Commerce stated:

"They are not represented directly, but they are represented through their organisation—SASMA, *i.e.* Silk and Art Silk Mills Association—in the Export Promotion Council."

1.83. The Committee desired to know the extent to which the cash assistance had benefited the small manufacturers. The Secretary, Export Production stated:

"We cannot say that it really percolates down to everyone because we have no means of ensuring it and we have not done it. That is a matter between the exporter and the associates with when they deal. That is an internal matter."

The representative of the Commerce Ministry added:

"The production largely arises from the decentralised sector which consists of over 1 lakh powerlooms scattered in different States with concentrations in a few States. It is a fact that these units would not by themselves be able to participate in the export effort because it requires market contacts etc. So, these units are producing goods upto what you might call the grey stage. They make the basic production of the cloth. Thereupon, the processing, printing and finishing depending on the needs of the export market are undertaken at the next stage."

The witness stated further:

"A few of the decentralised units have got dyeing facilities, but by and large it is done by the manufacturer-exporter."

1.84. Asked whether the producer in the small scale sector could not be asked by the Council to produce the finished cloth required for export, the witness replied:

"This is the work which the Council is doing. Even though the same basic cloth would be there, there would be many differences in the type of processing and finishing required. For example, there is no production of any substantial quantity of dye satin for the Indian market. When it is wanted for the export market, the exporter will have to go to the decentralised sector and book an order or purchase this variety of cloth and then he will himself undertake to do processing and finishing."

He added:

"There are internal arrangements which exist between the merchants and the manufacturer-exporters, who are the people who do the second stage of processing, finishing etc., for the foreign market and the basic producer who is the decentralised sector man. First of all, for export production yarn is made available to the basic weaver. Thereafter, when the cash assistance is given—incidentally, this cash assistance is not given by the Government; it is given by the STC from its own earning—this cash assistance is distributed or divided between the manufacturer-exporter and the basic weaver in any proportion that may be agreed upon by them. A very large number of looms are in existence, a large number of units are in existence and hundreds of qualities are to be supplied. This makes it practically impossible for any one agency like the Government to scrutinise and see whether any particular part of the cash assistance is being passed on to 'A', 'B' or 'C' in the chain of process."

1.85. Since the merchant-exporters apparently had no stake in the manufacture as such, the Committee desired to know whether such exporters could not resort to malpractices and manipulations, thereby depriving the small manufacturers of their legitimate dues. The witness replied:

"Taking the question whether there is any internal arrangement to check such malpractices, there is supply of rayon filament yarn for purposes of export production at a concessional rate. This yarn supply is made to the weavers through the SASMA and sometimes directly. The moment they get yarn at a concessional rate, they get an advantage and their cost of production is lower than that of people who produce for the domestic market. Sometimes the yarn may be taken over by the exporter and the fabric may be woven by him or he may get it done through the decentralised sector. I do not think it would be possible for us at every stage to look into all such arrangements and transactions that are evolved. Ultimately, our interest is that export orders are there, the quality and other specifications are adhered to. At every stage we cannot go and find out what is woven by whom and what is the price they have internally agreed upon. This is the sense in which I mentioned that the internal arrangements as to the division of the incentives or any other amount between the grey goods and the processing and finishing etc., is left to be decided by themselves."

1.86. The Committee enquired into the nature of the mechanism, if any, devised to ensure that the benefit of cash assistance reached the small units producing export goods and was not appropriated by the middleman registered as an exporter with the State Trading Corporation. In a note, the Ministry of Commerce stated:

"About 9,406 units out of the total number of 11,598 units are small having less than 10 looms. Many of these units participated in the export trade directly and/or indirectly. Such units which participated in the export trade directly *i.e.*, shipments were effected in their own name, received cash assistance. Others which supplied goods to convertors including processors and merchant-exporters, sold these at domestic market price sustaining no loss in the sale. The following are the conditions forming the basis of grant of cash assistance:

(i) The exporter (which term include manufacturer-exporters as well as merchant exporters) should be a member of the Silk and Rayon Textiles Export Promotion Council and should be registered, with the Council under the Import Trade Control Policy for registered exporters.

(ii) The exporter should be either a direct or indirect associate of STC.

(iii) The exporter should export his goods 'on account' STC.

So far as condition (i) above is concerned, it is applicable in respect of all commodities and exporters are required to get themselves registered with the concerned EPC.

So far as condition (ii) above is concerned, only 12 parties have been registered with the STC as their direct associates out of whom 8 were manufacturers of rayon and synthetic textiles, 2 were associated concerns manufacturing units exporting only the products of their manufacturing units and 2 were merchant-exporters exporting the products purchased from other manufacturer. The other exporters numbering about 900 who have been participating in the export trade in rayon and synthetic textiles are registered with the STC indirectly by getting themselves registered with M/s. Rayex (India) Ltd., a subsidiary company of the Silk and Rayon Textiles EPC which is authorised by the STC to register the exporters of rayon and synthetic textiles as it associates.

As the majority of the manufacturing members of the Export Promotion Council are small scale units, they are registered as associates of Rayex and have been getting cash assistance if those export goods in their name.

In the case of other manufacturers who export their goods through Merchant-Exporters, cash assistance has been claimed by the latter, but in such cases the manufacturers sell the goods at domestic market price sustaining no loss in the sale. In other words these units have not been participating in the export trade directly and the question of such units getting cash assistance against those exports does not arise. The cash assistance has now been totally withdrawn with effect from 1-4-1974."

1.87. At the Committee's instance, the Ministry of Commerce furnished the following statement indicating the value of exports through the State Trading Corporation and the amount of cash assistance paid:

(Rupees in lakhs)

Year	Total value of export through S.T.C.	Cash Assistance
1968-69	189·65	50·73
1969-70	355·44	90·82
1970-71	497·29	106·97
1971-72	625·39	106·00
1972-73	976·00	119·23
1973-74	3385·08*	708·24**

*Estimated.

**Expected/Estimated.

1.88. The Committee desired to know the reasons for the increase in the exports of man-made fabrics in 1973-74. The Secretary, Export Production stated:

"It is guess of course. There was an announcement that the cash incentives will not be available after 31st March. It led to a spurt in exports in the last few months of 1973-74. That may be one of the reasons why there was a big spurt."

1.89. Explaining, at the Committee's instance, the part played by the Silk and Rayon Textiles Export Promotion Council in increasing exports, the Chairman of the Council stated:

"Basically when we look to the history of export of rayon fabrics, there were no exports worth the name when the Export Promotion Council came into existence. It was at the instance of the Council and the efforts of the Council that the manufacturers and the merchant exporters were persuaded to go into the activity of exports."

In this connection, the representative of the Commerce Ministry stated:

"I believe the Council came into being in December, 1954; prior to that, the order of exports was, of course, in the neighbourhood of Rs. 50 lakhs per annum."

1.90. Drawing attention to the fact that during 1969-70 and 1970-71, the State Trading Corporation has accounted for only about 50 per cent of the exports, the Committee asked how some private exporters had not considered it necessary to canalise their exports through the Corporation and avail of the cash assistance. The representative of the Ministry of Commerce stated:

"There were two exporters, Chemicals and Fibres India Limited and Nirlon. These two exporters did not register with the STC. They were under an obligation in terms of the capital goods licence issued to them to effect exports. They were under an export obligation and this export was not to be canalised through the STC. They were to be effected directly. This obligation had been imposed on them and accordingly, from year to year, these two remained outside the scope of canalised exports."

1.91. Asked whether this implied that these two exporters were exporting their goods at a loss, the witness replied:

"It is becasue it was a part of their capital goods licence. They had to export at a loss and they could not claim any cash assistance."

The witness added:

> "This export obligation was imposed in the context of the machinery allowed to be imported by them."

1.92. In a note furnished subsequently in this regard, the Ministry of Commerce stated:

> "There were two exporters *viz.* (i) Chemicals and Fibres of India Ltd., and (ii) Nirlon Synthetic and Chemicals Ltd., who were not registered with the STC. It is understood that these exporters undertook exporting to liquidate their export obligation. These exporters did not receive cash assistance. It is understood that Chemicals and Fibres of India Ltd., received REP entitlement for polyester staple fibre against its exports of polyester textile under product group X of the ITC policy. As far as the Export Promotion Council is aware these exporters did not receive any other assistance.

The value of exports of these exporters is as follows:

NON-CANALISED EXPORTS :

(Rupees in lakhs)

Year	CAFI	NIRLON	TOTAL
1965-66	N.A.	N.A.	N.A.
1966-67	N.A.	N.A.	N.A.
1967-68	N.A.	N.A.	N.A.
1968-69	46·12	23·36	69·48
1969-70	72·08	17·71	89·79
1970-71	68·83	31·66	100·49
1971-72	72·48	23·40	95·88
1972-73	55·59	16·02	49·61
1973-74*	9·60	..	..

*Exports of 'Nirlon which were included in the non-canalised trade until 1972-73 have been covered under canalised trade since the company registered itself as an associate of Rayex (India) Ltd. / STC during the year 1973-74 and availed of the export assistance benefits as have been available to other associates. CAFI was the only non-canalised exporting unit during 1973-74.'

1.93. The Audit paragraph points out that after taking into account the value of the imports of caprolactum and wood pulp for the manufacture of nylon filament yarn, the net foreign exchange earnings from the export of man-made fabrics would be considerably less than the value of the exports. In this connection, the Committee learnt from Audit that the Ministry of Commerce had stated (May 1974) as follows:

"Art silk fabric fetch high prices in the home market, and diversion of a portion of the production to the export market has to be induced. The grant of cash assistance on export of art silk fabrics cannot, therefore, be viewed with reference merely to the costs incurred of production but with reference to the difference between internal price and international price. Art silk industry being a priority industry, Government are required to ensure that the required raw material is available to the industry irrespective of the fact whether or not there are exports. The Art Silk Sector has been set up primarily to supplement the availability of textiles in the country. The imports of raw material, such as wood pulp, caprolactum, etc. cannot, therefore, be linked with exports. A planned effort to promote exports could be made only on the basis of incentives which would counteract the strong pull of the domestic market. While it may be that only a small proportion of the output is being exported, the foreign exchange earned on export of fabrics|goods is quite appreciable as compared to the raw material that has to be imported for the purpose. This is evident from the fact that exports of art silk goods in 1973-74 totalled to Rs. 32.00 crores against foreign exchange allowed for import of

	Rs. in crores.
(a) Wood pulp	7·90
(b) Caprolactum	8·00
(c) D.M.T.	1·65
TOTAL :	17·55"

The Committee were also informed by Audit that the State Trading Corporation had stated (August 1971) in this context as follows:

"The entire raw material for the man-made fibre industry producing filament rayon yarn and nylon yarn and polyester fibre and yarn is imported. It is estimated that the utilisation of the foreign exchange on this account is to the extent of Rs. 20 crores per annum but total exports of art silk and synthetic fabrics were to the extent of Rs. 4.65 crores during 1970. Thus the man-made fibre industry is net spender of free foreign exchange. There should be a voluntary discipline on the part of the industry to contribute to the export efforts."

1.94. The Committee, therefore, asked whether the import of wood pulp was not a drain on the foreign exchange. The representative of the Commerce Ministry replied:

"The indigenous production of 86,000 tonnes is largely of the staple fibre yarn grade pulp *i.e.* not viscose filament yarn grade. The latter was at that time being fully imported. Of late, one of the units is producing it. The staple fibre grade pulp is produced indigenously. We do not allow any import. In the case of viscose, we are allowing import mostly from Canada."

The witness added:

"Staple fibre grade wood pulp was to the extent of 78,000 tonnes last year. But imported filament yarn grade wood pulp is to the extent of 38,000 tonnes. It is one-third."

Asked if this pulp was not available in the country, the witness replied:

"During the time to which the Report refers, it was not available. Now it is available to some extent. One unit in the country is able to produce some yarn pulp, that is, 4,000 tonnes as against the requirement of 38,000 tonnes."

In a note furnished subsequently in this regard, the Ministry of Commerce stated:

"Import of pulp and caprolactum is necessary for making up the gap between the requirement of clothing for the nation and availability of cotton fabrics and for the survival of spinning and weaving industries which gives employment to more than two million people. Hence it cannot be considered as drain of foreign exchange."

1.95. The Committee desired to know the percentage of the imported rayon filament fabric to the exported goods. The witness replied:

"This accounts for only two per cent."

Asked about the obligation of the manufacturers who received the imported material in addition to other incentives, the witness replied:

> "I would submit that the production of filament yarn fabric and other kinds of fabric are all part of the total cloth production in the country, along with cotton textiles. These are also expected to meet part of the demand of the domestic market itself. Therefore, the total import programme for wood pulp is decided not directly with reference to the possible export. If we were to relate it only to the possibility of export, we would have to come to a situation where all these mills will have to close down."

He stated further:

> "Without the imported wood pulp, 106,000 art silk power looms would not have the raw material supplies. Staple fibre is often used for cotton spindles, and yarn is spun out of that. Cotton spindles have a lot of flexibility and, if I may say so, staple fibre is spun out by anyone."

1.96. Elaborating further, the witness stated:

> "When we have a certain number of powerlooms, we have to maintain our raw material supplies to those looms. Therefore, we arrange a certain import programme.
>
> The other point which you raised, about the requirements of imported wood plup—the demands have been more than met by the value of the fabric. If you take into account only that portion of the wood pulp which is imported for the purpose of export production, we are doing very well, because the value of the exported product—it may be one thing in one year and it can be different in other years—is 13 times the value of the imported content. There is a net earning of 77 per cent in terms of foreign exchange. If you only link the imported wood pulp with the exported product, that part of the calculation works out favourably."

1.97. Asked whether the imported material was being made available to the manufacturers at a low price, the witness replied:

> "The supply of yarn at concessional prices is, of course, not by means of a subsidy or reduction in price that the Government or the STC has given. It is part of the voluntary agreement entered into between the spinners and the weavers whereby 10 per cent of the production used to be given to the exporting units for the purpose of export at a low price; another 40 per cent—later it became 50 per cent—used to be given for the purpose of actual users and also at an agreed price; and the remaining part used to be given at the open market price. That was the institutional arrangement which has been evolved. Production and selling in the local market are not subject to any price control nor is there any export obligation."

1.98. The Committee desired to know the relationship between the imported pulp and the exported cloth. In a note, the Ministry of Commerce stated:

> "The quantum of exports of rayon filament fabrics has no direct relationship with the imports of woodpulp. Spinning industry was established to avoid import of yarn which would be costlier in terms of foreign exchange. Pulp is being imported at present and will have to be imported as long as it is not produced indigenously in order to keep/maintain the spinning and weaving industries."

To a question whether this import was being made for export purposes of the finished product or for meeting the requirements of the domestic market or for reducing domestic prices, the Ministry replied:

> "Import of pulp had never been effected on the condition that foreign exchange spent has to be earned by way of exports. It was meant for meeting requirements of the licensed rayon filament spinning capacity which provides yarn for the domestic market, export market and also for reducing domestic prices in the context of imported rayon filament yarn which was substituted by indigenous yarn."

1.99. The Committee asked whether the rates of cash assistance had been reviewed consequent on the favourable factors in the export trade of man-made fabrics in the world market. In a written reply, the Ministry stated:

> "The high realisation of rayon fabrics is due to changed international conditions and later, the world oil crisis, shortage of man-made fibres and raw materials (Caprolactum, DMT and Woodpulp), and increase in the 'per unit realisation'. It is felt that the Industry is in a position to export without cash assistance, as shown by the steady exports from April, 1974 onwards."

1.100. Pointing out that as most of the additional exports had been made to Rupee Payment Areas, the actual foreign exchange earned was much less than the incentives given, the Committee desired to know if Government had examined whether it was worthwhile to grant incentives for exports which earned no foreign exchange for the country. The representative of the Ministry of Commerce stated:

> "It is absolutely correct that major portion of the art silk has been exported to rupee payment countries. We have tried to impose this year a kind of stipulation that so much must be exported to the General Currency areas. However, for the GC areas, there are problems relating to steady supply, quality etc. Indian rayon industry has been facing some trouble with regard to the raw material supply. This year we have imposed a stipulation that 25 per cent of the total exports must go to GC areas. Actually we wanted to make it higher. In the case of high value unit, we want to increase it further by 10 per cent next year."

1.101. The Committee enquired into the precautions, if any, taken by Government to ensure that fabrics exported to the East European countries against Rupee payment were not re-exported by these countries at a higher profit. The representative of the Ministry of Commerce stated:

> "There is a stipulation that these should not be re-exported. However, I would explain certain things. In the case of Poland for example, they do import fabrics from us. They do a job of conversion, they make clothes out of this and re-sell. That cannot be termed as re-export."

1.102. The Committee asked whether Government had taken a decision on the question of reimbursing loss suffered by the State

Trading Corporation on the payment of cash assistance for the export of man-made fabrics. The Secretary, Export Production stated:

> "Government have taken decision on that and have indicated that STC was informed that the Corporation have with them Development Reserve Fund to meet the losses. STC replied that this fund represents amount set aside from the Corporation's profits for meeting the exports and development of new projects or export markets, financing promotional activities and providing cash assistance by way of subsidies. Export of art silk was under a directive from the Government and does not come under the purview of this fund. The whole question was, therefore, reconsidered and it was decided that the STC's losses cannot be considered in isolation with the overall financial picture of the Corporation."

In a note furnished subsequently in this regard, the Ministry of Commerce stated:

> "The State Trading Corporation was allowed to charge the prevailing market price of caprolactum at the time of receipt of the shipment of this raw material. The excess amount thus realised was intended to cover the requirements of cash assistance payable by State Trading Corporation. State Trading Corporation being a commercial organisation is also expected to cover losses by profits in other fields of business. It has been felt that, under these circumstances, there is no case for reimbursement by Government, although a formal decision to this effect has not yet been taken."

1.103. The Committee understood from Audit that in December 1973, the Ministry of Commerce had stated as follows:

> "The Export Promotion Council have approached the Government for approval of a self-generating fund for financing export subsidies. The scheme has been approved by the Government in consultation with the Ministry of Finance. The later has been requested to exempt this fund from payment of income-tax under the Income-tax Act. The decision of the Ministry of Finance is expected shortly. The scheme of the Export Production Council is expected to commence from 1974-75."

1.104. The Committee enquired about the final decision taken on the proposed self-generating fund for financing export subsidies. The representative of the Commerce Ministry stated:

"The industry had been told in categorical terms that the existing scheme would not be continued. They had attempted to draw up a self-generating fund. This effort had started long ago, but they are keen now, because of the cessation by the STC of the scheme of assistance with effect from 1st April 1974. No such scheme has been introduced; they are working on it. They would have to decide with reference to the f.o.b. realisation and other factors whether any cash assistance would be required. If required, then they would have to generate the fund. They have not yet come up with any specific proposal. We have not taken a decision."

A note subsequently furnished in this regard by the Ministry of Commerce is reproduced below:

"The Export Promotion Council has proposed a scheme to create an Export Promotion Fund by collecting a levy from the Actual Users of man-made fibre and yarn. The proposed fund is intended to be a separate entity to be managed by a Committee consisting of representatives of all sections of the Industry, Export Trade and the Government. The scheme has been under consideration of the Income-tax authorities and Ministry of Finance whose clearance is stated to be awaited."

1.105. It is evident from the Audit paragraph and an analysis of the evidence tendered before the Committee that the cash assistance sanctioned from time to time, for exports of man-made fabrics, had been provided in an indiscriminate and even irrational manner, on the basis of ad hoc and incomplete assessments, that had little or no relevance to the realities of the situation. The Committee regret that a "massive assistance" totalling about Rs. 1182 lakhs should have been allowed, during the period 1968-69 to 1973-74, on the basis of inadequate cost scrutiny and hypothetical assumptions, to an industry that contributes only 2 per cent of its production to the export efforts of the country. Some of the deficiencies and defects in the conception and operation of the cash assistance scheme which have come to the Committee's notice are discussed in the succeeding paragraphs.

1.106. Cash assistance is normally intended to bridge the gap between the cost of production of an export product and the f.o.b.

realisation. The Committee note with concern that while sanctioning cash assistance in 1967, almost immediately after the devaluation of the Rupee, for the export of man-made fabrics, at rates varying between 10 per cent and 33 per cent of the f.o.b. realisation, the State Trading Corporation had not taken into account the actual cost and f.o.b. realisation but had adopted an ad hoc approach. No doubt, the Commerce Ministry have contended that the approach was not ad hoc and that when the scheme of cash assistance was started in 1967, 'it had to be introduced on some assessment which was made at that time'. In the Committee's view, this is only an attempt at extenuation since according to the Corporation's own admission, in August 1971, while grants from the Marketing Development Fund were governed by strict scrutiny by the Ministry of Finance, assistance by the State Trading Corporation had been more or less on ad hoc basis and had not been subjected to cost scrutiny. Emphasising the need for cost scrutiny, the Corporation had gone on to observe:

> "This we feel is essential lest there be a question asked by Parliament or its Committees about the basis for a public sector agency favouring an industry with such massive assistance of over a crore of rupees for an export of mere 3-4 crores, without having before it a cost structure of the industry justifying such assistance both in principle and the quantum."

Again, on 9 March 1972, the Corporation had pointed out:

> "The industry has put State Trading Corporation in a vulnerable position because if State Trading Corporation is asked by a public committee about the basis on which it gave assistance of 33 per cent we can only plead that it was a matter of negotiation rather than proven financial data."

Besides, the Secretary, Export Production himself made a tacit admission during evidence that the State Trading Corporation had felt, in 1971, that the cash assistance given by them would not have been arrived at on the basis of 'a strict cost scrutiny' and had, therefore, wanted that the cash assistance problem should be looked at de novo. This, according to him, 'brought some results although belatedly'.

1.107. If, as has been claimed, the assistance decided upon in 1967 had been based on a proper and complete assessment, the necessity for the Ministry subsequently considering it advisable to reduce the cash assistance, where necessary, based upon 'a more scientific analysis' of the costs of production vis a-vis f.o.b. realisation by exporters are not clear to the Committee. That such a review was considered necessary would indicate that whatever assessments were made earlier were inadequate. It has also been admitted that in the initial period, it was not possible for the State Trading Corporation, Silk and Rayon Textiles Export Promotion Council or the Textile Commissioner to obtain 'precise cost data, quality-wise from the industry' and 'as such, from the very start (i.e. from March 1967)', the State Trading Corporation had 'no alternative but to extend cash support on the basis of cost data collected by the Silk and Rayon Textiles Export Promotion Council, even though they were not fully representative'. In the circumstances, the Committee are unable to accept the Ministry's contention in this regard. It is clear that the initial quantum of cash assistance had not been based on any scientific assessment.

1.108. Cash assistance is also usually restricted to 25 per cent of the 'value added', which is the amount arrived at by deducting the value of the import content from the fo.b. realisation. While this principle ensures that the assistance has some direct relevance and relation to be net foreign exchange earned and is applied for all assistance given from the Marketing Development Fund, the Committee find that the cash assistance sanctioned in respect of man-made fabrics was not worked out with reference to the 'added value'. In justification thereof, it has been stated that this particular assistance was not provided out of the Marketing Development Fund. Since the same principle ought to apply, irrespective of the source of finance, it is not clear to the Committee why this sound principle was given the go-by in the case of exports of man-made fabrics.

1.109. It has also been contended by the representative of the Commerce Ministry that this scheme was not directly one of cash assistance by Government and involved no outgo from the Consolidated Fund of India, but was financed out of a fund built up by the State Trading Corporation out of earnings from its raw material sales. This argument is, in the opinion of the Committee, quite irrelevant to the basic issues of principle involved in this transaction. It is pertinent, in this context, that the State Trading Corporation has claimed to have incurred a net loss of Rs. 434.68 lakhs on this account during the period 1967-68 to 1972-73 and has demanded reimbursement of the losses by Government and a final decision in this regard is yet to be taken. It would, therefore, follow that in the event of a decision being taken to reimburse these losses from the public funds, there would, in fact, be an outflow from the Consolidated Fund of India. In any case, even if the losses are finally borne by the State Trading Corporation, the fact would still remain that funds of a public sector undertaking had been expended injudiciously.

1.110. The rationale for operating the cash assistance scheme through the agency of a public sector corporation and confining the assistance only to a chosen few who exported their products through the State Trading Corporation are not clear to the Committee. Whatever the justification or otherwise of such a course, the accountability of the executive gets necessarily reduced if the assistance is channelled through an autonomous corporation and to that extent Parliamentary scrutiny of executive actions can be evaded. This is, on principle, undesirable and the Committee would like to know if, as conceivably a special case, Parliament had given prior approval to the decision to provide such 'massive assistance' to the man-made fibre industry.

1.111. Apart from issuing certain broad guidelines to the State Trading Corporation in regard to the administration of the scheme of cash assistance, Government had, admittedly, left the modalities of implementation and the determination of the actual quantum of cash assistance to the discretion of the former. The State Trading Corporation, on its part, had not even obtained Government's specific approval for the grant of what, prima facie, appears to be an ad hoc assistance, and had only 'kept the Government informed'. It is also not clear from the evidence whether the decision to grant cash assistance had the Minister's or Cabinet approval. Though Government spokesmen initially deposed before the Committee that assessment at a very senior level was made and 'approval at the highest level was obtained', the Committee were subsequently informed that it had not been possible to locate the relevant papers in order to say at what level the scheme was finally approved. The Finance representative has stated in this context as follows:

> "The matter did go to the highest level once. After that there were some discussions. But before the final orders were issued whether they again got the final clearance is a matter to be checked up."

Since the position in this regard has not been satisfactorily explained, the Committee desire a more specific clarification.

1.112. Even though grants from the Marketing Development Fund are required to be subjected to strict scrutiny by the Ministry of Finance, the Committee are surprised that in this particular case the specific approval of that Ministry to the scheme of cash assistance had not been obtained. It has, however, been stated that the whole scheme was submitted to the Committee of Secretaries of which the Secretary, Ministry of Finance, was a member and that as the scheme had been approved by that Committee, it could be said that Finance had agreed to the scheme. The Committee are somewhat perplexed by this explanation. Merely because the Finance Secretary was represented on the Committee of Secretaries, this does not obviate the need for a detailed scrutiny in the Finance Ministry and obtaining approval of that Ministry. If as stated by the State Trading Corporation the assistance provided in the case of textiles out of the Marketing Development Fund are subjected to 'strict scrutiny' by the Finance Ministry, the reasons for making a deviation in the case of man-made fabrics are somewhat intriguing.

1.113. The Committee find that in determining the quantum of cash assistance the Corporation had not taken into account the profits accuring to the industry from the lucrative internal market and the subsidy on imported yarn and other incentives then available. Besides, when certain enquiries were started by the State Trading Corporation in May 1971, the Corporation had found that in the case of rayon fabrics which constitute 75 per cent of the total yardage exported or two-thirds of the value of the exports, the industry received raw materials at prices which were probably below the international prices and that they had certain other benefits in the matter of replenishment licences for dyes and chemicals. To determine the quantum of cash assistance, no studies appear to have been made on the basis of costs of production, but reliance was presumably placed instead on the prices prevailing in the domestic market which, in any case, were bound to have been inflated on account of domestic profitability. It is to be regretted that the State Trading Corporation moved so slackly in this matter.

1.114. The Committee are surprised that though the State Trading Corporation seemed to have had a number of reservations in regard to the cash assistance scheme, certain data relating to cost and f.o.b. realisation were obtained from the Silk and Rayon Textiles Export Promotion Council only four years later, in July, 1971, and the rates of cash assistance then reduced (the revised rates ranging from 5 per cent to 25 per cent of the f.o.b. realisation). Here again, the data furnished by the Export Promotion Council had not been certified on the basis of any strict cost scrutiny and were not quite comprehensive. The data, nevertheless, indicated that cash assistance could be reduced without any adverse impact on exports. Though this action produced some results belatedly, the Committee are unable to appreciate the passive acquiescence of the State Trading Corporation for four years in a scheme that was prima facie, ill-conceived and unjustified.

1.115 What is more distressing is that even though the State Trading Corporation concluded, on the basis of the data made available by the Council in July 1971, that the cash assistance was not justified on economic grounds, it was considered 'inexpedient' to withdraw the assistance at once in view of the fact that the exporters had been receiving "massive assistance" in the past. In fact, the Corporation had gone to the extent of observing, in March 1972, that even the assistance of 25 per cent was 'more than can be justified'. It is positively disconcerting that mere expediency should have taken precedence over principles of financial prudence.

1.116. The Committee consider it strange that though the data finally furnished by the Export Promotion Council, after 'consistently' evading, 'under one pretext or the other', the requests of the State Trading Corporation to furnish data signed by their own Chartered Accountant, was found to be 'practically worthless' by the Corporation, the cash assistance, though at reduced rates, should have been persisted with. The Committee are amazed to learn that a loss as high as 90 per cent in some instances had been claimed by the Council. It is obvious that the data had been excessively inflated. As the State Trading Corporation itself pointed out, in March 1972, 'it is either incredible that anyone could have exported at such a loss or unpractical that despite the assistance of 25 per cent we should be exporting something where there is a total loss of 90 per cent."

1.117 There appears to have been considerable procrastination and inaction on the part of Government as well. Though the State Trading Corporation had been representing periodically against the scheme of cash assistance and Government had also been informed, in various meetings, from time to time, prior to August 1971, of the difficulties which the Export Promotion Council was experiencing in providing this necessary data, on remedial measures were taken by Government till May 1972 when a working group, consisting of representatives of the Textile Commissioner and the State Trading Corporation, a Cost Accounts Officer of the Finance Ministry and the Secretary of the Silk and Rayon Textiles Export Promotion Council, was appointed to examine the cost data for representative export qualities submitted by the Council. The Committee regret that effective action had not been taken earlier against the industry which was resorting to evasive tactics, and for the discontinuance of the cash assistance which, from all accounts, was unwarranted.

1.118. The Committee learnt with consternation that despite the fact that even the limited data furnished by the Export Promotion Council, in July 1971, clearly indicated that the cash assistance hitherto sanctioned was far from justified, Government decided, in a meeting with the Silk & Rayon Textiles Export Promotion Council on 6 March 1972, that cash assistance at the existing rates should continue for one year and that the cost data furnished by the Council, in February 1972, should be examined by a working group or an independent agency. What is even more disturbing is the fact that this decision, which resulted in the payment of cash assistance of Rs. 119.23 lakhs during 1972-73, had been taken by the Secretary, Foreign Trade, at a meeting in Bombay and communicated immediately and peremptorily without even obtaining the Minister's approval. ....

1.119. The Committee find the cost data furnished by the Export Promotion Council in February 1972 to be not representative, being confined to only 14 out of the 29 parties to whom the form prescribed by the State Trading Corporation had been sent by the Council. Besides, the data had also not been certified by Chartered Accountants. The Committee have been informed in this connection that the 29 units had been selected on the basis of the specialisation they had acquired in the manufacture of certain exported qualities and that 15 of them had stated that the proforma was so complicated that they would not be able to give the cost data in the form in which it was desired. However, without making any attempts to ascertain the costs at least on the basis of the sample survey, the decision to extend the cash assistance for 1972-73 seems to have been taken on the somewhat tenuous ground that as the export trade had grown after much effort on the part of the Export Promotion Council, any uncertainty about the cash assistance scheme might have an adverse effect on the export trade. However, it was well known by then that the rates of cash assistance already sanctioned were unrealistic and excessive. The Committee are of the view that Government should have, at that stage, attempted to collect further data and adequately reviewed the scheme instead of just indiscriminately extending it for another year. That this was not done indicates that the care and prudence expected of Government had been given the go-by.

1.120. The subsequent examination undertaken by the working group, on the basis of which it was decided to extend the scheme of cash assistance during 1973-74, was also, unfortunately, only a haphazard attempt. The group had obtained cost data, which were also not certified by any Chartered Accountant, only from three manufacturers of fabrics. Although the working group visited these three mills, it did not undertake, 'due to limitation of time', any detailed checking of data with accounts books, but considered the result of its sample—checking as 'more or less satisfactory.' There appears to have been some difference of opinion between the Senior Cost Accounts Officer of the Finance Ministry and the other members of the working group in regard to the correctness of the cost data, and the former remarked, in October 1972, that 'he had not had the full opportunity of going through the data.' However, subsequently, be-before the report of the group was finalised in December 1972, the Cost Accounts Officer is stated to have visited some of the units and after analysing the data collected worked out both the total cost and the marginal cost. The Committee find that while endorsing the recommendation of the wroking group that cash assistance should be continued at the existing level, the representative of the State Trading Corporation had also recorded a separate note stressing that the cost data given by the industry were not 'fully representative'. Whatever might have been the differences between the members of the working group, it is evident that the exercise carried out in 1972 was also perfunctory, since it was not based on representative and entirely reliable data.

1.121. The value of the exports of man-made fabrics effected through State Trading corporation was Rs. 189.65 lakhs in 1968 69, Rs. 355.44 lakhs in 1969-70, Rs. 497.29 lakhs in 1970-71, Rs. 625.39 lakhs in 1971-72 and Rs. 976.00 lakhs in 1972-73, and the cash assistance paid during each of the years was respectively Rs. 50.73 lakhs, Rs. 90.82 lakhs, Rs. 106.97 lakhs, Rs. 106.00 lakhs and Rs. 119.23 lakhs. Strangely, however, it was estimated that the value of exports during 1973-74 (the last year in which the cash assistance scheme was in operation before it was discontinued with effect from 1 April, 1974) would be Rs. 3385.08 lakhs, involving an estimated payment of Rs. 708.24 lakhs as cash assistance, representing an increase of nearly 600 per cent over the previous year's payment. Since such a phenomenal increase is somewhat inexplicable and gives rise to suspicion that the scheme was perhaps exploited, to their own advantage, by unscrupulous exporters, the Committee desire that the reasons for this unprecedented spurt in exports and the payment of a large sum as cash assistance should be thoroughly probed with a view to fixing responsibility for lapses, if any. The Committee would await a detailed report in this regard.

1.122. Another important issue arising out of this case is the absence of any mechanism to ensure that the benefit of cash assistance reaches the large number of small units producing man-made fabrics and is not appropriated, as they are now, by the middlemen merchant-exporters. The Committee find that in 1969-70 there were eight exporters who claimed exports of over Rs. 10 lakhs each and they accounted for 54 per cent of the total exports. Of these eight, five were merchant-exporters who accounted for 28 per cent of the total exports. As against this, out of the total number of 11,598 manufacturing units, about 9,406 units are small, having less than 10 looms. It would, therefore, appear that the major beneficiaries of the cash assistance scheme were the merchant-exporters. The Committee have been informed that Government was not in a position to determine the extent to which the cash assistance might have benefited the small manufacturers and that Government had no means of ensuring it either. This, in the Committee's view, is an extraordinary and undesirable situation. The Committee would urge Government to bestow serious thought on this question and evolve a mechanism by which the large number of small manufacturers, who export their goods through merchant-exporters, are also benefited by the scheme of cash assistance extended to various export commodities.

1.123. From the foregoing paragraphs, it is clear that the manner in which the entire question of granting cash assistance on exports of man-made fabrics had been handled from time to time was neither proper nor satisfactory, and that the entire scheme had been hastily conceived without an adequate assessment of the various factors involved. A number of other acts of omission and commission, which came out during evidence, have raised serious misgivings in the mind of the Committee. Though many opportunities were available to Government to review and reconsider the scheme, little was done to retrieve the situation. The Committee, in particular, take a serious view of the extension of the scheme, in March, 1972, to the exports during 1972-73 without even obtaining the Minister's approval. Since a number of substantive issues have been raised in the preceding paragraphs, the Committee desire that the circumstances in which an apprently ill-thought-out scheme was persisted with for as long as seven years should be carefully examined and responsibility for the vairous lapses fixed under advice to the Committee.

1.124. To sum up, the Committee find that during the period from 1968-69 to 1972-73, a total amount of Rs. 473.75 lakhs had been paid by the State Trading Corporation as cash assistance for exports of man-made fabrics, against which exports valued at Rs. 2643.77 lakhs had been canalised through the Corporation. It was estimated that an assistance of Rs. 708.24 lakhs would be payable in 1973-74, against the expected exports valued at Rs. 3385.08 lakhs. Since a major portion of these exports were to Rupee Payment countries and the industry had also been extended various other concessions by way of replenishment licences, supply of imported yarn at subsidised rates, excise drawback, etc., the net gain which accrued to the country as foreign exchange is anybody's guess. As has been pointed out earlier, only 2 per cent of the industry's production has been exported. The scheme has also resulted in a net loss of Rs. 434.68 lakhs, during the period 1967-68 to 1972-73, to the State Trading Corporation. Taking all the relevant factors into consideration, it is a moot point whether this export promotion effort has at all been worthwhile. Now that the scheme has been discontinued with effect from 1 April, 1974, the Committee trust that Government have become wiser at least after the event and would ensure that in future at any rate such assistance is not extended indiscriminately but on a more precisely thought-out foundation.

NEW DELHI;
April 29, 1976.
Vaisakha 9, 1898 (*S*).

H. N. MUKERJEE,
Chairman,
Public Accounts Committee.

APPENDIX I

Main Conclusions/Recommendations

S. No.	Para No.	Ministry concerned	Recommendations/Conclusion
(1)	(2)	(3)	(4)
1.	1.105	Ministry of Commerce	It is evident from the Audit paragraph and an analysis of the evidence tendered before the Committee that the cash assistance sanctioned from time to time, for exports of man-made fabrics, had been provided in an indiscriminate and even irrational manner, on the basis of *ad hoc* and incomplete assessments, that had little or no relevance to the realities of the situation. The Committee regret that a "massive assistance" totalling about Rs. 1182 lakhs should have been allowed, during the period 1968-69 to 1973-74, on the basis of inadequate cost scrutiny and hypothetical assumptions, to an industry that contributes only 2 per cent of its production to the export efforts of the country. Some of the deficiencies and defects in the conception and operation of the cash assistance scheme which have come to the Committee's notice are discussed in the succeeding paragraphs.

a	1.106	—do—	Cash assistance is normally intended to bridge the gap between the cost of production of an export product and the f.o.b. realisation. The Committee note with concern that while sanctioning cash assistance in 1967, almost immediately after the devaluation of the Rupee, for the export of man-made fabrics, at rates varying between 10 per cent and 33 per cent of the f.o.b. realisation, the State Trading Corporation had not taken into account the actual cost and f.o.b. realisation but had adopted an *ad hoc* approach: No doubt, the Commerce Ministry have contended that the approach was not *ad hoc* and that when the scheme of cash assistance was started in 1967, 'it had to be introduced on some assessment which was made at that time'. In the Committee's view, this is only an attempt at extenuation since according to the Corporation's own admission, in August 1971, while grants from the Marketing Development Fund were governed by strict scrutiny by the Ministry of Finance, assistance by the State Trading Corporation had been more or less on an *ad hoc* basis and had not been subjected to cost scrutiny. Emphasising the need for cost scrutiny, the Corporation had gone on to observe: "This we feel is essential lest there be a question asked by Parliament or its Committees about the basis for a public sector agency favouring an industry with such massive assistance of over a crore of rupees for an export of mere 3-4 crores, without having before it a cost structure of the industry justifying such assistance both in principle and the quantum."

(1)	(2)	(3)	(4)
			Again, on 9th March, 1972, the Corporation had pointed out: "The industry has put State Trading Corporation in a vulnerable position because if State Trading Corporation is asked by a public committee about the basis on which it gave assistance of 33 per cent we can only plead that it was a matter of negotiation rather than proven financial data." Besides, the Secretary, Export Production himself made a tacit admission during evidence that the State Trading Corporation had felt, in 1971, that the cash assistance given by them would not have been arrived at on the basis of 'a strict cost scrutiny' and had, therefore, wanted that the cash assistance problem should be looked at *de novo*. This, according to him, 'brought some results although belatedly'.
3.	1.107	Ministry of Commerce	If, as has been claimed, the assistance decided upon in 1967 had been based on a proper and complete assessment, the necessity for the Ministry subsequently considering it advisable to reduce the cash assistance, where necessary, based upon 'a more scientific analysis' of the costs of production vis-a-vis f.o.b. realisation by exporters are not clear to the Committee. That such a review was considered necessary would indicate that whatever assessments were made earlier were inadequate. It has also been admitted that in the initial period, it was not possible for the State Trading Corporation, Silk and Rayon Textiles Export Promotion Council or the Textile Commissioner to obtain precise cost data, quality-wise, from the indus-

			try' and 'as such, from the very start (i.e., from March 1967)', the State Trading Corporation had 'no alternative but to extend cash support on the basis of cost data collected by the Silk and Rayon Textiles Export Promotion Council, even though they were not fully representative'. In the circumstances, the Committee are unable to accept the Ministry's contention in this regard. It is clear that the initial quantum of cash assistance had not been based on any scientific assessment.
4.	1.108	—do—	Cash assistance is also usually restricted to 25 per cent of the 'value added', which is the amount arrived at by deducting the value of the import content from the f.o.b. realisation. While this principle ensures that the assistance has some direct relevance and relation to the net foreign exchange earned and is applied for all assistance given from the Marketing Development Fund, the Committee find that the cash assistance sanctioned in respect of man-made fabrics was not worked out with reference to the 'added value'. In justification thereof, it has been stated that this particular assistance was not provided out of the Marketing Development Fund. Since the same principle ought to apply, irrespective of the source of finance, it is not clear to the Committee why this sound principle was given the go-by in the case of exports of man-made fabrics.
5.	1.109	—do—	It has also been contended by the representative of the Commerce Ministry that this scheme was not directly one of cash assistance by Government and involved no outgo from the Con-

(1)	(2)	(3)	(4)
			solidated Fund of India, but was financed out of a fund built up by the State Trading Corporation out of earnings from its raw material sales. This argument is, in the opinion of the Committee, quite irrelevant to the basic issues of principle involved in this transaction. It is pertinent, in this context, that the State Trading Corporation has claimed to have incurred a net loss of Rs. 434.68 lakhs on this account during the period 1967-68 to 1972-73 and has demanded reimbursement of the losses by Government and a final decision in this regard is yet to be taken. It would, therefore, follow that in the event of a decision being taken to reimburse these losses from the public funds, there would, in fact, be an outflow from the Consolidated Fund of India. In any case, even if the losses are finally borne by the State Trading Corporation, the fact would still remain that funds of a public sector undertaking had been expended injudiciously.
6.	1.110	Ministry of Commerce	The rationale for operating the cash assistance scheme through the agency of a public sector corporation and confining the assistance only to a chosen few who exported their products through the State Trading Corporation are not clear to the Committee. Whatever the justification or otherwise of such a course, the accountability of the executive gets necessarily reduced if the assistance is channelled through an autonomous corporation and to that extent Parliamentary scrutiny of executive actions can be evaded. This is,

			on principle, undesirable and the Committee would like to know if, as conceivably a special case, Parliament had given prior approval to the decision to provide such 'massive assistance' to the man-made fibre industry.
7	1.111	—do—	Apart from issuing certain broad guidelines to the State Trading Corporation in regard to the administration of the scheme of cash assistance, Government had, admittedly, left the modalities of implementation and the determination of the actual quantum of cash assistance to the discretion of the former. The State Trading Corporation, on its part, had not even obtained Government's specific approval for the grant of what, *prima facie*, appears to be an *ad hoc* assistance, and had only kept the Government informed'. It is also not clear from the evidence whether the decision to grant cash assistance had the Minister's or Cabinet approval. Though Government spokesmen initially deposed before the Committee that assessment at a very senior level was made and 'approval at the higest level was obtained', the Committee were subsequently informed that it had not been possible to locate the relevant papers in order to say at what level the scheme was finally approved. The Finance representative has stated in this context as follows: "The matter did go to the highest level once. After that there were some discussions. But before the final orders were issued whether they again got the final clearance is a matter to be checked up."

1	2	3	4
			Since the position in this regard has not been satisfactorily explained, the Committee desire a more specific clarification.
8	1.112	Ministry of Commerce	Even though grants from the Marketing Development Fund are required to be subjected to strict scrutiny by the Ministry of Finance, the Committee are surprised that in this particular case the specific approval of that Ministry to the scheme of cash assistance had not been obtained. It has, however, been stated that the whole scheme was submitted to the Committee of Secretaries of which the Secretary, Ministry of Finance, was a member and that as the scheme had been approved by that Committee, it could be said that Finance had agreed to the scheme. The Committee are somewhat perplexed by this explanation. Merely because the Finance Secretary was represented on the Committee of Secretaries, this does not obviate the need for a *detailed scrutiny in the Finance Ministry and obtaining* approval of that Ministry. If, as stated by the State Trading Corporation, the assistance provided in the case of textiles out of the Marketing Development Fund are subjected to 'strict scrutiny' by the Finance Ministry, the reasons for making a deviation in the case of man-made fabrics are somewhat intriguing.

9	1.113	—do—	The Committee find that in determining the quantum of cash assistance the Corporation had not taken into account the profits accruing to the industry from the lucrative internal market and the subsidy on imported yarn and other incentives then available. Besides, when certain enquiries were started by the State Trading Corporation in May 1971, the Corporation had found that in the case of rayon fabrics which constitute 75 per cent of the total yardage exported or two-thirds of the value of the exports, the industry received raw materials at prices which were probably below the international prices and that they had certain other benefits in the matter of replenishment licences for dyes and chemicals. To determine the quantum of cash assistance, no studies appear to have been made on the basis of costs of production, but reliance was presumably placed instead on the prices prevailing in the domestic market which, in any case, were bound to have been inflated on account of domestic profitability. It is to be regretted that the State Trading Corporation moved so slackly in this matter.
10	1.114	—do—	The Committee are surprised that though the State Trading Corporation seemed to have had a number of reservations in regard to the cash assistance scheme, certain data relating to cost and f.o.b. realisation were obtained from the Silk and Rayon Textiles Export Promotion Council only four years later, in July 1971, and the rates of cash assistance then reduced (the revised rates ranging from 5 per cent to 25 per cent of the f.o.b. realisation). Here again, the data furnished by the Export Promotion Council had not been cer-

1	2	3	
			tified on the basis of any strict cost scrutiny and were not quite comprehensive. The data, nevertheless, indicated that cash assistance could be reduced without any adverse impact on exports. Though this action produced some results belatedly, the Committee are unable to appreciate the passive acquiescence of the State Trading Corporation for four years in a scheme that was *prima facie*, ill-conceived and unjustified.
11	1.115	Ministry of Commerce	What is more distressing is that even though the State Trading Corporation concluded, on the basis of the data made available by the Council in July 1971, that the cash assistance was not justified on economic grounds, it was considered 'inexpedient' to withdraw the assistance at once in view of the fact that the exporters had been receiving "massive assistance" in the past. In fact, the Corporation had gone to the extent of observing, in March 1972, that even the assistance of 25 per cent was 'more than can be justified'. It is positively disconcerting that mere expediency should have taken precedence over principles of financial prudence.
12	1.116	—do—	The Committee consider it strange that though the data finally furnished by the Export Promotion Council, after 'consistently' evading, 'under one pretext or the other', the requests of the State Trading Corporation to furnish data signed by their own Chartered

			Accountant, was found to be 'practically worthless' by the Corporation, the cash assistance, though at reduced rates, should have been persisted with. The Committee are amazed to learn that a loss as high as 90 per cent in some instances had been claimed by the Council. It is obvious that the data had been excessively inflated. As the State Trading Corporation itself pointed out, in March 1972, 'it is either incredible that anyone could have exported at such a loss or unpractical that despite the assistance of 25 per cent we should be exporting something where there is a total loss of 90 per cent."
13	1.117	—do—	There appears to have been considerable procrastination and inaction on the part of Government as well. Though the State Trading Corporation had been representing periodically against the scheme of cash assistance and Government had also been informed, in various meetings, from time to time, prior to August 1971, of the difficulties which the Export Promotion Council was experiencing in providing the necessary data, no remedial measures were taken by Government till May 1972 when a working group, consisting of representatives of the Textile Commissioner and the State Trading Corporation, a Cost Accounts Officer of the Finance Ministry and the Secretary of the Silk and Rayon Textiles Export Promotion Council, was appointed to examine the cost data for representative export qualities submitted by the Council. The Committee regret that effective action had not been taken earlier against the industry which was resorting to evasive tactics, and for the discontinuance of the cash assistance which, from all accounts, was unwarranted.

1	2	3	4
14	1.118	Ministry of Commerce	The Committee learnt with consternation that despite the fact that even the limited data furnished by the Export Promotion Council, in July 1971, clearly indicated that the cash assistance hitherto sanctioned was far from justified, Government decided, in a meeting with the Silk & Rayon Textiles Export Promotion Council on 6 March 1972, that cash assistance at the existing rates should continue for one year and that the cost data furnished by the Council, in February 1972, should be examined by a working group or an independent agency. What is even more disturbing is the fact that this decision, which resulted in the payment of cash assistance of Rs. 119.23 lakhs during 1972-73, had been taken by the Secretary, Foreign Trade, at a meeting in Bombay and communicated immediately and peremptorily without even obtaining the Minister's approval.
15	1.119	—do—	The Committee find the cost data furnished by the Export Promotion Council in February 1972 to be not representative, being confined, to only 14 out of the 29 parties to whom the form prescribed by the State Trading Corporation had been sent by the Council. Besides, the data had also not been certified by Chartered Accountants. The Committee have been informed in this connection that the 29 units had been selected on the basis of the specialisation they had acquired in the manufacture of certain exported qualities and

536 LS—6.

			that 15 of them had stated that the proforma was so complicated that they would not be able to give the cost data in the form in which it was desired. However, without making any attempts to ascertain the costs at least on the basis of the sample survey, the decision to extend the cash assistance for 1972-73 seems to have been taken on the somewhat tenuous ground that as the export trade had grown after much effort on the part of the Export Promotion Council, any uncertainty about the cash assistance scheme might have an adverse effect on the export trade. However, it was well known by then that the rates of cash assistance already sanctioned were unrealistic and excessive. The Committee are of the view that Government should have, at that stage, attempted to collect further data and adequately reviewed the scheme instead of just indiscriminately extending it for another year. That this was not done indicates that the care and prudence expected of Government had been given the go-by.
16	1.120	—do—	The subsequent examination undertaken by the working group, on the basis of which it was decided to extend the scheme of cash assistance during 1973-74, was also, unfortunately, only a haphazard attempt. The group had obtained cost data, which were also not certified by any Chartered Accountant, only from three manufacturers of fabrics. Although the working group visited these three mills, it did not undertake, 'due to limitation of time', any detailed checking of data with accounts books, but considered the result of

1	2	3	4
			its sample—checking as 'more or less satisfactory'. There appears to have been some difference of opinion between the Senior Cost Accounts Officer of the Finance Ministry and the other members of the working group in regard to the correctness of the cost data, and the former remarked, in October 1972, that 'he had not had the full opportunity of going through the data'. However, subsequently, before the report of the group was finalised in December 1972, the Cost Accounts Officer is stated to have visited some of the units and after analysing the data collected worked out both the total cost and the marginal cost. The Committee find that while endorsing the recommendation of the working group that cash assistance should be continued at the existing level, the representative of the State Trading Corporation had also recorded a separate note stressing that the cost data given by the industry were not 'fully representative'. Whatever might have been the differences between the members of the working group, it is evident that the exercise carried out in 1972 was also perfunctory, since it was not based on representative and entirely reliable data.
17	1.121	Ministry of Commerce	The value of the exports of man-made fabrics effected through Etate Trading Corporation was Rs. 189.65 lakhs in 1968-69, Rs. 355.44 lakhs in 1969-70, Rs. 497.29 lakhs in 1970-71, Rs. 625.39 lakhs in 1971-72 and Rs. 976.00 lakhs in 1972-73, and the cash assistance paid during each of the years was respectively Rs. 50.73 lakhs, Rs. 90.82 lakhs,

			Rs. 106.97 lakhs, Rs. 106.00 lakhs and Rs. 119.23 lakhs. Strangely, however, it was estimated that the value of exports during 1973-74 (the last year in which the cash assistance scheme was in operation before it was discontinued with effect from 1 April, 1974) would be Rs. 3385.08 lakhs, involving an estimated payment of Rs. 708.24 lakhs as cash assistance, representing an increase of nearly 600 per cent over the previous year's payment. Since such a phenomenal increase is somewhat inexplicable and gives rise to suspicion that the scheme was perhaps exploited, to their own advantage, by unscrupulous exporters, the Committee desire that the reasons for this unprecedented spurt in exports and the payment of a large sum as cash assistance should be thoroughly probed with a view to fixing responsibility for lapses, if any. The Committee would await a detailed report in this regard.
18	1.122	—do—	Another important issue arising out of this case is the absence of any mechanism to ensure that the benefit of cash assistance reaches the large number of small units producing man-made fabrics and is not appropriated, as they are now, by the middlemen merchant-exporters. The Committee find that in 1969-70 there were eight exporters who claimed exports of over Rs. 10 lakhs each and they accounted for 54 per cent of the total exports. Of these eight, five were merchant-exporters who accounted for 28 per cent of the total exports. As against this, out of the total number of 11,598 manufacturing units, about 9,406 units are small, having less than 10 looms. It would, therefore, appear that the major beneficiaries of the cash assistance scheme were the merchant-exporters. The Com-

1	2	3	4
			mittee have been informed that Government was not in a position to determine the extent to which the cash assistance might have benefited the small manufacturers and that Government had no means of ensuring it either. This, in the Committee's view, is an extraordinary and undesirable situation. The Committee would urge Government to bestow serious thought on this question and evolve a mechanism by which the large number of small manufacturers, who export their goods through merchant-exporters, are also benefited by the scheme of cash assistance extended to various export commodities.
19	1.23	Ministry of Commerce	From the foregoing paragraphs, it is clear that the manner in which the entire question of granting cash assistance on exports of man-made fabrics had been handled from time to time was neither proper nor satisfactory, and that the entire scheme had been hastily conceived without an adequate assessment of the various factors involved. A number of other acts of omission and commission, which came out during evidence, have raised serious misgivings in the mind of the Committee. Though many opportunities were available to Government to review and reconsider the scheme, little was done to retrieve the situation. The Committee, in particular, take a serious view of the extension of the scheme, in March, 1972, to the exports during 1972-73 without even obtaining the Minister's approval. Since a number of substantive issues have been raised in

			the preceding paragraphs, the Committee desire that the circumstances in which an apparently ill-thought-out scheme was persisted with for as long as seven years should be carefully examined and responsibility for the various lapses fixed under advice to the Committee.
20	1.24	-do-	To sum up, the Committee find that during the period from 1968-69 to 1972-73, a total amount of Rs. 473.75 lakhs had been paid by the State Trading Corporation as cash assistance for exports of man-made fabrics, against which exports valued at Rs. 2643.77 lakhs had been canalised through the Corporation. It was estimated that an assistance of Rs. 708.24 lakhs would be payable in 1973-74, against the expected exports valued at Rs. 3385.08 lakhs. Since a major portion of these exports were to Rupee Payment countries and the industry had also been extended various other concessions by way of replenishment licences, supply of imported yarn at subsidised rates, excise drawback, etc., the net gain which accrued to the country as foreign exchange is anybody's guess. As has been pointed out earlier, only 2 per cent of the industry's production has been exported. The scheme has also resulted in a net loss of Rs. 434.68 lakhs, during the period 1967-68 to 1972-73, to the State Trading Corporation. Taking all the relevant factors into consideration, it is a moot point whether this export promotion effort has at all been worthwhile. Now that the scheme has been discontinued with effect from 1 April 1974, the Committee trust that Government have become wiser at least after the event and would ensure that in future at any rate such assistance is not extended indiscriminately but on a more precisely thought-out foundation.

GMGIPMRND—LS II—536 LS—6-7-76—1100.

Sl. No. Name of Agent	Sl. No. Name of Agent
WEST BENGAL	32. Lakshmi Book Store, 42,Municipal Market, Janpath, New Delhi.
21. Grantholoka, 5/1, Ambica Mookherjee Road, Belgharia, 24-Paraganas.	33. Bahree Brothers, 188, Lajpat Rai Market, Delhi-6.
22. W. New Man & Company Ltd., 3, Old Court House Street, Calcutta.	34. Jayna Book Depot, Chhaparwala Kuan, Karol Bagh, New Delhi.
23. Firma K. L. Mukhopadhyay, 6/1-A, Banchharam Akrur Lane, Calcutta-12.	35. Oxford Book & Stationery Co., Scindia House, Connaught Place, New Delhi.
24. Mrs. Manimala, Buys & Sells, 128, Bow Bazar Street, Calcutta-12.	36. People's Publishing House, Rani Jhansi Road, New Delhi.
25. M/s. Mukerji Book House, Book Seller, 8B, Duff Lane, Calcutta.	37. The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.
DELHI	38. Hind Book House, 82, Janpath, New Delhi.
26. Jain Book Agency, Connaught Place, New Delhi.	39. Book Well, 4, Sant Nirankari Colony, Kingsway Camp, Delhi-9.
27. Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	40. M/s. Saini Law Publishing Co., 1899, Chandni Chowk, Delhi.
28. Atma Ram & Sons. Kashmere Gate, Delhi-6.	MANIPUR
29. J. M. Jaina & Brothers, Mori Gate, Delhi.	41. Shri N. Chaob Singh, News Agent, Ram Lal Paul High School Annexe, Imphal.—MANIPUR.
30. The Central News Agency, 23/90, Connaught Place, New Delhi.	
31. The English Book Store, 7-L, Connaught Circus, New Delhi.	

PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT OF BUSINESS IN LOK SABHA (FIFTH EDITION) AND PRINTED BY THE GENERAL MANAGER, GOVERNMENT OF INDIA PRESS, MINTO ROAD, NEW DELHI.