TWELFTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1985-86)

(EIGHTH LOK SABHA)

CASH ASSISTANCE FOR EXPORT OF OSSEIN AND EXPORT OF RAILWAY WAGONS TO A FOREIGN COUNTRY

MINISTRY OF COMMERCE

[Action Taken on 152nd Report (Seventh Lok Sabha)]

Presented in Lok Sabha on 29-8-1985

Laid in Rajya Sabha on 29-8-1985

LOK SABHA SECRETARIAT
NEW DELHI

August, 1985/Sravana, 1907 (Saka)

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(1985-86)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twelfth Report on action taken by Government on the recommendations contained in 152nd Report (7th Lok Sabha) on Cash Assistance for Export of Ossein and Export of Railway Wagons to a foreign country relating to the Ministry of Commerce.

2. The Committee's One Hundred and Fifty Second Report was presented to the Lok Sabha on 29th April, 1983 and contained 27 recommendations and observations. According to the time schedule, the notes indicating the action taken by Government in pursuance of the recommendations and observations contained in the Report duly vetted by Audit were required to be furnished to the Committee latest by 28 October, 1983. While the Ministry of Commerce made available to the Committee advance copies of their action taken notes in respect of 15 recommendations and observations relating to Cash Assistance for Export of Ossein within this time limit, they could furnish advance copies of the action taken notes on the remaining recommendations except one (Paragraph 2.58) on 13 August, 1984. Vetted copies of the action taken notes were, however, received on 3 July, 1985. In the opinion of the Committee, the present case is an example of extreme indifference. Not only the Monitoring Cell failed to keep a watch but also the Financial Adviser attached to the Ministry of Commerce did not care either to seek any extension of time or explain the reasons for delay in furnishing replies to the Committee. The Committee feels if the Parliamentary control over the public expenditure and the executive is to be exercised effectively, Financial Advisers attached to the various Ministries and the Monitoring Cell would have to systematise their working and ensure that the Ministry Departments concerned initiate action promptly on the recommendations and observations of the Committee.

The Committee has also observed that cash assistance for export of Ossein was sanctioned by the Cabinet Committee from October 1975 to March 1976 and the Ministry of Commerce extended cash assistance at the same rate of 10 per cent FOB (Free on Board) realisation for another three years from 1 April, 1976 to 30 April, 1979.

This scheme was continued further and reviewed and withdrawn with effect from 1 October, 1982? The Committee has, therefore, desired to know whether at any stage the Ministry of Commerce undertook cost study as advised by the Marketing Development Fund Committee. The considerations|factors which led to the withdrawal of the scheme with effect from 1 October, 1982 also need to be explained to the Committee. The Committee has expressed its desire that it should be informed in this regard within a fortnight of the presentation of the Report.

3. On 6 June, 1985, the following Action Taken Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Public Accounts Committee in their earlier Reports:

1 Shri E. Ayyapu Reddy—*Chairman*

2. Shri Rajmangal Pande 3 Shri Amal Datta 4 Shri Girdhari Lal Vyas 5 Shri Nirmal Chatterjee 6. Shri K. L. N. Prasad 7 Shri H. M. Patel 8 Shri J. Chokka Rao	*Members*

4. The Action Taken Sub-Committee of the Public Accounts Committee considered this Report at their sitting held on 7 August, 1985. The Report was finally adopted by the Public Accounts Committee on 16 August. 1985.

5. For reference facility and convenience, the recommendations|observations 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 place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
August 16, 1985
Sravana 25, 1907 (*S*)

E. AYYAPU REDDY
Chairman.
Public Accounts Committee.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's observations and recommendations contained in their Hundred and Fifty-Second Report (7th Lok Sabha) on Cash Assistance for export of Ossein and Export of Railway wagons to a foreign country, commented upon in paragraphs 2 & 3 of the Advance Report of the Comptroller & Auditor General of India for the year 1980-81, Union Government (Civil) relating to the Ministry of Commerce.

1.2 The Committee's 152nd Report was presented to the Lok Sabha on 29-4-1983 and contained 27 observations and recommendations. According to the time schedule for furnishing of action taken notes on Committee's observations and recommendations, the notes indicating the action taken by Government in pursuance of the recommendations and observations in the Report, duly vetted by Audit, were required to be furnished to the Committee latest by 28 October, 1983. While the Ministry of Commerce made available to the Committee *advance copies of their action taken notes in respect of 15 observations and recommendations relating to Cash Assistance for Export of Ossein within this time limit, they did not furnish any action taken note in regard to observations and recommendations of the Committee relating to Export of Railway wagons to a foreign country. However, the Ministry were reminded on 13 March, 1984 to which the Ministry replied on 19 March, 1984 that these recommendations relate to Export Promotion (Engineering Division) of that Ministry. Neither did that Division furnish the action taken notes nor did they seek any extension of time. On 21 May, 1984, the Joint Secretary of the concerned Division was again reminded to furnish the action taken notes along with the reasons for delay by 28 May, 1984. In spite of that, no communication was received from the Ministry either for extension of time or regarding furnishing of Action Taken Notes. When this matter was discussed with the Joint Director and the Under Secretary concerned in the 3rd week of June, 1984, two officers of the Ministry came to see the then Chief Financial Committee Officer of PAC and promised to furnish all the Action Taken Notes by 16 July, 1984. However, advance

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*Vetted copies were made available on 16 February, 1984 copies of the action taken notes on the remaining recommendations except paragraph 2.58 were furnished by the Ministry on 13 August, 1984 after a D.O. reminder was issued to the Ministry on 6 August, 1984 and the vetted copies received on 3 July, 1985.

1.3 Till April, 1963, Action Taken Notes|Statements were required to be furnished to the Committee within one month of the presentation of the Committee's Report to the House. The Public Accounts Committee (1962-63) however, found that this time limit was not being observed by most of the Ministries and therefore the Committee, seeking to be fair, had then extended this time limit to three months. Reverting to the subject again, the Public Accounts Committee (1967-68) while further extending the time limit for submission of Action Taken Notes|Statements to six months from the date of presentation of the Report to the House, had observed in paragraph 1.11 of their 5th Report (4th Lok Sabha):

> "The relaxation in the time limit for submission of replies should not be interpreted as implying that the Committee do not attach importance to prompt action being initiated on their recommendations. What the Committee envisage is that the Government should draw up a well-thought-out plan for processing the recommendations of the Committee as soon as a Report is presented to the House. The Committee consider that it should be reasonably possible for Government to draft the replies on these recommendations|observations within four months of their receipt and that these should be got vetted by Audit in the next two months so that final replies, duly vetted by Audit, could be sent to the Committee not later than six months of the date of presentation of the Report. With a view to ensuring that this time schedule is adhered to scrupulously, the Committee would suggest to Government that the Finance Secretary (Expenditure) should be made responsible for securing compliance, as a co-ordinating officer, and he could get the Financial Advisers attached to the different Ministries to watch that a final reply is furnished to the Lok Sabha Secretariat in respect of recommendations concerning the relevant administrative Ministry."

1.4 Even after this revised schedule had been agreed to delays in the submission of Action Taken Notes continued to occur. The Public Accounts Committee (1975-76) therefore in their 220th Report (Fifth Lok Sabha), urged the Government 'to review this thoroughly unsatisfactory state of affairs and take immediate remedial measures'. While expressing their happiness over the measures aimed at securing timely submission of action taken notes on the Committee's recommendations by setting up a 'Monitoring Cell' in the Department of Expenditure as the focal point for the Government as a whole, to co-ordinate the progress in this regard and monitor delays with the Ministries/Departments concerned, the Public Accounts Committee (1976-77) had, in paragraph 1.15 of their 25th Report (6th Lok Sabha) hoped that 'the Integrated Financial Advisers|Internal Financial Advisers in each Ministry would discharge their responsibility effectively in examinng the Reports of the Committee and in co-ordinating and monitoring the expeditious submission of the Action Taken Notes thereon to the Committee'. Still the position in this regard is far from satisfactory.

1.5 The Committee had from time to time, stressed the need for timely submission of action taken notes. The Finance Secretary (Expenditure) who is coordinating officer, must be responsible for ensuring that the time schedule for furnishing replies to the Committee's recommendations was adhered to scrupulously. Simultaneously, Financial Advisers attached to the different Ministries must see that final replies are furnished to the Lok Sabha Secretariat within the prescribed time limit of six months.

1.6 The present case is an example of extreme indifference. Not only the Monitoring Cell failed to keep a watch, but also the Financial Adviser attached to the Ministry of Commerce did not care either to seek any extension of time or explain the reasons for delay in furnishing replies to the Committee. This obviously defeats the objectives of setting up the Monitoring Cell. If the Parliamentary Control over the public expenditure and the executive is to be exercised effectively, Financial Advisers attached to the various Ministries and the Monitoring Cell would have to systematise their working and ensure that the Ministries/Departments concerned initiate action promptly on the recommendations and observations of the Committee. The Committee would like to emphasise that the Financial Advisers/Joint Secretary (Finance) in each Ministry/Department are responsible for timely submission of action taken notes. In case of serious delay, as in this case, disciplinary action should be taken against them.

1.7 The action taken notes received from Government have been broadly categorised as follows:

(i) Recommendations and observations which have been accepted by Government:

S. Nos. 4, 8, 11, 14, 15 and 20.

(ii) Recommendations and observations which the Committee do not desire to pursue in the light of replies received from Government;

S. Nos. 6, 9, 10, 12, 19, 24, 26 and 27

(iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration;

S. Nos. 1, 2, 3, 7, 13, 17, 18, 22 and 23

(iv) Recommendations and observations in respect of which Government have furnished interim replies;

S. Nos. 5, 16, 21 and 25.

1.8 The Committee expect that final replies to those recommendations and observations in respect of which only interim replies/no replies have so far been furnished will be submitted to them, duly vetted by Audit, without delay.

1.9 The Committee will now deal with the action taken by Government on some of their recommendations and observations.

Observations made by the Ministry of Finance and main Committee of the Marketing Development Fund not brought to the notice of the Cabinet Committee (Paragraphs 1.46 to 1.48—Sl. No. 1 to 3)

1.10 Commenting on the unusual procedure adopted by the Ministry of Commerce on sanctioning cash assistance at the rate of 10 per cent of f.o.b. realisation of export of ossein from October 1975 to March 1976 without bringing to the notice of the Cabinet Committee the observations made by the Ministry of Finance and main Committee of the Marketing Development Fund, the Committee had, in paragraphs 1.46 to 1.48 of their Report, observed:

"Ossein is an intermediate product used in the manufacture of gelatine which is used in medicines, photography certain food products etc. Production of ossein in India is of recent origin, though crushed bones, a raw material used for its production, is one of India's traditional export items. The Committee find that the Ministry of Commerce made out a case for the grant of cash assistance for export of Ossein in August, 1975. The Ministry of Finance, however, felt that there was no justification for the grant of cash assistance for export of ossein in terms of the criteria adopted at that time for granting cash assistance. The main Committee of the Marketing Development Fund (which lays down the guidelines according to which Cash Compensatory support is to be sanctioned by the Ministry of Commerce) considered the case and directed in September, 1975 that the case be studied further with reference to the exact nature of the product and by-products, its usage and the relevant economics. However, without complying with the requirement of the Marketing Development Fund Committee, the Ministry of Commerce sanctioned cash assistance in October, 1975 at the rate of 10 per cent of f.o.b. realisation of export of ossein from October, 1975 to March, 1976.

The Ministry of Commerce have attempted to justify this lapse on the plea that "cash assistance on ossein was sanctioned based on the criteria approved by the Cabinet Committee on Exports in October, 1975". According to the Ministry, "the criteria laid down by the Cabinet Committee on Exports were not the same as the criteria followed by the Marketing Development Fund Committee." The MDF Committee had considered the proposal in August, 1975 for grant of cash assistance in the light of the earlier criteria which were largely in terms of bridging the gap between the f.o.b. cost and f.o.b. realisation while the criteria laid down by the Cabinet Committee on Exports in October, 1975 were in terms of the exports prospects, production capability in the country, the competitive strength of the export products, *vis-a-vis* international prices and other relevant factors. The Committee are not convinced with the argument adduced by the Ministry of Commerce seeking to justify their decision. The Committee feel that since the MDF Committee had made certain specific recommendations for compliance, the best course of action open to the Ministry of Commerce would have been to refer the case back to the MDF Committee for reconsideration and independent appraisal in the light of the criteria subsequently outlined by the Cabinet Committee alongwith adequate data rather than taking an *ad hoc* and unilateral decision. The Committee regret that by not doing so, Government have deprived the Marketing Development Fund Committee from exercising its legitimate functions in judging the merit of the case for grant of cash compensatory assistance.

The Committee note that the ossein and Gelatine Manufacturers Association of India requested Government to extend cash assistance beyond March 1976 and sought its enhancement to 25 per cent of f.o.b. value. The Ministry of Commerce, however, extended cash assistance at the same rate of 10 per cent of f.o.b. realisation for 3 years from 1 April, 1976 to 31st March, 1979. The Committee regret to point out that even at this stage the Ministry of Commerce did not undertake any cost study as advised by the MDF Committee. During the period 1st October, 1975 to 31st March, 1979 ossein valuing Rs. 22.69 crores was exported. These exports attracted payment of Rs. 2.27 crores as cash assistance. The Committee are unable to find any justification for this huge payment from the exchequer in the absence of any cost study based on precise formulations."

1.11 In their reply furnished to these observations the Ministry of Commerce have, in their action taken notes dated 16 February, 1984 stated:

"The Main Committee of the MDF had considered the question of payment of CCS to ossein in September, 1975 and desired that the case be studied further. Although the Main Committee of the MDF did not agree for CCS, the Cabinet Committee on exports, decided that it was necessary to give additional cash assistance in respect of certain products having regard to export prospects, production capability in the country, the competitive strength of our products *vis-a-vis* international prices and other relevant factors. The Committee appointed under the Chairmanship of Commerce Secretary, in persuance of the decision of the Cabinet Committee, recommended CCS @ 10 per cent on the export of various items of chemical group which was approved by the Deputy Minister. Ossein was also one of the items in this list.

The Cabinet Committee on exports is a superior body to the MDF Main Committee and since approval of Minister was also obtained there is no irregularity involved in sanction of CCS for ossein during October, 1975 to March, 1976."

"Since the Cabinet Committee on exports is a superior body and it was felt that its decision would prevail over the decision of the MDF Committee, it was not referred back to the MDF Committee."

"In September, 1976, the Cabinet Committee on exports took a policy decision that except in regard to cotton textiles, jute manufacturers, oil cakes and items made out of non-ferrous metals to a sensitive degree, cash assistance rates once fixed should not be changed for three years i.e. upto 31st March, 1979. The main reason for this decision was that frequent changes in the rate of CCS create uncertainty in the minds of exporters and adversely affect the overall export effort. This policy decision was taken at the highest level in the overall context of export viability, production capability in the country, the competitive strength of our products. The increase in exports from 3004 MT in 1975-76 to 13, 199 MT in 1979-80 and also the increase in value from Rs. 311.2 lakhs in 1975-76 to Rs. 1376.7 lakhs i.e. four fold both in quantity and value have justified the decision to continue CCS."

1.12. In this connection, Audit have observed as under:

"While submitting the case to the Cabinet Committee on Exports, the facts that the case had already been under consideration of the MDF, who desired the case to be studied further with reference to the exact nature of the product and bye products, its usage and the relevant economics were not brought to the notice of the Cabinet Committee. Had this fact been brought to the notice of the Cabinet Committee they would not perhaps have sanctioned the cash assistance in this case."

1.13. In reply to the Audit observations, the Ministry of Commerce have in their action taken note clarified:

"Individual cases of grant of CCS were not submitted to the Cabinet Committee on Exports which had approved the criteria and authorised the Committee headed by Commerce Secretary to approve the items and the rates of assistance. This Committee included an Additional Secretary in the Department of Economic Affairs and Deptt. of Expenditure. The fact that the case had already been under consideration of the MDF Main Committee could have been brought to the notice of this Committee but this was not done for the reasons already explained in the action taken note."

1.14 The Committee do not agree with the above reply of the Ministry of Commerce. In the opinion of the Committee, the fact that the case was considered by the Marketing Development Fund (MDF).

who desired the case to be studied further with reference to the exact nature of the product and by-products, its usages and relevant economics should have been brought to the notice of the Cabinet Committee while submitting the case to them. Had this been done, the Cabinet Committee would not, perhaps, have sanctioned the cash assistance in this case. This was a serious failure of the Ministry of Commerce. Moreover, if the recommendations/suggestions of a Committee appointed by the Government are not brought to the notice of another Committee, the very purpose of appointment of such Committees is defeated.

1.15 The Committee also note that the Committee appointed under the Chairmanship of Commerce Secretary, in pursuance of the decision of Cabinet Committee, recommended CCS at the rate of 10 per cent on the export of various items of chemical group which was approved by the Deputy Minister. The Committee would like to know the basis on which this Committee recommended CCS at the rate of 10 per cent on the export of ossein and whether the recommendations of the Main Committee of Marketing Development Fund were also considered by this Committee. As an Additional Secretary in the Department of Economic Affairs and Department of Expenditure was also included in this Committee, the Committee may be apprised whether he had brought to the notice of the Committee that the case for Cash Assistance for the export of ossein was referred to the Ministry of Finance and that that Ministry did not see any justification for granting cash assistance on this item.

1.16. The Committee further observe that Cash Assistance for export of ossein was sanctioned by the Cabinet Committee from October 1975 to March 1976 and the Ministry of Commerce extended Cash Assistance at the same rate of 10 per cent of FOB realisation for another 3 years from 1 April 1976 to 30 April, 1979. This scheme was continued further and reviewed and withdrawn with effect from 1 October, 1982. The Committee would like to know whether at any stage, the Ministry of Commerce undertook any cost study as advised by the MDF Committee. The considerations/factors which led to withdrawal of the scheme w.e.f. 1 October, 1982 also need to be explained to the Committee. The Committee would like to be informed in this regard within a fortnight of the presentation of the Report.

Cash Assistance to be restricted to the quantity exported in excess of the export obligation (Paragraph 1.52 S. No. 7)

1.17. Stressing the need for restricting the cash assistance to the quantity exported in excess of the export obligation, the Committee, in paragraph 1.52 of their Report, had recommended:

"The Committee note that since 1977-78, 90 per cent of ossein produced in India is being exported to USA and Japan. The exports to Japan were under collaboration arrangements with two Indian Ossein processing units which had been under obligation to offer bulk of their production to Japan at a mutually agreed price. While both the units were getting cash assistance for exports, in the case of one unit the price included an element of profit at 10 per cent of the equity capital in 1979-80, 20 per cent in 1980-81 and 33-1|3 per cent in 1981-82 onwards. When asked about the reasons for payment of cash compensatory assistance to such a unit, the Ministry of Commerce have stated that since cash compensatory support is allowed on an exported product on the basis of certain criteria like incidence of unrefunded taxes etc. no distinction can be made on the ground that an item is manufactured in a unit set up with foreign collaboration. The Committee do not agree with this. They feel that there is no justification for cash assistance to such units producing export goods with foreign collaboration and carrying an export obligation with built in profit under agreements. If at all cash assistance is given in such cases it should be restricted to the quantity exported in excess of the export obligation. The Committee therefore desire that Government should review the policy with regard to granting cash assistance in such cases."

1.18. The Action Taken Note dated 16 February, 1984 furnished by the Ministry of Commerce in this regard is reproduced below:

"As regards the question of grant of CCS on export of items subject to export obligation the matter had been considered by the Cabinet quite some time back and a specific decision was taken to allow CCS on such items.

Regarding CCS on items manufactured in units set up with foreign collaboration, the matter was considered by the CARC. Since CCS is allowed on an exported product and not for the unit where the items is manufactured on the basis of certain criteria like incidence of unrefunded taxes etc., no distinction can be made on the ground that an item is manufactured in a unit set up with foreign collaboration. In many cases the condition of foreign collaboration may itself be contingent upon the existence of CCS. Besides, exports are made not only by manufacturer-exporters but also merchant-exporters. Hence it would not be appropriate to deny CCS to a merchant-exporter on the ground that the item exported by him is manufactured in a unit set up with foreign collaboration."

1.19 While vetting the replies, the Audit have observed as under:

"When the margin of profit already existed after taking into account the incidents of taxes etc., there should be no case for cash assistance. Further the cost study of other units had not been conducted by the Government to ascertain the margin of profit earned by these units.

As the bulk of the production was to be supplied by the Indian firms to their collaborators, the question of merchant exporters coming in between does not arise in this case."

1.20 In this connection, the Ministry of Commerce have remarked:

"CCS is determined in accordance with the guidelines approved by the Cabinet, from time to time. Cost study of other units was not necessary in accordance with the approved guidelines. Further, there may be margin of profit in the case of a few units and loss in the case of other units. CCS is given on the basis of the approved guidelines without any discrimination or distinction between units with a margin of profit/loss. The collaboration may be with or without buy-back arrangement. In the latter case, the manufacturer may not be an exporter but good manufactured by it are exported by merchant exporters also."

1.21 From the reply of the Government the Committee note that the question of grant of Cash Compensatory Support on export of items subject to export obligations was considered by the Cabinet sometime ago and a specific decision to allow CCS on such items was taken. The Ministry have also stated that since CCS is allowed on an exported product and not for the unit where the item is manufactured on the basis of certain criteria like incidence of unrefunded taxes etc., no distinction could be made on the ground that an item is manufactured in a unit set up with foreign collaboration. The Committee is not satisfied that the above contention of the Government is valid. The Committee would again like to stress that there is no justification for cash assistance to such unit producing export goods with foreign collaboration and carrying an expert obligation with built in profit under agreements. If, at all, cash assistance is given in such cases, it should be restricted to

the quantity exported in excess of the export obligation. The Committee reiterate their earlier recommendation that with the passage of time and cases like this coming up, there is need to examine the guidelines afresh in this regard with a view to ensuring that CCS is not misused.

Indiscriminate grant of Cash Assistance and other export promotional incentives (Paragraph 1.58—*S. No.* 13).

1.22 Expressing their concern over indiscriminate grant of Cash Assistance and other export promotional incentives, the Committee had, in paragraph 1.58 of their Report, stated:

"The Public Accounts Committee have from time to time examined the scheme of cash compensatory support extended to various items or export promotion. The Committee have commented adversely upon the indiscriminate grant of cash assistance and other export promotional incentives on the basis of *ad hoc* and inadequate assessments."

1.23 In their Action Taken Note dated 16 February. 1984, the Ministry of Commerce have stated that this question has been considered by the Government and it is felt that since rates of CCS are determined on the basis of approved criteria, cost study may not be treated as a pre-requisite for fixation of rates of CCS in every case. However, the Audit have, in this regard, observed that though a cost study may not be deemed to be pre-requisite in every case by the Ministry it is considered that it should be one of the deciding factors for establishing needs for grant of cash assistance. The Ministry of Commerce have replied to Audit observations as follows:

"The proforma prescribed for submission of data for determination of rates of CCS includes information relating to FOB cost and FOB realisation. Though a cost study is not a pre-requisite in every case, the shortfall in FOB realisation is taken into account at the time of deciding the rate of CCS."

1.26 The Committee do not see any justification in Ministry's point of view that the cost study may not be treated as a pre-requisites for fixation of rates of CCS in every case since rates of CCS are determined on the basis of approved criteria. The Committee regret that the basic importance of cost analysis in such cases is overlooked. The Committee would urge that one of the approved criteria for determining the CCS should be broad cost analysis. This is essential to curb ad hocism **and prevent malpractices.**

Failure of the State Trading Corporation in assessing the availability of indigenous steel (Para 2.50—Sl. No. 17)

1.25 Recommending fixation of responsibility for the failure of the State Trading Corporation in estimating the availability of indgegenous steel in the country, the Committee had, in Paragraph 2.50 of their Report stated:—

> "After the contract was signed in October, 1970 regular meetings are stated to have been held in February—March, 1971 with Iron & Steel Controller where representatives of Steel Plants and Engineering Export Promotion Council were also present. As a result of these discussions, the steel plants indicated total quantity of steel which could be possibly made available indigenously. On the basis of this information STC estimated that only about 9,000 tonnes of indigenous steel would be available. Again in a meeting of Contract Implementation Committee held on 8th July' 1971, it was advised that due to non-availability of weldable quality of steel and steel with copper content for the next two years, greater quantity of imports will have to be resorted to. The anticipated availability of indigenous steel was later on reduced to 2,000 to 3,000 tonnes and eventually, however, almost the entire quantity of steel had to be imported. The reply of the Ministry of Commerce that prior to actual signing of the contract formal procurement action was not practicable evades the issue. The question that needs a satisfactory reply is how the estimates of indigenous availability of steel were initially assessed. how these got reduced so drastically and how these finally turned out to be nil. The Committee consider that the STC clearly failed in projecting a clear picture to Government and must be held accountable for this lapse. This resulted in the entire steel having to be imported at a high price for supply to wagon builders involving heavy payment of countervailing duty. Consequently. the raison detre of the contract itself was lost. The Committee desire that the responsibility for this lapse must be fixed."

1.26 The Ministry of Commerce have. in their Action Taken Note dated 3 July. 1985. stated as under:—

"The contract was based on steel to Indian specifications. The intention was that the bulk of steel to be used would come from Indian steel plants. STC|PEC then made efforts to seek confirmation from the Ministry of Steel regarding the availability of steel prior to signing the contract. After signing of the contract, the requirements of steel for executing the contract were sent to the Iron & Steel Controller through the E.E.P.C. Subsequently, a series of meetings were held with the Iron and Steel Controller, Calcutta, where representatives of steel plants and the E.E.P.C. were also present. The Iron and Steel Controller was of the view that the steel requirement for this contract was within the normal manufacturing range of the steel plants but steel requirement could not be supplied on account of general shortage. As a result of the discussions the steel plants indicated the total quantity of steel which would be indigenously available. As total quantity indicated by the plants could not be allocated for this contract, because there were other competing demands, it was assumed by STC|PEC that 1/5th of this capacity may be available for the Yugoslav wagons contract and the remaining steel roughly 46,000 tonnes would have to be imported. In the event of lesser quantities of steel being made available, it was stated that imports would have to be increased proportionately. In a meeting taken by the then Secretary; Foreign Trade on 8th July, 1971 where representatives of Department of Steel were also present, the position with regards to requirement of steel for the contract was reviewed. In this meeting STC's earlier assumption that about 9,000 tonnes of steel being available from indigenous sources was discussed. It was noted that since STC had made this assumption, Steel Ministry had clarified that steel of welding quality and with copper content is not likely to become available for the next two years. Due to reduction in the anticipated availability of steel the necessity for importing the entire quantity of steel was recognised."

1.27 The Committee is not happy with the reply of the Ministry of Commerce. They have stated that State Trading Corporation of India Ltd. (STC)|Projects and Equipments Corporation of India Ltd. (PEC) concluded the contract in October 1970 for supply of 3600 wagons to a foreign country at a contract price of Rs. 37.45 crores simply on the

assumption that 9000 tonnes of indigenous steel would be available. The Ministry had stated earlier that meetings were held with Iron & Steel Controller in February and March 1971 and also after signing of the contract and that the steel required could not be supplied on account of general shortage. The Committee's specific questions as to how the estimates of indigenous availability of steel were initially assessed, how these got reduced so drastically and how these finally turned out to be nil have not been explained by the Ministry.. As the answer to the above questions is necessary, a copy each of the Minutes of the above meetings in which the Iron & Steel Controller and representatives of Steel Plants agreed to supply steel of the requisite specifications may be made available to the Committee.

1.28 In case, STC concluded the contract as stated by the Ministry of Commerce now simply on the assumption that about 9000 tonnes of indigenous steel would be available, the Committee reiterate their earlier recommendation that the STC should be held responsible for this lapse.

Expenditure in Foreign Exchange on import of Steel which remained surplus (Para 2.51—*S. No.* 18).

1.29 The Committee observed that the Projects and Equipment Corporation actually imported 11,000 tonnes of steel in 1971-72 and 46,691.710 tonnes in 1972-73 (including 622.372 tonnes of steel short-landed) against the original estimates of 46,000 tonnes allowed by the main committee of the Marketing Development Fund. Orders for importing second consignment of 46,691.710 tonnes of steel was placed without verifying whether the previous stock of 11,000 tonnes of steel of first consignment had been fully utilised. The Committee observed that had the Project and Equipment Corporation shown prudence expected of it and ensured the utilisation of the first lot of steel before importing the second lot, much of the expenditure of Rs. 4.33 crores in foreign exchange on import of steel, which remained surplus, could have been avoided. The Committee desired that this question be examined and suitable steps taken to guard against such lapses in future.

1.30 The Ministry of Commerce in their reply stated as follows:—

> "At the time when ordering of steel was done, the contract was for the full quantity of 3,600 wagons. It was not foreseen at that stage that the contract would require to be truncated. Therefore, any interruption in the availability of steel would have resulted in interruption of production of wagons. This in turn would have resulted in several repurcussions including delayed delivery and possibly higher

prices of steel. Under the circumstances, the decision to order the steel was taken in the interest of performance of contract. Moreover, steel supplies were not made in matched sets and the first lot of 11,000 tonnes would itself have not resulted in manufacture of complete wagons. It is, therefore, not true that the second lot of steel only become surplus."

1.31 The reply of the Ministry is not convincing. The Committee fail to understand why import of steel was not arranged to match the delivery schedule and manufacture of wagons from time to time. The P.E.C. have failed to regulate the imports. The Committee would like this issue to be re-examined with a view to fixing responsibility for import of surplus steel.

Truncation of order due to failure of wagon builders to effect supplies in time (Para No. 2.55 —S. No. 22).

1.32. Commenting upon failure of the wagon builders to effect the supplies in time, the Committee observed as follows:

"The Committee note that as many as three extensions were given by the foreign country to complete the delivery. Due to the failure of the Indian wagon builders to effect the supplies in time, the order was reduced by the importing country from 3,600 to [illegible],300. The contract value was correspondingly reduced from Rs. 37.45 crores to Rs. 18.39 crores. This resulted in 34,844 tonnes of imported steel supplied to the wagon builders becoming surplus. The Committee are perturbed at this failure of wagon builders to supply the wagons as per the contract particularly when they were constantly complaining of under-utilisation of their capacity and when special arrangements were made by Government to supply to them the requisite quantities of imported steel at a very high cost. As a result of this failure to adhere to the schedule of supply, the country has not only lost the expected foreign exchange earnings but the deal has adversely affected the prestige of the country and given a bad name to Indian exporters in International markets. The Committee cannot but express their deep unhappiness at this failure of Government to ensure the supply of wagons as per schedule. The Committee consider that Government should have explored the possibility of diverting the order to other wagon manufacturers in this situation so as to fulfil the deal. The Committee would like to know if any such efforts were made."

1.33 In their Action Taken Note, the Government informed the Committee as follows:—

"The contract was given due importance by all the concerned Ministries and all our efforts were made to fulfil the contractual obligations. Whenever problems were encountered these were brought to the notice of the buyer and extension of deliveries obtained from time to time. It was not the delayed deliveries which led to the truncation of the contract; it was basically the effect on the overall costing of the contract due to various reasons like delays in finalisation of contract details, the affect of Indo-pak war of 1971 with its repercussion on various spheres of the economy, severe power shortage in the country during 1972, the oil crisis of 1973 affecting the prices of practically every input etc. All these factors affected the costing of the project and necessitated renegotiation with the Yugoslavs. The complex negotiations finally led to a mutually acceptable figure of 1,300 wagons for which the contract was subsequently executed and completed.

During the period of this contract there were considerable uncertainties. These were heightend by the fact that three of wagon builders were nationalised during this period. Since the liabilities of these company's became the liabilities of the Government, due assessment had to be made of the losses which might be incurred in case the entire contract was carried out through to completion. The attempt at this stage was to minimise losses in the contract. In these circumstances the diversion of the orders to manufacturer was not a viable solution.

The delivery of the wagons as per renegotiated contract was completed in August, 1976. Main reasons for the delay in delivery against the renegotiated contract were:

(i) Technical difficulties by the Assembly factories in Yugoslavia.

(ii) Unjustified stoppage of assembly in Yugoslavia on account of non-settlement of norms for additional work.

(iii) Wrong utilisation of wheel-sets supplied by the Indian wagon builders by assembly factories of Yugoslavia against orders of third parties.

(iv) Delay by the assemblies in Yugoslavia for movement of assemblies from Yugoslavia port."

1.34 The above explanation clearly brings out that escalation in cost which played major part in truncation of the contract as stated by Ministry of Commerce could have been controlled had prompt action been taken to process the contract in a business like manner. All the factors brought out above in support of the actions of the Projects and Equipment Corporation of India Ltd have come into play due to delays at all stages of execution of the contract. Care must be taken to provide for foreseenable eventualities in settling the terms of contract. Promptness in pointing out any breach of the terms by the other foreign party is essential; so that India's image in international market is kept bright.

Delay in taking a decision for disposing the surplus steel
(*Para* 2.56—*Sl. No.* 23)

1.35 Expressing their concern over the delay of 3 years in taking a decision for disposing of surplus steel, the Committee had, in paragraph 2.56 of their Report, desired:

"Although Government were aware of the steel becoming surplus in May, 1974, no action was taken for its alternative use or disposal and it was only in April, 1975 that the PEC approached Government for disposal of 30,069 tonnes of steel valuing Rs. 4.48 crores against 34,844 tonnes of surplus steel actually available. Inspite of the fact that the PEC had obtained approval of the CCI&E to dispose of the surplus steel in July, 1976, it took another three years to take a decision for disposal of the surplus quantity of steel available with the various wagon builders. In January, 1978 the Ministry of Finance (Commerce Divn.) also observed that "If decision had been taken much earlier within the present span of 3 years between January 1975 and January 1978 for the disposal of surplus steel, interest and storage charges worked out by the PEC (Rs. 247.87 lakhs and Rs. 62.77 lakhs) would have been much less. In fact, had a decision in this regard been taken in January, 1975 itself, the wagon builders could not have taken the plea of having incurred the interest (Rs. 247.87 lakhs) and storage charges (Rs. 62.77 lakhs) as till then, they were liable to bear these charges for fulfilment of the original contract. Delay in decision resulted in non-recovery of Rs. 155.75 lakhs of overpaid subsidy on 34,844 tonnes of imported steel. The Committee recommend that the reasons for delay in taking a decision be gone into in depth and responsibility for such costly lapse be fixed."

1.36 In their Action Taken Note dated 3 July, 1985, the Ministry of Commerce have stated:

"The fact that the steel would become surplus was known only after the contract was truncated in January, 1975. The decision to allow wagon builders to use surplus, steel for any export or domestic order or to sell it to 'actual users' was taken in August, 1975 in a meeting held in the Ministry of Commerce. In this meeting it was also noted that PEC had in the meanwhile made efforts to find customers for the surplus steel amongst government Deptts., or Zonal railways.

Moreover the wagon builders were not able to utilise the steel because the steel was procured for specific sizes or specifications to suit Yugoslav wagon requirements, and could not be easily adapted to other wagons and/or products. In terms of the decision taken in the meeting in August, 1975 PEC was to apply to CCI&E for approval to dispose off surplus steel as the same had been imported under an import licence issued by O/o office of CCI&E on certain conditions.

The finalisation of waiver of refund of subsidy took some time as various issues cropped up from time to time which necessitated clarifications and discussions. As the problem was complex, all attempts were continuously made to search for an adequate solution. This position was accepted by the then JS and FA who agreed to drop his comments regarding the delay in decisions regarding utilisation of surplus steel from the note for MDA/MC.

1.37 The Committee are not satisfied with the reply of the Ministry had not given any reply to the specific questions asked by the Committee as to why the Projects and Equipment Corporation of India Ltd. had taken 3 years to take a decision for disposal of the surplus quantity of steel available with the various wagon builders. The Committee reiterate their earlier recommendation that the reasons for delay in taking the decision be gone into in depth and responsibility be fixed for such costly lapse.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

In October, 1978, the Ministry of Commerce directed the Chemicals and Allied Products Export Promotion Council to furnish certain information so as to formulate the policy of cash assistance for export of ossein in the light of the basic principles outlined by the Alexander Committee in January, 1978 for grant of cash assistance for export. The Council while recommending cash assistance at 20 per cent of f.o.b. value forwarded the requisite data in respect of 5 units showing shortfalls in f.o.b. realisation ranging from 15 to 30 per cent (Rs. 1416 to Rs. 3008 per tonne). However, an independent scrutiny carried out by audit, of the cost data furnished by the trade to the Export Promotion Council had revealed that there were profits ranging from Rs. 107 to Rs. 1529 per tonne of ossein in four cases and loss of Rs. 8.19 per tonne in one case, whereas all the five units had shown losses in exports while furnishing the cost data. In reply to a query of the Committees, the Ministry of Commerce admitted that the cost data sent by the units was not independently verified by the Ministry. The Committee find that the units concerned had furnished the data on the basis of the then price trend and not with reference to the average f.o.b. realisation for the year which was already over on the plea that the data was required for determining the future CCS rate. The Committee cannot accept this as a valid basis for determining the cash compensatory support. It is unfortunate that the Ministry accepted the data without proper verification. The Committee are constrained to point out that inadequacy of the Governmental machinery to evaluate effectively the f.o.b. realisations and other cost data and putting an almost exclusive reliance on the data furnished by the Export Promotion Councils which comprise of interested exporters and industrialists, has been a glaring shortcoming in the management of the scheme of cash compensatory support

[S. No. 4 Appendix-II Para 1.49 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

For fixation of rates of CCS on various items data is obtained from manufacturing units exporting particular products. The system is to collect the data in respect of a particular item from major manufacturing units, through the concerned Export Promotion Council. It has been made obligatory that the data in each part of the proforma should be certified by the Chartered Accountant of the concerned firm. Also, the EPCs have been made responsible for verification of the correctness of the data. As regard machinery for verification of the data received through the EPCs, the data is first scrutinised by the concerned Commodity Division and thereafter proposals for fixation of rates of CCS are submitted for consideration by an inter-Ministerial Committee on cash assistance under the Chairmanship of Additional Secretary, Ministry of Commerce. The Committee includes officers from Deptt. of Expenditure, Deptt. of Economic Affairs, CCI&E, DGTD. The proposals incorporating the data are considered on merits of each case, by the Committee and the rates of CCS are fixed as determined by the Committee.

It had been felt that there should be a specialised machinery to assist the Cash Assistance Review Committee. With this end in view, a Cell has recently been set-up in the Ministry of Commerce. This Cell will have the following functions in respect of the items specifically selected by the CARC.

(i) Undertaking of special studies in connection with evolving of/compliance with norms for submission of data relating to CCS.

(ii) Collection of data in regard to trend and volume of exports in respect of selected CCS assisted items.

(iii) Analysis and interpretation of data so collected.

(iv) Analytical study to determine have for CCS has actually contributed to the increase in exports of the concerned items and the quantum of foreign exchange inflow: and

(v) to concurrently review and evaluate market trends, F.O.B. realisation and impact of various kinds of assistance.

This Cell is headed by a Director with two cost Accountants Officers and other supporting staff. Director, in-charge of this Cell is being associated with the Meetings of the CARC. It is expected that this arrangement will help in bringing about closer scrutiny and better assessment of the data received from.

This has the approval of Commerce Minister.

[The Ministry of Commerce, O.M. No. 10(1)/83-EP (CAP) dated 16th Feb. 1984]

Recommendation

The Committee find that U.S.A. had been importing ossein from India at the rate of about US $500 (Rs. 4000) per tonne less than it had been importing ossein from another country (Belgium) during the years 1977 and 1978. "While India's share of imports of ossein by USA was 69 per cent, that of Belgium was only 30 per cent. The Ministry of Commerce have stated that Government normally do not monitor unit value realisation vis-a-vis other countries. To a pointed question of the Committee whether there could not be possibility of exporters having indulged in under-invoicing, the Ministry of Commerce merely replied that no case of under invoicing has been reported. The Committee feel that Government have to remain vigilant in such cases to ensure that the export promotion incentives are deserved and the country does not lose legitimate foreign exchange earnings. The Committee would therefore like that the Commercial Consulates of our Embassies and Revenue intelligence Wing should keep a close and constant watch in cases where Indian goods are fetching much lower price than the prevailing international prices to ensure that there are no cases of under-invoicing.

[S. No. 8 Appendix-II Para 1.53 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

In cases where under-invoicing is brought to the notice of the Ministry of Commerce, the question of fixing of Minimum Export Price is considered to prevent under-invoicing. The Ministry of Finance has already set up special units in all the Custom Houses to detect the cases of under-invoicing.

The observation of the PAC has been brought to the notice of all Government of India Commercial Representatives abroad.

This has the approval of Commerce Minister.

[The Ministry of Commerce, O.M. No. 10(1)/83-EP (CAP) dated 16th Feb. 1984]

Recommendation

The foregoing paragraphs provide an eloquent testimony to the abject failure of the scheme to grant cash assistance for export of ossein in achieving the desired objectives. While taking a decision in the matter the Ministry not only overlooked objections raised by the MDF Committee but also did not bother to have a proper cost study carried out at any stage. The scheme was extended on the basis of unverified and incorrect cost data. In retrospect, the Committee cannot help feeling that greater vigilance should have been exercised by the Government while allowing such large payments from the exchequer. While the Committee realise the necessity of boosting the country's exports by providing necessary assistance and incentives to our exporters, they expect the Government to be more vigilant, prudent and discriminating in granting cash assistance.

[S. No. 11 Appendix-II Para 1.56 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

As already stated in reply to Para No. 1.49 a new Cell has been created and the CARC will henceforth be assisted by the Cell. The functions of which have been enumerated. This will help in better assessment for determination of CCS in each case.

This has the approval of Commerce Minister.

[The Ministry of Commerce, O.M. No. 10(1)/83-EP(CAP) dated 16th Feb. 1984]

Recommendation

In their 174th Report (1975-76), the Committee had pointed out that the basic defect of the system of determining cash assistance is that there is no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisation and the impact of various kinds of assistance given for export promotion (para 1.49). In their 10th Report (1977-78) on 'Export of Engineering Goods', the Committee had recommended that Government should do well to attempt a quantification, in monetary terms of the various concession given in the past to exporters with a view to determining how for these exports promotion measures have actually succeeded in achieving the objectives envisaged (para 1.120). In para 1.6 of their 77th Report (1981-82) on 'cash assistance on export of deoiled rice bran', the Committee have expressed the view that it is desirable to carry out a proper cost study by the Cost Accounts Branch of the Ministry of Finance before sanctioning or reviewing the cash assistance on any commodity, particularly in cases of those commodities where substantial amount is paid every year as cash assistance and which have been enjoying the facility for a number of years. In their 111th Report (1981-82) on the "Working of the office of Joint Chief Controller of Imports and Exports, New Delhi", the Committee had expressed the view that Indian export goods should not be heavily subsidised at the cost of the exchequer and for the benefit of exporters who can afford to export goods without asking for cash assistance (para 86).

[S. No. 14 Appendix-II Para 1.59 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

As has already been stated, a CCS cell has *inter alia* been set up and assigned the functions described in comments on para 1.49.

Besides, IIFT, has been entrusted with a study on the impact of the CCS scheme on exports. The study will cover cost benefit analysis and utility of the scheme in the context of export promotion. This has the approval of Commerce Minister.

[The Ministry of Commerce O.M. No. 10(1)/83-EP(CAP) dated 16th Feb. 1984]

Recommendation

The Committee are concerned to note from the Audit Paragraph under examination that the administration of the Cash Compensatory Support Scheme continues to suffer from deficiencies which have been repeatedly highlighted by the Public Accounts Committee in their earlier Reports. This is a matter of great concern. The Committee are strongly of the view that now that the scheme of cash compensatory assistance has been in operation for more than 16 years and a substantial amount is being paid every year (*e.g.*, Rs. 500 crores in 1981-82) as cash assistance for export of various commodities, its efficacy and usefulness should be evaluated without delay by a Team of Experts with a view to finding out how far the scheme has been able to achieve the objective for which it was started and what modifications are necessary to make it more effective and meaningful.

[S. No. 15 Appendix-II Para 1.60 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

As has already been stated, a CCS cell has *inter alia* been set up and assigned the functions described in comments on para 1.49.

Besides, IIFT has been entrusted with a study on the impact of the CCS scheme on exports. The study will cover cost benefit analysis and utility of the scheme in the context of export promotion.

This has the approval of Commerce Minister.

[The Ministry of Commerce O.M. No. 10(1)|83-EP(CAP) Dated 16th Feb., 1984]

Recommendation

The above claim of Rs. 258.05 lakhs also included Rs. 80.56 lakhs on account of countervailing duty. The Ministry of Commerce who have made 'on account' payment of Rs. 239.28 lakhs during May, 1972 to February, 1974 had observed in September, 1974 that the countervailing duty (Rs. 80.56 lakhs) was inadmissible. This resulted in over payment of Rs. 61.79 lakhs. Later on, the Ministry of Commerce informed the Committee that 'on making further quaries from the PEC and going through the details obtained from them it appears that no countervailing duly has been reimbursed by the Ministry to PEC.' This is a very vague reply. The Committee would like to be apprised of the correct position in this regard. The Committee are dismayed at the reply of the Ministry of Commerce that 'on account' payments of Rs. 239.28 lakhs were not made headwise. The committee would like to know as to how the 'on account' payments to the Projects & Equipment Corporation were calculated without apportioning the items under separate heads. Necessary recoveries should be made in case any payment has been made to PEC which was inadmissible.

[S. No. 20 of Appendix-II Para 2.53 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

While forwarding their claims to the Government for reimbursement PEC had given a break-up of the total costs incurred by them. In the total cost of Rs. 10,98,72,557.36 an amount of Rs. 80,55,524.19 had been included on account of countervailing duty. Against total cost of PEC had shown a realisation of Rs. 8,40,94,344.94 from the wagon manufacturers.

PEC have since given the break-up of their realisation from the wagon builders and have clarified that Rs. 80,55,524.10 on account of CVD is not included in their deficit of Rs. 2,57,78,212.47 which is their total claim from the MDF.

As regards the issue of 'on account' payments, it is clarified that while in the sanction order for these payments details head-wise are not given, these sanction orders were issued only after scrutiny of claims against various heads like custom duty, importing costs like port charges, financing, costs, handling transportation, octroi levy etc. This scrutiny head-wise was done on file.

[The Ministry of Commerce O.M. No. 11/2/83-EP(OP) dated the 2nd July, 1985]

CHAPTER III

RECOMMENDATONS|OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

The Ministry have further stated that "short term fluctuations in the price of raw material though important in determining the difference between f.o.b. cost and realisation at any given point of time, may not alter the balance of factors underlying the fixation of Cash Compensatory Support on any given product". The Committee are not inclined to agree with this contention. Keeping in view the fact that the f.o.b. realisation and other cost data furnished by the exporters were not verified by the Ministry over the years (subsequent scrutiny by audit revealed an altogether different picture) and considering that the price of the raw material had come down considerably in the domestic market, the Committee feel that there was no justification whatsoever for extending the period for granting cash assistance for export of ossein beyond March, 1976.

[S. No. 6 Appendix-II para 1.51 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

The decision to extend CCS till 31st March, 1979 was taken in September, 1976 by the Cabinet Committee on exports to enable the exporters to evolve a long term strategy which is a necessity for establishing themselves in the international market. While the price of the raw material is one of the factors that determine the competitiveness of a product in the international market, there are also other factors like improved technology, freight tariffs, research and development which are equally important in determining the competitiveness of the product. CCS to an extent enable the exporters to overcome these disadvantages. The fact that export in terms of quantity and value had risen and increased from the level of Rs. 311 lakhs during 1975-76 to Rs. 872 lakhs during 1978-79 fully justifies the decision to continue CCS on long term basis.

This has the approval of Commerce Minister.

[The Ministry of Commerce O.M. No. 10(1)|83|FP(CAP) dated 16th Feb., 1984]

Recommendation

The Committee find that an amount of Rs. 3.64 crores was paid as cash assistance for export of ossein during the period 1975-76 to 1979-80. While the value of export of ossein with cash assistance and restricted export of crushed bones increased from Rs. 2.02 crores in 1974-75 to Rs. 13.73 crores in 1979-80, the foreign exchange earnings of crushed bones decreased from Rs. 18.02 crores to Rs. 5.10 crores during this period. Thus, there was an overall decline in the foreign exchange earnings from Rs. 20.04 crores in 1974-75 to Rs. 18.83 crores in 1979-80 on these two commodities even after paying a total cash assistance of Rs. 3.64 crores during this period. It is evident that the grant of cash assistance on the export of ossein has failed to achieve the basic objective viz. increase in the foreign exchange earnings.

[S. No. 9 Appendix-II, Para 1.54 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

With declining international prices of crushed bones, the value addition by the conversion of crushed bones into ossein and the subsequent export of ossein cushioned the decline which would otherwise have occurred in foreign exchange earnings, had ossein exports not been encouraged. The following calculation shows this. The calculation has been done to compare the foreign exchange earnings obtained by export of ossein during 1974-75 to 1979-80 with that if we had exported crushed bones equal to the amount of crushed bones exported in the form of ossein by taking 4 tonnes of crushed bones equal to one tonne of ossein.

Year	Export of Ossein		Crushed bones exported in the form of ossein (Col. 2×4)	Average f.o.b. realisation of crushed bones per MT (Rs.)	Col 4 × Col.5 (Rs.lakhs)
	Qty (MT)	Value (Rs. lakhs)			
1	2	3	4	5	6
1974-75	1787	207.4	7148	1889	135.033
1975-76	3004	311.2	12016	1383	166.18
1976-77	5352	424.7	21408	1202	257.32
1977-78	7363	728.8	29452	1799	529.84
1978-79	8943	872.1	35772	1672	598.11
1979-80	13189	376.7	52756	1872	987.59

The above calculation clearly indicates that the foreign exchange earnings have been much higher by exporting ossein than that would have been made by exporting crushed bones if the export of ossein would not have been encouraged.

CCS on ossein had the objective of promoting exports and foreign exchange realisation from ossein exports only and not from crushed bones. This objective was fully met as would be evident from the increase in export figures of ossein.

This has the approval of Commerce Minister.

[The Ministry of Commerce O.M. No. 10(1)/83-EP(CAP) dated 16th Feb., 1984]

Recommendation

Ossein is used as a raw material for the production of gelatine. The Committee find that after introduction of cash assistance for export of ossein, a major percentage of ossein produced in India was exported (93 per cent in 1976-77, 84 per cent in 1977-78, 96 per cent in 1978-79, 97 per cent in 1979-80 and 1980-81 and 95 per cent in 1981-82). Obviously on account of this, against the permitted installed capacity of 7000 tonnes per year, production of gelatine between 1975-76 and 1979-80 ranged only between 1090 to 2459 tonnes per year. The Ministry of Commerce have however attributed the slow growth of production of gelatine to "certain intrinsic disabilites". This is a very facile argument What is apparent is that the Indian ossein manufactures have not hitherto paid any attention to production of a value added product like gelatine as they have been getting cash assistance for the export of its raw material. The Committee cannot but conclude that by granting cash assistance on the export of ossein Government have perhaps unwittingly provided a disincentive promotion of production and exports of gelatine a value added commodity. This aspects needs to be looked into immediately.

[S. No. 10 Appendix-II Para 1.55 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

Production of gelatine is technologically difficult and the investments necessary are also relatively heavy. These are the important reasons why production and export of gelatine in India have not increased as can be seen from the fact that during the last year or so, when the ossein industry has been facing considerable difficulty in exporting because of technological developments in the USA, not much exploration of moving into gelatine production seems to have taken place. On the export of gelatine there was CCS @ 10 per cent upto 30-9-1982. There is also no certainty that there will be long term prospects of exports which makes the industry shy to invest in this area.

This has the approval of Commerce Minister.

[The Ministry of Commerce O.M. No. 10(1)|83|FP(CAP) dated 16th Feb. 1984]

Recommendation

The Committee note that after the present Audit Paragraph was selected by the Committee for examination, the cash compensatory support scheme for export of ossein was reviewed and Government have withdrawn it with effect from 1 October, 1982. Though Government have not adduced any specific reason for reversing the decision except for saying that the decision was taken during the periodical review of cash assistance given for export of various items, this reinforces the Committee's view that the decision to grant cash assistance on export of ossein was unjustified abinition.

[S. No. 12 Appendix-II Para 1.57 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

The decision to withdraw CCS on ossein was taken by CARC in accordance with its judgement and the criteria followed for grant of CCS on various products. However, the grant of CCS on ossein was not unjustified. In fact, CCS did help to increase ossein exports considerably.

This has the approval of Commerce Minister.

[The Ministry of Commerce O.M. No. 10(1)|83|FP(CAP) dated 16th Feb. 1984]

Recommendation

The Committee note from the audit paragraph that the Projects & Equipment Corporation had lodged claims amounting to Rs. 258.05 lakhs including subsidy of Rs. 2.78 lakhs on 622.372 tonnes of stee short landed. It is not clear as to how the subsidy on short-landed steel could have been claimed. The Committee desire an explanation in this regard.

[S. No. 19 of Appendix-II Para 2.52 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

PEC have stated that no subsidy on short landed steel has been claimed by them. Their final claim is based on the total cost incurred on steel imported by PEC and the amount realised from the wagon builders. As regards short landed steel, the domestic cost has been recovered from the wagon builders and has been taken into account, but the customs duty refunds claimed by PEC from the MDF do not include any claims on short-landed quantity of steel.

[The Ministry of Commerce O.M. No. 11|2|83-EP(OP)
Dated the 2nd July, 1985]

Recommendation

The Committee find that in March, 1978 the Main Committee of the Marketing Development Fund agreed to waive the recovery of subsidy estimated at Rs. 123.26 lakhs provided there was no negligence on the part of PEC in disposing of or otherwise utilising the surplus steel held by them. It is not clear as to how the sanction for the waiver of refund of the subsidy was issued by the Government without settling the accounts with the PEC. This needs to be explained.

[S. No. 24 of Appendix-II Para 2.57 of 152nd Report of PAC
(Seventh Lok Sabha)]

Action taken

The sanction issued by the Government conveyed the approval in principle to the waiver of the refund of the subsidy paid to PEC.

[The Ministry of Commerce O.M. No. 11|2|83-EP(OP)
Dated the 2nd July, 1985]

Recommendation

The Committee note that at the time of truncation of the contract, the wagon builders had with them 34,844 tonnes of surplus steel out of which 30,268.509 metric tonnes was with the wagon builders as raw steel and the balance quantity was in the shape of components. From the reply furnished by the Ministry of Commerce, the Committee find that raw steel was utilised by the Wagon Builders for their export orders, domestic orders etc. and 632.494 tonnes of steel was still available with the three wagon builders as on July 1, 1982. As there is considerable shortage of wagons in the country itself, the Committee would like to know whether the

Indian Railways were approached for utilising the surplus steel for manufacture of wagons. Moreover, since the steel was imported at a high cost in foreign exchange at a time when there was acute shortage of indigenous steel the Committee would like to know why the stocks were not taken over by Government itself for its own use.

[S. No. 24 of Appendix-II Para 2.59 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

The Indian Railways and other concerned Government Deptts. were approached for utilising surplus steel. Thus while efforts were made to find suitable users in the Government Departments for the surplus steel, these efforts did not bear any results.

[The Ministry of Commerce O.M. No. 11|2|83-EP(OP) Dated the 2nd July, 1985]

Recommendation

The Committee regret to note that the various lapses in this case have cost the country heavily. As against an anticipated earning of Rs. 15 crores of foreign exchange, the net earning was to the tune of Rs. 34 lakhs only. If the foreign exchange spent on the visits of a number of delegations to the foreign country is taken into account, the earnings would be practically nil. On the other hand, a payment of Rs. 5.37 crores was made as subsidy on imported steel. The Committee cannot but conclude that the entire deal has been mismanaged at every level and has tarnished the country's image. The Committee would like Government to examine the matter in depth with a view to identifying the lapses fixing responsibility and taking suitable remedial measures to avoid recurrence of such lapses in future. The Committee need hardly emphasise that no amount of money and energy spent on export promotion would be able to achieve the desired results until and unless supply of timely and good quality products are ensured.

[S. No. 27 of Appendix-II Para 2.60 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

It is not true that a payment of Rs. 5.37 crores was made as subsidy on imported steel. The fall in the expected foreign exchange earnings was mainly due to the truncation of the contract coupled with the fact that the imports required for the execution of the entire contract had been made prior to the truncation of the contract. At the time of placing of the order or at the time of the delivery of these imported items it was not expected that the contract would have to be truncated. The problems arising during the execution of the contract were not on account of mismanagement but on account of the attitude of foreign sub-suppliers and certain other *force majeure* circumstances outlined in Action Taken note *vide* para 2.55

[The Ministry of Commerce O.M. No. 11|2|83-EP(OP)
Dated the 2nd July, 1985]

CHAPTER IV

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

Recommendation

Ossein is an intermediate product used in the manufacture of gelatine which is used in medicines, photography, certain food products etc. Production of ossein in India is of recent origin, though crushed bones, a raw material used for its production, is one of India's traditional export items. The Committee find that the Ministry of Commerce made out a case for the grant of cash assistance for export of ossein in August, 1975. The Ministry of Finance, however, felt that there was no justification for the grant of cash assistance for export of ossein in terms of the criteria adopted at that time for granting cash assistance. The main Committee of the Marketing Development Fund (which lays down the guidelines according to which Cash Compensatory support is to be sanctioned by the Min. of Commerce) considered the case and directed in September, 1975 that the case be studied further with reference to the exact nature of the product and by-products, its usage and the relevant economics. However, without complying with the requirement of the Marketing Development Fund Committee, the Ministry of Commerce sanctioned cash assistance in October, 1975 at the rate of 10 per cent of f.o.b. realisation of export of ossein from October, 1975 to March, 1976.

[S. No. 1 Appendix-II Para 1.46 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

The Main Committee of the MDF had considered the question of payment of CCS to ossein in September, 1975 and desired that the case be studied further. Although the Main Committee of the MDF did not agree for CCS, the Cabinet Committee on exports, decided that it was necessary to give additional cash assistance in respect of certain products having regard to export prospects, production capability in the country, the competitive strength of our products *vis-a-vis* international prices and other relevant factors. The Committee appointed under the Chairmanship of Commerce Secretary, in pursuance of the decision of the Cabinet Committee, recommended CCS @ 10 per cent on the export of various items of chemical group which was approved by the Deputy Minister. Ossein was also one of the items in this list. A copy of the list is appended. (Lists I and II).

The Cabinet Committee on exports is a superior body to the MDF Main Committee and since approval of Minister was also obtained there is no irregularity involved in sanction of CCS for ossein during October, 1975 to March, 1976.

This has the approval of Commerce Minister.

Audit Observation

While submitting the case to the Cabinet Committee on Experts, the facts that the case had already been under consideration of the MDF, who desired the case to be studied further with reference to the exact nature of the product and bye-products, its usage and the relevant economics were not brought to the notice of the Cabinet Committee. Had this fact been brought to the notice of the Cabinet Committee they would not perhaps have sanctioned the Cash assistance in this case.

Ministry's remarks

Individual cases of grant of CCS were not submitted to the Cabinet Committee on Exports which had approved the criteria and authorised the Committee headed by Commerce Secretary to approve the items and the rates of assistance. This Committee included an Additional Secretary in the Department of Economic Affairs and Deptt. of Expenditure. The fact that the case had already been under consideration of the MDF Main Committee could have been brought to the notice of this Committee but this was not done for the reasons already explained in the action taken note.

[The Ministry of Commerce O.M. No. 10(1)|83-EP(CAP) Dated 16th Feb., '84]

LIST-I

Basic Inorganic Chemicals

1. Calcium Carbide
BE O 2. Calcium Chloride.
3. Chlorine
B. 1.7 4. Chromium Sulphate basic
5. Ferric Sulphate
6. Ferrous Sulphate (Technical)
B.1.9 7. Manganese Dioxide
8. Manganese Oxide
9. Nitric Acid
10. Phosphates (Moni Di and Tri-Sodium Phosphate)
B. 1.21 11. Potassium Bichromate
12. Potassium Nitrate
13. Potassium Carbonate
14. Sodium Hydroxide
15. Sodium Nitrate
16. Sodium Peroxide
17. Sodium Sulphate
B.1.31 18. Sodium Thiosulphate (Photographic Grade)
19. Sodium Tri-Polyphosphate
B.1.24 20. Potassium Permanganate
21. Caustic Potash
BB.49 22. Magnesium Carbonate
B.1.41 23. Sodium Chromate (Hydrated)
24. Aluminium Chloride
25. Ferric Chloride.

Basic Organic Chemicals

1. Ortho Toluene Sulphonamide
2. Oxalic Acid
3. Para Toluene Sulphonamide
4. Phenol
5. Pathalic Anhydride
6. **Ethanalamines.**

LIST-II

select Solvents and Chemical and Allied Products.

	1. Argon
	2. Carbon Black
	3. Chlorinated Paraffin
B.11.6	4. Nitrous Oxide (Gas)
	5. Sodium Silicate
B.1.37	6. Canadium Pentoxide Catalyst
	7. Brake Fluid
	8. Ether
BB.12	9. Ethyl Acetate
	10. Ethyl Chloride
B.2.1	11. Hydroquinone
BB.40	12. Methyl Chloride
B.1.42	13. Laboratory Chemicals Analytical Reagents
B.4.1(A)	14. Abrasive Lapping powder-all others
B.4.1(B)	15. Abrasive Lapping powder-based on fused aluminium oxide.
B.4.5	16. Fire Fighting Foam compound
B.4.8	17. Heat Treatment salts
B.4.12	18. Water Treatment Chemicals
B.4.13	19. Electro Plating salts
B.4.14	20. Ion Exchange Resins
	21. Ossein
B.4.16	22. Foundry Fluxes
BB.3	23. Activated Bleaching Earths
	24. Gum Rosin
B.26	25. Acarbattis and Dhoop
B.27.12	26. Hair Dye
B.27.15	27. Souring Powder
B.31.17	28. Rubbing Compound
B.31.18	29. Boot Polish
B.31.19	30. Wax Polish
B.31.21	31. Gliet Paste
B.11.7	32. Sacchrine
B.56.2	33. Parquet Tiber flooring
B.56.5	34. Decorative wooden picture frame sticks/frames
B.56.7	35. Shuttles.

Recommendation

The Ministry of Commerce have attempted to justify this lapse on the plea that "cash assistance on ossein was sanctioned based on the criteria approved by the Cabinet Committee on Exports in October, 1975". According to the Ministry, "the criteria laid down by the Cabinet Committee on Exports were not the same as the criteria followed by the Marketing Development Fund Committee". The MDF Committee had considered the proposal in August, 1975 for grant of cash assistance in the light of the earlier criteria which were largely in terms of bridging the gap between the f.o.b. cost and f.o.b. realisation while the criteria laid down by the Cabinet Committee on Exports in October, 1975 were in terms of the exports prospects, production capability in the country, the competitive strength of the export products, vis-a-vis international prices and other relevant factors. The Committee are not convinced with the argument adduced by the Ministry of Commerce seeking to justify their decision. The Committee feel that since the MDF Committee had made certain specific recommendations for compliance, the best course of action open to the Ministry of Commerce would have been to refer the case back to the MDF Committee for reconsideration and independent appraisal in the light of the criteria susbsequently outlined by the Cabinet Committee alongwith adequate date rather than taking an ad hoc and unilateral decision. The Committee regret that by not doing so, Government have deprived the Marketing Development Fund Committee from exercising its legitimate functions in judging the merit of the case for grant of cash compensatory assistance.

[S. No. 2 Appendix-II Para 1.47 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

Since the Cabinet Committee on exports is a superior body and it was felt that its decision would prevail over the decision of the MDF Committee, it was not referred back to the MDF Committee.

This has the approval of Commerce Minister.

Audit Observation

While submitting the case to the Cabinet Committee on Exports, the facts that the case had already been under consideration of the MDF, who desired the case to be studied further with reference to the exact nature of the product and bye-products, its usage and the relevant economics were not brought to the notice of the Cabinet Committee. Had this fact been brought to the notice of the Cabinet Committee, they would not perhaps have sanctioned the cash assistance in this case.

Ministry's remarks

Individual cases of grant of CCS were not submitted to the Cabinet Committee on Exports which had approved the criteria and authorised the Committee headed by Commerce Secretary to approve the items and the rates of assistance. This Committee included an Additional Secretary in the Department of Economic Affairs and Deptt. of Expenditure. The fact that the case had already been under consideration of the MDF Main Committee could have been brought to the notice of this Committee but this was not done for the reasons already explained in the action taken note.

[The Ministry of Commerce O.M. No. 10(1)|83-EP (CAP) Dated: 16th Feb. '84]

Recommendation

The Committee note that the ossein and Gelatine Manufacturers Association of India requested Government to extend cash assistance beyond March 1976 and sought its enhancement to 25 per cent of f.o.b. value. The Ministry of Commerce, however, extended cash assistance at the same rate of 10 per cent of f.o.b. realisation for 3 years from 1 April, 1976 to 31st March, 1979. The Committee regret to point out that even at this stage the Ministry of Commerce did not undertake any cost study as advised by the MDF Committee. During the period 1st October, 1975 to 31st March, 1979 ossein valuing Rs. 22.69 crores was exported. These exports attracted payment of Rs. 2.27 crores as cash assistance. The Committee are unable to find any justification for this huge payment from the exchequer in the absence of any cost study based on precise formulations.

[S. No. 3 Appendix-II Para 1.48 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

In September, 1976, the Cabinet Committee on exports took a policy decision that except in regard to cotton textiles, jute manufacturers, oil cakes and items made out of non-ferrous metals to a sensitive degree, cash assistance rates once fixed should not be changed for three years i.e. upto 31st March, 1979. The main reason for this decision was that frequent charges in the rate of CCS create uncertainty in the minds of exporters and adversely affect the overall export effort. This policy decision was taken at the highest level in the overall context of export viability, production capability in the country, the competitive strength of our products. The increase in exports from 3004 MT in 1975-76 to 13,199 MT in 1979-80 and also the increase in value from Rs. 311.2 lakhs in 1975-76 to Rs. 1376.7 lakhs i.e. four fold both in quantity and value have justified the decision to continue CCS.

This has the approval of Commerce Minister.

Audit Observation

While submitting the case to the Cabinet Committee on Exports, the facts that the case had already been under consideration of MDF, who desired the case to be studied further with reference to the exact nature of the product and bye-products, its usage and the relevant economics were not brought to the notice of the Cabinet Committee. Had this fact been brought to the notice of the Cabinet Committee, they would not perhaps have sanctioned the Cash assistance in this case.

Ministry's remarks

Individual cases of grant of CCS were not submitted to the Cabinet Committee on Exports which had approved the criteria and authorised the Committee headed by Commerce Secretary to approve the items and the rates of assistance. This Committee included an Additional Secretary in the Department of Economic Affairs and Deptt. of Expenditure. The fact that the case had already been under consideration of MDF Main Committee could have been brought to the notice of this Committee but this was not done for the reasons already explained in the action taken note.

[The Ministry of Commerce O.M. No. 10(1)/83-EP(CAP) dated: 16th Feb. '84]

Recommendation

The Committee note that since 1977-78, 90 per cent of ossein produced in India is being exported to USA and Japan. The exports to Japan were under collaboration arrangements with two Indian Ossein processing units which had been under obligation to offer bulk of their production to Japan at a mutually agreed price. While both the units were getting cash assistance for exports, in the case of one unit the price included an element of profit at 10 per cent of the equity capital in 1979-80, 20 per cent in 1980-81 and 33-1/3 per cent in 1981-82 onwards. When asked about the reasons for payment of cash compensatory assistance to such a unit, the Ministry of Commerce have stated that since cash compensatory support is allowed on an exported product on the basis of certain criteria like incidence of unrefunded taxes etc. no distinction can be made on the ground that an item is manufactured in a unit set up with foreign collaboration. The Committee do not agree with this. They feel that there is no justification for cash assistance to such units producing export goods with foreign collaboration and carrying an export obligation with built-in profit under agreements. If at all cash assistance is given in such cases it should be restricted to the quantity exported in excess of the export obligation. The Committee therefore desire that Government should review the policy with regard to granting cash assistance in such cases.

[S. No. 7 Appendix-II Para 1.52 of 152nd Report of PAC (Seventh Lok Sabha)]

Action taken

As regards the question of grant of CCS on export of items subject to export obligation the matter had been considered by the Cabinet quite some time back and a specific decision was taken to allow CCS on such items.

Regarding CCS on items manufactured in units set up with foreign collaboration, the matter was considered by the CARC. Since CCS is allowed on an exported product and not for the unit where the item is manufactured on the basis of certain criteria like incidence of unrefunded taxes etc., no distinction can be made on the ground that an item is manufactured in a unit set up with foreign collaboration. In many cases the condition of foreign collaboration may itself be contingent upon the existence of CCS. Besides, exports are made not only by manufacturer-exporters but also merchant-exporters Hence it would not be appropriate to deny CCS to a merchant-exporter on the ground that the item exported by him is manufactured in a unit set up with foreign collaboration.

This has the approval of Commerce Minister.

Audit Observation

When the margin of profit already existed after taking into account the incidents of taxes etc., there should be no case for cash assistance. Further the cost study of other units had not been conducted by the Government to ascertain the margin of profit earned by these units.

As the bulk of the production was to be supplied by the Indian firms to their collaborators, the question of merchant exporters coming in between does not arise in this case.

Ministry's Remarks

CCS is determined in accordance with the guidelines approved by the Cabinet, from time to time. Cost study of other units was not necessary in accordance with the approved guidelines. Further, there may be a margin of profit in the case of a few units and loss in the case of other units. CCS is given on the basis of the approved guidelines without any discrimination or distinction between units with a margin of profit/loss. The collaboration may be with or without buy-back arrangement. In the latter case, the manufacturer may not be an exporter but goods manufactured by it are exported by merchant exporters also.

[The Ministry of Commerce O.M. No. 10(1)/83-EP(CAP) dated 16th Feb., 1984]

Recommendation

The Public Accounts Committee have from time to time examined the scheme of cash compensatory support extended to various items for export promotion. The Committee have commented adversely upon the indiscriminate grant of cash assistance and other export promotional incentives on the basis of ad hoc and inadequate assessments

[S. No. 13 Appendix-II Para-1.58 of 152nd Report of PAC (Seventh Lok Sabha)]