

**TWO HUNDRED AND THIRTEENTH
REPORT**

**PUBLIC ACCOUNTS COMMITTEE
(1983-84)**

(SEVENTH LOK SABHA)

**CUSTOMS RECEIPTS—DUTY EXEMPTIONS
ALLOWED OVERLOOKING CONDITION OF END-USE**

**MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)**

[Action Taken on 149th Report (7th Lok Sabha)]



Presented in Lok Sabha on 30th April, 1984

Laid to Rajya Sabha on 30th April 1984

**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1984/Vaisakha, 1906 (Saka)

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Corrigenda to Two Hundred and Thirteenth Report
of the Public Accounts Committee (7th Lok Sabha).

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(1983-84)**

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*Ceased to be members of the Committee consequent upon their retirement from Rajya Sabha w.e.f. 2.4.1984.

INTRODUCTION

1, the Chairman of the Public Accounts Committee, as authorised by the Committee do present on their behalf, this Two Hundred and Thirteenth Report on Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 149th Report (7th Lok Sabha) on Customs Receipts—relating to duty exemptions allowed overlooking condition of end-use.

2. The Committee had in its earlier Report recommended that each notification issued for grant of exemption from Customs duty should be for a period of 2 years at a time and that revenue effect of the exemptions should be given in the annual report of the Ministry. The Ministry of Finance (Department of Revenue) have stated that it would not be practicable to limit the Customs duty exemption for two years at a time in all cases because the period for which exemption is required in individual cases will vary depending on the circumstances. In this Report, the Committee have pointed out that the intention underlying the recommendation of the Committee for limiting the period of exemption for two years was to ensure that while examining the question of granting further exemption after the expiry of two years, Government would be able to evaluate whether the purpose for which the exemption was granted has been achieved or not and also to review if the continuance of the exemption was still necessary. The Committee, have reiterated their earlier recommendation that the period of each exemption notification may be restricted to two years at a time. As regards the recommendation of the Committee regarding the inclusion of the revenue effects of the exemption in the annual Report of the Ministry, the Ministry of Finance have merely stated that the same has been noted. The Committee have desired to be apprised of the specific decision taken by the Ministry in this regard.

3. In their earlier Report, the Committee had also pointed out that the work of the Committee had widened a great deal with the tremendous increase in expenditure caused by planned socio-economic development of the country entailing massive public sector outlay. Also, since the Sixties, the Committee had been examining Revenue Receipts which had also increased vastly to match the expenditure. Further, there had been qualitative change in the work of the Committee. In view of the foregoing, the Committee had expressed the view that it was time that re-structuring of the Public Accounts Committee is done to ensure the financial accountability of the Executive effectively. Accordingly, the Committee had suggested setting

(vi)

up of the independent Public Accounts Committees for examination of "Expenditure" and "Revenue Receipts" separately. It had also been mentioned that the Public Accounts Committee (Revenue Receipts) could also monitor and review the exercise of delegated powers of the executive in the matter of grant of exemptions under the Customs and Central Excise Laws. The Ministry of Finance (Department of Revenue) have informed that the Department of Revenue "is not in favour of the proposal for setting up a Parliamentary Committee to review grant of exemption in excise and customs by Government". No reasons have been given by Government for not accepting the recommendation of the Committee. As the number of exemption notifications and the amount of revenue foregone is continuously on the increase during the last several years, the Committee, have reiterated their earlier recommendation that there is a need for setting up independent Public Accounts Committees for examination of "Expenditure" and "Revenue Receipts" separately and that the Public Accounts Committee dealing with "Revenue Receipts" should also monitor and review the issue of exemption notifications by Government.

4. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 26 April, 1984. Minutes of the sitting form Part II of the Report.

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

6. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the office of the C&AG of India.

SUNIL MAITRA

*Chairman,
Public Accounts Committee.*

NEW DELHI:

April 27, 1984

Vaisakha 7, 1906 (S)

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations/observations contained in their Hundred and Forty Ninth Report (Seventh Lok Sabha) on paragraph 1.17 of the Report of the Comptroller and Auditor General of India for the year 1980-81 Union Government (Civil) Revenue Receipts, Vol. I—Indirect Taxes relating to duty exemptions allowed overlooking condition of end-use.

1.2 The Hundred and Forty Ninth Report, which was presented to Lok Sabha on 29 April, 1983 contained 14 recommendations. Action Taken Notes in respect of all the recommendations/observations have been received from Government. These have been categorised as follows :

- (i) Recommendations and observations that have been accepted by Government :
1, 2, 3, 4, 6, 8, 9 and 10
- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government :
7, 12
- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration :
11 and 14
- (iv) Recommendations and observations in respect of which Government have furnished interim replies :
5 and 13.

1.3 The Committee hope that final replies to the recommendations at S. Nos. 5 and 13 to which only interim replies have so far been furnished will be submitted to them expeditiously after getting them vetted by Audit.

1.4 The Committee will now deal with the action taken by Government on some of the recommendations.

Delays in the grant of essentiality certificates and import licences etc.
(Para 1.88—Sl. No. 8)

1.5 Referring to the delays in the grant of essentiality certificates, import licences and the release of imported materials from customs which resulted in shortfalls in production of watches with reference to approved capacity in the small scale sector, the Committee in para 1.88 of their earlier Report, had observed as under :

“The Committee find that there was a big gap in the approved capacity and actual production of watches in the small scale sector. Against the total approved capacity of 3.20, 4.30, 8.30, 10.30 and 14.40 lakhs respectively in the years 1977, 1978, 1979, 1980 and 1981, the Small Scale Sector units manufactured 1.80, 2.50, 6.35, 6.62 and 8.29 lakh of watches in these years respectively. The shortfalls in production with reference to approved capacity is stated to have been due to location of the units in remote areas where building up of an industry takes a little longer time, delays at various levels in the grant of Essentiality Certificates and import licences, delays in the arrival of imported components and their release from Customs and non-availability of trained hands. The Committee feel that delays in the grant of Essentiality Certificates, import licences and the release of imported materials from Customs could be easily avoided. The Committee desire that suitable improvements may be made in the prescribed procedures whereby such delays are effectively eliminated.”

1.6 The Ministry of Commerce (CCI&E) have in their action taken note dated 25.1.1984 stated as under :

“Sponsoring Authorities have been requested *vide* IPC Circular No. 33/83 dated 13th December, 1983 to expedite issue of Essentiality Certificate in cases where all the requisite formalities are fulfilled by the applicant.

There is a system of ‘time bound’ disposal of applications in operation since November, 1980 under which applications for automatic licences are required to be disposed of within 30 days and those for supplementary licences within 45 days.”

1.7 In their Action Taken Note dated 28.10.83 the Ministry of Finance (Department of Revenue) have stated as follows :

“The observations made by the Committee have been noted. It may, however, be pointed out that these are general requirements for all the industrial undertakings. The different Ministries are already taking steps from time to time to streamline and simplify the procedural bottlenecks.”

1.8 The Committee had in their 149th Report observed that since there was a big gap in the approved capacity and actual production of watches in the small scale sector in the years 1977 to 1981 due to delays at various levels in the grant of Essentiality Certificates and import licences, delays in the arrival of imported components and their release from Customs, it would be desirable to make suitable improvements in the prescribed procedures whereby such delays are effectively eliminated. In their Action Taken note, the Ministry of Commerce have intimated that applications for grant of automatic and supplementary licences are now disposed of according to a time bound system which is in vogue since November 1980. They have also issued necessary instructions to all the concerned authorities to expedite issue of essentiality certificates in cases where all the requisite formalities are fulfilled by the applicant. The Committee, however, regret to note that the Ministry of Finance (Department of Revenue) do not appear to have taken any action on their recommendations except intimating that “the different Ministries are already taking steps from time to time to streamline and simplify the procedural bottlenecks”. Since the Ministry of Finance (Department of Revenue) are concerned with the timely release of imported components, that Ministry should have taken suitable remedial measures so as to eliminate the delays in this regard. The Committee, therefore, desire that necessary action to streamline the procedure to eliminate delays in the release of imported components from Customs should be taken by the Ministry of Finance. The Committee would like to be apprised of the specific action taken or proposed to be taken by them in this behalf.

Exemption notifications to be for limited periods at a time
(Para 1.91—S.No. 11)

1.9 Dealing with change in procedure for verifying end-use of imported components by issue of mere instructions, the Committee in para 1.91 of their earlier Report, had observed as under :

“The change in procedure for verifying end-use of imported components was made by issue of mere executive instructions on 5th March, 1980. The executive instructions which seek to modify a legal notification, do not have the force of law. The Committee, therefore, desire that suitable change may now be

made in the notification itself. The Committee further desire that revenue effect of exemptions should be given in the annual report of the Ministry and exemption notification should be for two years at a time."

1.10 The Ministry of Finance (Department of Revenue) have intimated as under in their Action Taken Note dated 6.3 1984 :

"Customs duty concessions on wrist watch parts under notification No. 240/78-Cus. dated 30th December, 1978 is being reviewed in consultation with the administrative Ministry. The recommendation of the Committee for incorporating the manner of verification of the end-use of the imported components in the notification itself will be taken into account while issuing the revised notification. The recommendation for limiting the customs duty exemptions for two years at a time will not be practicable in all cases because the period for which the exemption is required in individual cases will vary depending on the circumstances

The recommendation of the Committee for giving the revenue effect of customs duty exemptions in the Annual Report of the Ministry has been noted."

1.11 The Committee had in their earlier Report recommended that each notification issued for grant of exemption from Customs duty should be for a period of 2 years at a time. The Committee had also recommended that revenue effect of the exemptions should be given in the annual report of the Ministry. The Ministry of Finance (Department of Revenue) have, however stated that it would not be practicable to limit the Customs duty exemption for two years at a time in all cases because the period for which exemption is required in individual cases will vary depending on the circumstances. The intention underlying the recommendation of the Committee for limiting the period of exemption for two years was to ensure that while examining the question of granting further exemption after the expiry of two years, Government would be able to evaluate whether the purpose for which the exemption was granted has been achieved or not and also to review if the continuance of the exemption was still necessary. The Committee have noted in a number of cases that after issuing an exemption notification without giving any period, no review is made by the Ministry to see whether the object underlying the notification is being fulfilled and also whether its continuance is necessary. The Committee, therefore, reiterate their earlier recommendation that the period of each exemption notification may be restricted to two years at a time.

As regards the recommendation of the Committee regarding the inclusion of the revenue effects of the exemptions in the annual Report of the Ministry, the Ministry of Finance have merely stated that the same has been noted. The Committee would like to be apprised of the specific decision taken by the Ministry in this regard.

*Need for an independent Public Accounts Committee for examination of
‘Revenue Receipts’
Para 1.94, Sl. No. 14*

1.12 Emphasising the need for setting up an independent Public Accounts Committee to examine Revenue Receipts of Government which may, *inter alia* include examination of exemption orders, Committee had in para 1 94 of their 149th Report, recommended as follows :

“The Public Accounts Committee was set up in 1921. The Committee’s work has widened a great deal with the tremendous increase in expenditure caused by planned socio-economic development of the country entailing massive public sector outlay. Since Sixties the Committee have also been systematically examining revenue receipts which have also increased vastly to match the expenditure. Further there has been qualitative change in the work of the Committee. The Committee undertake comprehensive reviews of schemes and projects as well as systems and procedures, which demand more time and effort. It is thus becoming increasingly difficult for one Public Accounts Committee to do justice to work in the changed context. In the Considered opinion of the Committee, it is time that some restructuring of the Committee is done to ensure the financial accountability of the Executive effectively. Accordingly, they would suggest setting up of the independent Public Accounts Committee for examination of ‘Expenditure’ and ‘Revenue Receipts’ separately. The Public Accounts Committee (Revenue Receipts) could also monitor and review the exercise of the delegated powers of the Executive in the matter of grant of exemptions under the Customs and Central Excise Laws, besides examining the Reports of the Comptroller and Auditor General on India of Revenue Receipts.”

1.13 In their action reply, the Ministry of Finance have stated as follows :

“The Department of Revenue is not in favour of the proposal for setting up a parliamentary committee to review grant of exemption in excise and customs by Government. A decision has already been taken at the level of the Finance Minister.”

1.14 In their earlier Report, the Committee had pointed out that their work had widened a great deal with the tremendous increase in expenditure caused by planned socio-economic development of the country entailing massive public sector outlay. Also, since the Sixties, the Committee had been examining Revenue Receipts which had also increased vastly to match the expenditure. Further there had been qualitative change in the work of the Committee. In view of the foregoing, the Committee had expressed the considered opinion that it was time that restructuring of the Public Accounts Committee is done to ensure the financial accountability of the Executive effectively. Accordingly, the Committee had suggested setting up of the independent Public Accounts Committees for examination of "Expenditure" and "Revenue Receipts" separately. It had also been mentioned that the Public Accounts Committee (Revenue Receipts) could also monitor and review the exercise of delegated powers of the executive in the matter of grant of exemptions under the Customs and Central Excise Laws. In their Action Taken note, the Committee have been informed that the Department of Revenue "is not in favour of the proposal for setting up a Parliamentary Committee to review grant of exemption in excise and customs by Government". No reasons have been given by Government for not accepting the recommendation of the Committee. The Committee consider the aforesaid reply of Government as highly regrettable. In their opinion, this reply is not in conformity with the principle of financial accountability of executive to Parliament. As the Committee feel the need for such a scrutiny is all the more necessary in view of the fact that the number of such notifications and the amount of revenue foregone is continuously on the increase during the last several years. The Committee, therefore, reiterate their earlier recommendation that there is a need for setting up of the independent Public Accounts Committee for examination of "Expenditure" and "Revenue Receipts" separately and that the Public Accounts Committee dealing with "Revenue Receipts" should also monitor and review the issue of exemption notification by Government.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

Under the Customs Tariff Act, 1975, imported watch components are assessable to customs duty at 100 per cent *ad valorem*. The Ministry of Finance, Department of Revenue, issued a notification in December, 1978 exempting watch components imported for the manufacture of watches from customs duty in excess of 50 per cent *ad valorem* subject to the condition that the import of these components is in accordance with the production programme approved by the Ministry of Industry and that the watch components imported are actually utilised for such manufacture. The twin objective of the notification was to increase production and contain smuggling as there was a wide gap between the demand and supply of indigenously manufactured watches. The exemption was not available if the imported watch components were diverted for other purposes like repairs etc.

[Sr. No. 1, Para 1.81 on 149th Report of PAC (Seventh Lok Sabha)],

Action taken

Observation of PAC noted.

[M/O Finance (Deptt. of Revenue) O.M. F. No. 521/18'83-Cus. (T,U.)
Dt. 28.10.83]

Recommendation

The Ministry of Industry projected the demand of watches in the country as 60 lakh numbers in 1977, 65 lakhs in 1978, 70 lakhs in 1979, 73 lakhs in 1980 and 80 lakhs in 1981 to the Ministry of Finance when they approached the latter for the grant of exemption from duty. However, the actual production in the organised and small sectors taken together respectively in the years 1977, 1978, 1979, 1980 and 1981 was 29.88, 47.56, 54.79, 52.95 and 56.82 lakh numbers leaving a gap of about 30, 17, 15, 20 and 23 lakh numbers respectively in these years.

[Sr. No. 2, Para 1.82 on 149th Report of PAC (Seventh Lok Sabha)]

Action taken

Observation of PAC noted.

[(M/O Finance (Deptt. of Revenue) OM F No. 521/18/83-Cus. TU)
Dt. 28.10.83]

Recommendation

In regard to the smuggling of watches, the Committee note from the figures of seizures furnished by the Ministry of Finance (Department of Revenue) that there has been no appreciable fall in the number of watches confiscated. While in 1977, the number of watches seized was 47,901 (Value Rs. 168 lakhs) the same was 1,12,318 (Value Rs. 337 lakhs) in 1978 and 1,04,127 (Value Rs. 357 lakhs) in 1981. It was admitted by the Chairman, Central Board of Excise and Customs before the Committee that complete containing of the smuggling has not been achieved. He, however, stated that the cheaper watches which used to be the normal favourite of the smugglers has ceased to be their items of smuggling and what is coming now are all sophisticated kind of watches.

[Sr. No. 3, Para 1.83 of 149th Report of PAC (Seventh Lok Sabha)]

Action taken

Observation of PAC noted.

[M/o Finance (Deptt. of Revenue) O.M. F No. 521/18/83-Cus (TU)
Dt. 28-10-83].

Recommendation

In view of the fact that smuggling in watch continues unabated and the production of watches in the country has remained more or less stagnant since 1978 allowing a wide gap between the demand and supply in spite of large capacity licensed, the Committee cannot but conclude that statutory exemption has failed to fulfil either of the two objectives for which it was given.

[Sr. No. 4, Para 1.84 of 149th Report of PAC (Seventh Lok Sabha)]

Action taken

Observation of PAC noted.

[M/o Finance (Deptt. of Revenue) OM F. No. 521/18/83-Cus (TU)
Dt. 28.10.83].

Recommendation

The Committee note that Small Scale Units in watch industry are by and large engaged in the assembly of watch parts imported in C.K.d. condition and except for a few outer components like dial, hand case etc. are wholly dependent on imported watch components. Even large scale units like HMT is manufacturing about 42% of watches out of the imported components (In 1980-81 for which latest figures are available out of total production of 35.13 lakh watches by HMT, as many as 15.44 lakhs were manufactured out of imported watch parts) The Committee cannot but conclude that due to the duty concession available on imported watch parts, the watch manufacturing units including the public sector have not paid adequate attention to the development of Industry and especially of watch components indigenously and have remained dependent on imported watch parts. The Committee feel that this is a matter of serious concern and the administrative Ministry should take note of it. The Committee are of the view that Govt. should chalk out a time-bound programme for the manufacture of watch components in the country and should give duty concession on the import of raw material used in the manufacture of watch parts as well as concession in the excise duty so as to encourage the manufacture of watch parts/components in the country and keep the prices of these components competitive as compared to imported watch parts. This will not only lead to considerable saving in foreign exchange but would also provide employment to a large number of people in the country.

[S. No. 6, Para 186 of 149th Report of PAC (Seventh Lok Sabha).]

Action taken

Ministry of Industry to whom the para was referred have replied as follows :

M/s. HMT's production of watches from indigenous components, as would be seen from the attached Annexure, has gone up from 8.09 lakhs watches during 1977-78 to 33.46 lakhs watches during 1982-83, i.e. an increase of 313.6% over a period of six years. As part of various measures

taken, to augment local availability of watches through proper channel, M/s. HMT Ltd., have to establish watch assembly capacity much higher than their own components' manufacturing facilities and consequently, import of watch components has been resorted to. However, even these imports have come down considerably since 1979-80 and during 1982-83 out of the production of 41,60,000 watches, assembly out of imported components is only 8.15 lakhs, i.e. about 20% of the total production. M/s. HMT Ltd. have already taken up time-bound expansion programme of manufacture of watch components at their watch factory-III, Srinagar and at the new plant at Ranibagh, U.P. and, therefore, with the coming up of this additional capacity, M/s. HMT's imports would be completely stopped.

Similarly, for phasing out completely imports by the small scale watch assembly units of CKD watch components, Government have recently approved substantial manufacturing capacity of watch components under time-bound phased indigenisation programme. It is expected that with the implementation of these schemes, this imports of watch component in CKD condition by SSI units would be completely phased out.

[M/o Finance (Deptt. of Revenue) O.M. F. No. 521/18/83-Cus. (TU)
Dt. 28 10.83]

ANNEXURE

	Production of Watches (Mechanical)				Value in Rs. lakhs	
	WFB	WFS	WFT	Total	Imported	Mechanical
	1	2	3	4	5	6
1977-78						
No.	524890	284041	—	808931	1542130	2351061
Value	1338.00	471.00	—	1809.00	3211.00	5020.00
1978-79						
No.	695854	305000	—	1000854	2338173	3339027
Value	1544.50	549.20	—	2093.70	5216.00	7309.70
1979-80						
No.	740350	320000	37057	1097407	2028217	3125624
Value	1686.50	612.00	80.30	2378.80	4631.00	7009.80
1980-81						
No.	618000	324995	1026254	1969249	1543842	3513091
Value	1541.00	596.00	2174.00	4311	3704.00	8015.00

	1	2	3	4	5	6
1981-82						
No.	869265	440000	1825959	3135224	892791	4028015
Value	2179.70	824.45	3937.56	6941.71	2021.72	8963.43
1982-83						
(Provisional)						
No.	884263	457046	2004550	3345859	814571	4160430
Value	2265.19	909.78	4316.69	7491.66	2105.30	9596.96

Recommendation

The Committee find that there was big gap in the approved capacity and actual production of watches in the small scale sector. Against the total approved capacity of 3.20, 4.30, 8.30, 10.30 and 14.40 lakhs respectively in the years 1977, 1978, 1979, 1980 and 1981, the Small scale sector units manufactured 1.80, 2.50, 6.35, 6.62 and 8.29 lakh of watches in these years respectively. The shortfalls in production with reference to approved capacity is stated to have been due to location of the units in remote areas where building up of an industry takes a little longer time, delays at various levels in the grant of Essentiality Certificates and import licenses, delays in the arrival of imported components and their release from Customs and non-availability of trained hands. The Committee feel that delays in the grant of Essentiality Certificates, import licenses and the release of imported materials from Customs could be easily avoided. The Committee desire that suitable improvements may be made in the prescribed procedures whereby such delays are effectively eliminated.

[S. No. 8, Para 1.88 of 149th Report of PAC (Seventh Lok Sabha).]

Action Taken

The observations made by the Committee have been noted. It may, however, be pointed out that these are general requirements for all the industrial undertakings. The different Ministries are already taking steps from time to time to streamline and simplify the procedural bottlenecks.

[M/O Finance (Deptt. of Revenue) O.M.F. No. 521/18/83-Cus. (T.U.)
Dt 28.10.83].

Action Taken

Sponsoring Authorities have been requested *vide* IPC Circular No. 33/83 dated 13th December, 1983 (copy enclosed) to expedite issue of Essentiality Certificate in cases where all the requisite formalities are fulfilled by the applicant.

2. There is a system of 'time-bound' disposal of applications in operation since November, 1980 under which applications for automatic licences are required to be disposed of within 30 days and those for supplementary licences within 45 days.

[M/O Finance (Deptt. of the CCI&E) U.O. No 22/94/83/IPC/6664
Dt. 25-1-84]

IPC Circular No. 33/83

No. 22/94/83/IPC
GOVERNMENT OF INDIA
MINISTRY OF COMMERCE

OFFICE OF THE CHIEF CONTROLLER OF IMPORTS & EXPORTS
UDYOG BHAVAN, NEW DELHI-11

Dated : the 13th December, 1983

To

All Sponsoring Authorities

SUB :—*149th Report of the Public Accounts Committee (7th Lok Sabha)
para 1.88—need to cut short delay in the grant of Essentiality
Certificates and import licences.*

Sir,

In their 149th Report (para 1.88) of the Public Accounts Committee, the Committee have observed that the shortfalls in production of watches in Small Scale Sector with reference to approved capacity is due, *inter-alia*, to delays at various levels in the grant of Essentiality Certificates and import licences. The relevant para of the report is reproduced below :—

“The Committee find that there was a big gap in the approved capacity and actual production of watches in the Small Scale Sector. Against the total approved capacity of 3.20, 4.30, 8.30, 10.30 and 14.40 lakhs respectively in the years 1977, 1978, 1979, 1980 and 1981, the small scale sector units manufactured 1.80, 2.50, 6.35, 6.62 and 8.29 lakh watches in these years respectively. The shortfalls in production with reference to approved capacity is stated to have been due to location of the units in remote areas where building up of an industry takes a little longer time, delays at various levels in the grant of Essentiality Certificates and import licences, delays in the arrival of imported components and their release from Customs and non-availability of trained hands. The Committee feel that delays in the grant of Essenti-

ality Certificates; import licences and the release of imported materials from Customs could be easily avoided. The Committee desire that suitable improvements may be made in the prescribed procedures whereby such delays are effectively eliminated.”

In view of the above recommendations, it is requested that the cases regarding grant of Essentiality Certificates may be dealt with expeditiously.

Yours faithfully,

Sd/-

(L. Prasad)

*Dy Chief Controller of Imports & Exports
For Chief Controller of Imports and Exports*

Copy to : DC (SSI)/DGTD All Licensing Authorities

Recommendation

In terms of notification of December, 1978 the proper authority of customs department was to be satisfied that the parts and components imported were in fact used for the manufacture of watches in accordance with the production programme duly approved by the Ministry of Industry. The importer executes a bond for payment of differential duty in case the parts are not used in the manufacture of watches according to the approved production programme. The bond undertaken is different depending upon whether the importer is a public sector undertaking or private manufacturer. If the importer is a public undertaking, a bond is taken for each consignment and each case of others, one running bond for an amount equal to the differential duty based on licence value is taken for each import licence. The bond was to be cancelled on receipt of end use certificate from the Ministry of Industrial Development which monitors the production programme of the units. In actual practice there was no detailed monitoring. This procedure was modified by Government in their letter dated 5-3-1980 which enjoined that the end use bonds can be cancelled by the Customs authorities on the basis of utilisation certificates issued by the Chartered Accountants and legal affidavits sworn by the importers. This change has been brought about by executive instructions without amending the notification.

[Sl. No. 9, Para 1.89 of 149th Report of PAC (7th Lok Sabha).]

Action Taken

Observation of PAC noted.

[M/o finance (Deptt. of Revenue) O.M.F. No. 521/18/83-Cus (T.U.)
Dated 28.10.83]

Recommendation

It is clear to the Committee that prior to March, 1980 the consumption of imported components has not been properly verified. It has been admitted by the Chairman of Central Board of Excise & Customs before the Committee that "Before March, 1980, it was a chaos. There were bonds which were pending and which were not being cancelled. There were all kinds of different procedures being adopted". The Committee cannot but express their unhappiness at the manner in which the notification which specifically linked the grant of duty concession to ensuring fulfilment of conditions of end use was allowed to operate without laying down, any foolproof procedure to ensure that the imported components were actually utilised for the purpose for which these were imported.

[Sl. No. 10 Para 1.90 of 149th Report of PAC (7th Lok Sabha).]

Action Taken

Observation of PAC noted.

[M/o Finance (Deptt. of Revenue) O.M.F. No. 54/18/83 Cus-(T.U.)
Dated 28-10-83].

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES OF GOVERNMENT

Recommendation

The duty concession applied to all units both in the public and private sectors which had approved production programmes. The Committee have been informed that the Government have not made any specific study to ascertain whether the benefit of the concessional customs duty on import of watch components has been passed on to the consumer. In this connection the Committee wish to draw attention to the fact that HMT has earned huge profits (Rs. 18 crores every year) on its watch division. Unless there is significant price advantage in regard to indigenously assembled watches, smuggling is bound to thrive. The Committee has reason to believe that benefit of the duty concession is mopped up by the manufacturers with the result that the exchequer suffers loss of revenue, consumer does not benefit and smuggling goes on unabated. The Committee therefore desire that Government should ensure that the benefits of the duty concession are passed on to the consumer by suitable reduction in the prices of watches. The Committee further feel that HMT should be a pace setter in this regard.

[Sl. No. 7 Para 1.87 of 149th Report of PAC (Seventh Lok Sabha).]

Action Taken

Ministry of Industry have stated that HMT as a leading manufacturer in the organised sector act as a pace setter in the watch industry and other manufacturers price their products to be competitive with H.M.T. watches. It has been further confirmed by H.M.T. that as soon as Government of India reduced the import duty on watch components action was taken to effect reduction in the price of watches made by HMT. It has not been possible to pass on the entire benefit to the consumer since the pricing had to be done with due regard to the inventory position of watches and watch components in H.M.T. and also the fact that H.M.T. had in stock watches made out of imported components on which there was no duty concession.

Subsequently, however, there has been a hike in excise duty on watches from 1% to 10%. This hike largely offset any benefits accrued to H.M.T. by reduction in import duty on components.

As regards the profit earned by H.M.T. this is attributable to the higher sales volume of H.M.T. The sales which are of the order of Rs. 20.77 lakhs in 1977-78 have gone up to Rs. 40.92 lakhs in 1982-83. At the same time the production from imported components has significantly come down from 15.42 lakhs in 1977-78 to Rs. 8.14 lakhs in 1982-83. In other words, the watches made out of imported components which accounted for as much as 65% in 1977-78, accounted only for 20% in 1982-83, which shows that no profiteering was done by H.M.T. to achieve its profit in the watch sector. So far as Small Sectors are concerned because of concessions offered, the landed cost comes to Rs. 89 and wholesaler is offered the watches at prices ranging from Rs. 110 to 115 which goes to show that benefit of customs duty has been passed on to the consumer.

[M/o Finance (Deptt. of Revenue) O.M.F. No. 521/18/83-Cus. (T.U.)
Dated 28-10-83].

Recommendation

The Committee find that a total number of 454 bonds involving a total amount of Rs. 17.78 crores pertaining to the years 1977 to 1981 were pending cancellation after verification in the various Customs Houses. The Committee would like to be apprised of the precise reasons for the pendency of such a large number of bonds and the action taken or proposed to be taken by Government to eliminate such delays in future.

[S. No. 12, Para 1.92 of 149th Report of PAC (Seventh Lok Sabha)]

Action Taken

The pendency of bonds was due to the fact that initially some difficulty was experienced with regard to the manner and method by which these bonds were to be cancelled in terms of the notification and the type of evidence to be accepted before cancelling the bonds. This was, however, clarified by Ministry whereby consumption certificate issued by Chartered Accountant together with legal affidavits sworn by the importer were to be accepted.

Chartered Accountant's Certificate produced by the importer did not cover the entire quantum of the import against any particular licence and

they were being carried over till the full import against the particular licence was completed and imported goods consumed and accounted for.

In case of Public Sector Undertakings, the bonds are mostly in the nature of continuity bonds which could not be cancelled.

In some cases, there were requests from the importers for the extension of time for fulfilling end use obligations.

All end use bonds except those executed by Government undertakings are duly supported by Bank Guarantees for differential duty.

Custom Houses are taking special steps to liquidate the delay in cancellation of end use bonds wherever possible.

[M/O Finance (Deptt. of Revenue) O.M. F. No. 521/18/83-Cus (TU)
Dt. 28-X-83.]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The change in procedure for verifying end use of imported components was made by issue of mere executive instructions on 5th March, 1980. The executive instructions which seek to modify a legal notification, do not have the force of law. The Committee, therefore, desire that suitable change may now be made in the notification itself. The Committee further desires that revenue effect of exemption should be given in the annual report of the Ministry and exemption notification should be for two years at a time.

[S. No. 11, Para 1.91 of the 149th Report of PAC (7th Lok Sabha).]

Action Taken

Customs duty concession on wrist watch parts under notification No. 240/78-Cus. dated 30th December, 1978 is being reviewed in consultation with the administrative Ministry. The recommendation of the Committee for incorporating the manner of verification of the end-use of the imported components in the notification itself will be taken into account while issuing the revised notification.

The recommendation for limiting the customs duty exemptions for two years at a time will not be practicable in all cases because the period for which the exemption is required in individual cases will vary depending on the circumstances.

The recommendation of the Committee for giving the revenue effect of customs duty exemptions in the Annual Report of the Ministry has been noted.

Min. of Finance, Deptt. of Revenue, O.M.NO. 369/1/83-Cus-I
Dt. 6-3-1984].

Recommendation

The Public Accounts Committee was set up in 1921. The Committee's work has widened a great deal with the tremendous increase in expenditure caused by planned socio-economic development of the country entailing massive public sector outlay. Since sixties the committee have also been systematically examining revenue receipts which have also increased vastly to match the expenditure. Further, there has been qualitative change in the work of the Committee. The Committee undertake comprehensive reviews of schemes and projects as well as systems and procedures, which demand more time and effort. It is thus becoming increasingly difficult for one Public Accounts Committee to do justice to work in the changed context. In the considered opinion of the Committee it is time that some restructuring of the Committee is done to ensure the financial accountability of the Executive effectively. Accordingly, they would suggest setting up of the independent Public Accounts Committees for examination of 'Expenditure' and 'Revenue Receipts' separately. The Public Accounts Committee (Revenue Receipts) could also monitor and review the exercise of the delegated powers of the Executive in the matter of grant of exemptions under the Customs and Central Excise Laws, besides examining the Reports of the Comptroller and Auditor General of India of Revenue Receipts.

[S. No. 14, Para 1.94 of 149th Report of PAC (Seventh Lok Sabha)]

Action Taken

The Department of Revenue is not in favour of the proposal for setting up a Parliamentary Committee to review grant of exemption in excise and customs by Government. A decision has already been taken at the level of Finance Minister and Lok Sabha Secretariat has already been informed as per copy of OM attached.

[M/o Finance (Deptt. of Revenue O.M.F No. 521/18/83-Cus (TU)
Dt. 28-X-83].

Copy of O.M. No. 521/18/83-Cus (TU) dated 1st August, 1983, from Director (Customs) CBEC, addressed to Shri K.K. Sharma, Senior Financial Committee Officer, PAC Branch, Lok Sabha Secretariate, New Delhi.

Sub : *Action Taken Notes on Recommendations contained in the 149th Report (Seventh Lok Sabha) of PAC on Customs Receipts.*

Will the Lok Sabha Secretariat (PAC Branch) refer to their OM. No. 20/19/4/82/PAC dated 29th April, 1983, on the above subject ?

2. The proposal contained in Para No. 1.94 of the said PAC's Report relating to setting up of separate Parliamentary Committee to review grant of exemptions in Excise and Customs by the Government has been examined by this Ministry. The Government has not agreed to the said proposal.

3. This issues with the approval of Finance Minister.

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE GIVEN INTERIM REPLIES

Recommendation

The Committee are dismayed to note that since its issue, the exemption notification has not been reviewed at any level. The Committee wish to stress that as recommended in their 105th Report (1981-82) the Ministry of Finance should evolve a monitoring system to review periodically how far the objectives underlying each exemption notification have been achieved and to decide whether the exemptions should be allowed to continue. The Committee further suggest that such exemptions should not be granted for indefinite period but restricted to a couple of years subject to review and extension.

[S.No. 5, Para 1.85 on 149th Report of PAC (Seventh Lok Sabha)].

Action Taken

There are large number of notifications where conditions of end use are to be examined. Also there are other notifications where exemptions have been granted without reference to the condition of end use. In the first category 83 such notifications have been identified. The department has already started scrutinising each individual notification to examine whether the same should be allowed to continue. However, such exercise cannot be taken by the Department of Revenue unilaterally. The Administrative Ministries have also to be consulted. The department has, however, started reviewing the exemption notifications. Conclusion reached in this matter will be intimated to Public Accounts Committee from time to time.

[M/o Finance (Deptt. of Revenue) O.M.F. No. 521/18/83-Cus (TW)
Dt. 28.10.83.]

Recommendation

The Committee note that there are 83 exemption notifications which contain end-use conditions in respect of goods imported. There is, however, no special staff in the Customs Houses to examine and ascertain that the conditions of import are satisfied with the result that the end-use conditions are not endorsed effectively. The Committee, therefore, desire the Government to review all such exemptions and the conditions to be fulfilled with a view to simplifying the process of verification by the Customs Houses as was done in the case of concessional duty on import of watch components.

[S. No 13, Para 1.93 of 149th Report of PAC (Seventh Lok Sabha)]

Action Taken

The Department has already started reviewing all exemption notifications which are conditional. However, since the number of such notifications is too large, and drill is elaborate and time consuming, the Department would need more time to arrive at proper conclusion.

[M/o Finance (Deptt. of Revenue) O.M.F. No. 521/18/83-Cus. (T.W.)
Dt. 28.10.83.]

PART II

MINUTES OF THE SEVENTY-FIRST SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 26 APRIL, 1984(AN)

The Committee sat from 1500 hrs. to 1845 hrs.

PRESENT

Shri Sunil Maitra—*Chairman*

2. Shri Chitta Basu
3. Shri G.L. Dogra
4. Shri Bhiku Ram Jain
5. Shri Satyanarayan Jatiya
6. Shri K. Lakkappa
7. Shri Mahavir Prasad
8. Shri Jamilur Rahman
9. Shri Uttam Rathod
10. Shri Ram Singh Yadav
11. Shri Nirmal Chatterjee

REPRESENTATIVES OF THE OFFICE OF THE C&AG

1. Shri S. Sethuraman—*Addl. Dy. C&AG*
2. Shri A.P. Ghosh—*Director of Audit, Ordnance Factories, Calcutta*
3. Shri V. Sundaresan—*Director of Receipt Audit-I*
4. Shri N. Sivasubramanian—*Director of Receipt Audit-II*
5. Shri N.R. Rayalu—*Joint Director (Defence)*
6. Shri S. K. Gupta—*Joint Director of Audit (Central Excise & Customs)*
7. Shri R. Balasubramanian—*Joint Director of Audit (Direct Taxes)*

SECRETARIAT

1. Shri T.R. Krishnamachari—*Joint Secretary*
2. Shri H.S. Kohli—*Chief Financial Committee Officer*
3. Shri K.K. Sharma—*Senior Financial Committee Officer*

2. The Committee considered the following draft Reports and adopted the same with certain modifications/amendments as shown in Annexures indicated against the respective reports :

xx xx xx xx

6. Draft Report on Action Taken on 149th Report (7th Lok Sabha) on Customs Receipts—Duty Exemptions allowed overlooking condition of end-use.

xx xx xx xx

The Committee also authorised the Chairman to finalise the Reports in the light of modifications/amendments suggested by Audit as a result of factual verification and present the same to the House.

The Committee then adjourned.

APPENDIX

Conclusions/Recommendations

S. No.	Para No.	Ministry/Department	Conclusion/Recommendation
1	2	3	4
1	1.3	M/O Finance (Deptt. of Revenue)	The Committee hope that final replies to the recommendations at S.Nos. 5 and 13 to which only interim replies have so far been furnished will be submitted to them expeditiously after getting them vetted by Audit.
2	2.1.8	-do-	The Committee had in their 149th Report observed that since there was a big gap in the approved capacity and actual production of watches in the small scale sector in the years 1977 to 1981 due to delays at various levels in the grant of Essentiality Certificates and import licences, delays in the arrival of imported components and their release from Customs it would be desirable to make suitable improvements in the prescribed procedures whereby such delays are effectively eliminated. In their Action Taken note, the Ministry of Commerce have intimated that applications for grant of automatic and supplementary licences are now disposed of

according to a time bound system which is in vogue since November 1980. They have also issued necessary instructions to all the concerned authorities to expedite issue of essentiality certificates in cases where all the requisite formalities are fulfilled by the applicant. The Committee, however, regret to note that the Ministry of Finance (Department of Revenue) do not appear to have taken any action on their recommendations except intimating that "the different Ministries are already taking steps from time to time to streamline and simplify the procedural bottlenecks". Since the Ministry of Finance (Department of Revenue) are concerned with the timely release of imported components, that Ministry should have taken suitable remedial measures so as to eliminate the delays in this regard. The Committee, therefore, desire that necessary action to streamline the procedure to eliminate delays in the release of imported components from Customs should be taken by the Ministry of Finance. The Committee would like to be apprised of the specific action taken or proposed to be taken by them in this behalf.

M/O Finance (Deptt. of Revenue)

The Committee had in their earlier Report recommended that each notification issued for grant of exemption from Customs duty should be for a period of 2 years at a time. The Committee had also recommended that revenue effect of the exemptions should be given in the annual report of the Ministry. The Ministry of Finance (Department of Revenue) have, however, stated that it would not be practicable to limit the Customs duty

exemption for two years at a time in all cases because the period for which exemption is required in individual cases will vary depending on the circumstances. The intention underlying the recommendation of the Committee for limiting the period of exemption for two years was to ensure that while examining the question of granting further exemption after the expiry of two years, Government would be able to evaluate whether the purpose for which the exemption was granted has been achieved or not and also to review if the continuance of the exemption was still necessary. The Committee have noted in a number of cases that after issuing an exemption notification without giving any period, no review is made by the Ministry to see whether the object underlying the notification is being fulfilled and also whether its continuance is necessary. The Committee, therefore, reiterate their earlier recommendation that the period of each exemption notification may be restricted to two years at a time.

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As regards the recommendation of the Committee regarding the inclusion of the revenue effects of the exemptions in the annual Report of the Ministry, the Ministry of Finance have merely stated that the same has been noted. The Committee would like to be apprised of the specific decision taken by the Ministry in this regard.

4 1.14 M/O Finance (Deptt.
of Revenue)

In their earlier Report, the Committee had pointed out that their work had widened a great deal with the tremendous increase in expenditure caused by planned socio-economic development of the country entailing massive public sector outlay. Also, since the Sixties, the Committee had been examining Revenue Receipts which had also increased vastly to match the expenditure. Further there had been qualitative change in the

work of the Committee. In view of the foregoing, the Committee had expressed the considered opinion that it was time that restructuring of the Public Accounts Committee is done to ensure the financial accountability of the Executive effectively. Accordingly, the Committee had suggested setting up of the independent Public Accounts Committees for examination of "Expenditure" and "Revenue Receipts" separately. It had also been mentioned that the Public Accounts Committee (Revenue Receipts) could also monitor and review the exercise of delegated powers of the executive in the matter of grant of exemptions under the Customs and Central Excise Laws. In their Action Taken note, the Committee have been informed that the Department of Revenue "is not in favour of the proposal for setting up a Parliamentary Committee to review grant of exemption in excise and customs by Government". No reasons have been given by Government for not accepting the recommendation of the Committee. The Committee consider the aforesaid reply of Government as highly regrettable. In their opinion, this reply is not in conformity with the principle of financial accountability of executive to Parliament. As the Committee feel the need for such a scrutiny is all the more necessary in view of the fact that the number of such notifications and the amount of revenue foregone is continuously on the increase during the last several years. The Committee, therefore, reiterate their earlier recommendation that there is a need for setting up of the independent Public Accounts Committees for examination of "Expenditure" and "Revenue Receipts" separately and that the Public Accounts Committee dealing with "Revenue Receipts" should also monitor and review the issue of exemption notification by Government.

