

**PUBLIC ACCOUNTS COMMITTEE**  
**(1978-79)**

(SIXTH LOK SABHA)

**NINETY-NINTH REPORT**

**CUSTOMS RECEIPTS**

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

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 54th Report (Sixth Lok Sabha) relating to Customs Receipts]



*Presented in Lok Sabha on*

*Laid in Rajya Sabha on*

1 MAR 1979

**LOK SABHA SECRETARIAT** 1 MAR 1979  
**NEW DELHI**

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CORRIGENDA TO 99TH REPORT OF THE PAC (SIXTH LOK SABHA) PRESENTED TO THE LOK SABHA ON 1.3.1979.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For.</u>	<u>Read</u>
6 .	1.12	4	Trade	Trading
		8	manpolise	monopolised
8	1.17	2	report	resort
9	1.19	9	unscrupplous	unscruplous
57	1.12	4	Trade	Trading
58	-do-	3	Add "for making their import of rough diamonds" between the words "necessary" and "competitive"	

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**PUBLIC ACCOUNTS COMMITTEE**  
(1978-79)

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Shri H. G. Paranjpe—*Joint Secretary.*

Shri T. R. Ghai—*Senior Financial Committee Officer.*

## INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Ninety-Ninth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 54th Report (Sixth Lok Sabha) relating to Customs Receipts.

2. On 31 May 1978, an 'Action Taken Sub-Committee' consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri P. V. Narasimha Rao—*Chairman*

2. Shri Asoke Krishna Dutt—*Convener*

### *Members*

3. Shri Vasant Sathe

4. Shri M. Satyanarayan Rao

4. Shri Gauri Shankar Rai

6. Shri Kanwar Lal Gupta

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 26 October, 1978. The Report was finally adopted by the Public Accounts Committee (1978-79) on 15th December, 1978.

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

5. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Comptroller and Auditor General of India.

NEW DELHI;  
December 15, 1978  
Agraḥayana 24, 1900 (S)

P. V. NARASIMHA RAO,  
*Chairman,*  
Public Accounts Committee.

## CHAPTER I

### REPORT

1.1. This Report deals with the action taken by Government on the Committee's recommendations/observations contained in their 54th Report (Sixth Lok Sabha) on paragraph 15 relating to Customs Receipts included in the Report of the Comptroller & Auditor General of India for the year 1974-75, Union Government (Civil), Revenue Receipts, Volume I.

1.2. The 54th Report was presented to Lok Sabha on 16-12-1977 and contained 25\* recommendations/observations. Action Taken Notes in respect of all these recommendations/observations have been received from Government and these have been broadly categorised as follows:

(i) *Recommendations/observations that have been accepted by Government:*

S. Nos. 4, 5, 6, 7, 8, 9, 10, 11, 20 and 25.

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

S. Nos. 2, 3, 15, 19, 21, 22 and 23.

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

S. Nos. 1, 12, 13, 14, 16 and 17.

(iv) *Recommendations/observations in respect of which Government have furnished interim replies:*

S. Nos. 18 and 24.

1.3. The Committee hope that final replies to those recommendations 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 their recommendations/observations.

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\*S. Nos. 13 to 24 of Appendix VIII have been renumbered as 13 to 25.

*Delay in the disposal of diamonds, precious and semi-precious stones.  
(Paragraph 1.163—S. No. 1).*

1.5 Dealing with the question of delay in the disposal of confiscated diamonds, precious and semi-precious stones in Bombay Customs Collectorate, the Committee, in paragraph 1.163 of their 54th Report, had observed as follows:

“The Committee are distressed to note that diamonds and precious/semi-precious stones seized in Bombay Customs Collectorate during the period 1959 to 1973 were lying undisposed till the end of 1975, although disposal orders had been passed by the competent authorities in many cases. The value of these goods at the then prevalent prices was stated to be of the order of Rs. 1.09 crores. From the information subsequently furnished to the Committee, it is noticed that the value of the goods not disposed of in the Bombay Customs Collectorate as on 1-1-76 was about Rs. 1.35 crores. The Committee view with great concern the inordinate delay in disposal, a fact which has been admitted by the representative of the Department of Revenue and Banking when he said during evidence ‘We are sorry that the delay had occurred. I do not want to defend something which cannot be defended’. The Committee would like to know of the rectificatory steps proposed to be taken to ensure that such delays are a thing of the past.”

1.6. In their Action Taken Note dated 5-5-1978 furnished in respect of this recommendation, the Department of Revenue have stated:

“The Collector of Customs, Bombay has reported that he has sold diamonds worth Rs. 1,39,56, 112/- during the period from December 1975 to September 1977. The stock of confiscated cut and polished diamonds as on 1-2-1978 was nil in the Bombay Custom House. The Collector of Customs, Bombay has also reported that as on 1-2-1978, the value of the stock of confiscated rough and uncut diamonds is Rs. 1,96,915 and that of cut and polished precious and semi-precious stones, Rs. 45,26,056.

Instructions have already been issued to all the Collectors of Customs and Central Excise to follow the procedure de-



vised by the Bombay Custom House for sale of confiscated and polished diamonds for export."

1.7. The Committee enquired from the Ministry of Finance (Department of Revenue) about the method for the disposal of diamonds etc., the price estimated by the Valuation Committee and the actual sale proceeds. The Ministry of Finance (Department of Revenue) have informed the Committee as under *vide* their O.M. No. 545/12-M/78-LCI dated 24-11-1978:

"The diamonds were sold by inviting sealed tenders during the period from December 1975 to September 1977. The details thereof are given in Appendices I and II separately for rough and uncut and cut and polished diamonds."

1.8. The Committee have carefully considered the reply furnished by the Department of Revenue explaining the position in regard to the disposal of confiscated diamonds, precious and semi-precious stones in Bombay Custom House. They cannot help feeling that the sale of the diamonds etc. had actually started only after the matter was reported by Audit and not on the Collector's own initiative. In these circumstances, the Committee are constrained to conclude that the handling of the case by the Bombay Custom House was far from satisfactory.

1.9. The Committee further note that the value of the stock of confiscated rough and uncut diamonds which stood at Rs. 1.35 crores on 1-1-1976 has since been reduced to the order of Rs. 1,96,915 and that of cut and polished precious and semi-precious stones to Rs. 45,26,056 in the Bombay Custom House on 1-2-1978. This position has emerged due to substantial disposal between December 1975 and September 1977. The Committee desire that this tempo of disposal should be maintained and the position kept under constant watch and such remedial steps as are considered necessary on the basis of the past experience taken to ensure that the inordinate delay of the type that occurred earlier does not come to be repeated in future. They would also like to be apprised of the impact on the disposal of confiscated diamonds etc. in other Customs Houses by following the procedure adopted by the Bombay Custom House.

*Role of MMTC in the imports of rough diamonds (Paragraphs 1.174 and 1.175—S. Nos. 12 and 13).*

1.10. Examining the role played by the M.M.T.C. in the import of rough diamonds, the Committee, in paragraphs 1.174 and 1.175 of the Report had recommended *inter alia* as follows:

"1.174. The Committee find that the Mineral and Metal Trading Corporation of India is at present importing only 20 per cent of the total requirement of rough diamonds of the country from various markets. The share of their total imports may be increased further if their efforts for the negotiation of some kind of contract for direct purchase from some African countries prove successful. The Committee, however, understand that the MMTC do not have the requisite expertise for importing diamonds from primary sources. The Committee desire that Government should take measures to develop the requisite skill and expertise on the MMTC."

"1.175. The Committee understand that traders prefer the Diamond Trading Company and its subsidiaries for import of their requirements of rough diamonds. They have developed a sort of apathy or allergy towards the canalisation of imports of rough diamonds by MMTC. One of the reasons for this attitude is that MMTC has not been able to offer such credit terms as are available to them from other agencies. The Committee would urge that if the MMTC has to play a positive role in the imports of rough diamonds Government should ensure that the terms offered by them are in no way less attractive than those offered by other competing agencies."

1.11. The Action Taken Notes furnished on 17-7-1978 by the Department of Commerce in response to these observations/recommendations are reproduced below:

"In 1965-66, the exports of cut and polished diamonds from India had stood at about Rs. 5 crores which subsequently rose to Rs. 30 crores in 1968-69. The Diamond Trading Company (DTC), London had still not recognised Indian exporters as their sight-holders for the purpose of direct import of rough diamonds by DTC to Indian exporters. Since the production of rough diamonds in major producing countries and their marketing throughout the world had been mostly under the control of companies under the De Beers group and marketing of gem variety by the DTC of the same group, Indian exporters in the absence of direct imports from DTC, London, had to depend on the intermediate sources like Belgium and Antwerp. With a view to finding some alternative source, the National Minerals and Development Corporation (NMDC) was asked to get to primary sources like Ghana

and obtain rough diamonds supplies. The NMDC had made some moves and purchased a few lots in the open auction in Ghana. Since the NMDC had gone for such purchases from primary sources, it was decided to canalise 10 per cent of the country's imports of rough diamonds (other than those of advance licences) through the NMDC from October, 1970. This is how the canalisation started. However, subsequently it was found difficult by the NMDC to participate in such open auctions as the lots for sale contained mixed goods of which 70 per cent or more were industrial varieties which had no domestic market and as a result no further efforts were made.

However, consequent to above move by Government and partial canalisation of rough diamonds imports, the Indian Diamond Industry was able to persuade the Diamond Trading Company, London to agree to supply rough diamonds directly to Indian importers as the DTC's direct sight holders. The number of such Indian sight holders have since increased to 55 to 59 from a zero level in 1968-69. More than 90 per cent of diamond imports is accounted by these sight holders as a consequence of direct supplies by DTC to them.

In so far as the MMTC is concerned, the canalisation work was transferred to them from NDMC during 1972 for supply of 20 per cent rough diamonds to Indian parties against only their replenishment entitlement. After the Ghana experiment, the efforts of MMTC because of various difficulties involved to go to primary sources, met with little success. Even efforts made at the Government level to get supplies of roughs from the Governments of USSR and Tanzania have not borne fruits so far. Under the circumstances whatever type of diamonds were procured by the MMTC were from the same sources from where other individuals had procured. The trade, therefore, repeatedly represented against partial canalisation. MMTC, however, did offer limited credit under the Bills Marketing Scheme, but the response from the trade has not been encouraging.

Keeping all factors in view, Government have now decided to de-canalise diamond imports through the MMTC with effect from April, 1978-79. MMTC would, however, continue to operate on their own in the market on the basis

of their own skill and expertise which they have acquired over a period of time in order to supplement trade's effort in the matter.

The question of going to primary sources has been included in the terms of reference of the Task Force on Gem and Jewellery recently constituted by the Ministry of Commerce, for further consideration."

1.12. The Committee are sorry to observe that the Government seems to have given in to the pressure of the trade in taking the decision for the decanalisation of even 20 per cent rough diamonds imported through the Minerals & Metals Trade Corporation. The partial canalisation of 20 per cent for the import of rough diamonds was introduced primarily with the objective of breaking gradually the influence of Diamond Trading Company, London which virtually monopolise the supply of rough diamonds to this country. Instead of complete withdrawal of state control on the imports of rough diamonds the Government should have, as recommended by the Committee made all-out efforts to develop such skill and expertise on the M.M.T.C. as was necessary for making the import of rough diamonds as much attractive for the trade as through the D.T.C. They should have also devised some methodology whereby the terms offered by the M.M.T.C. could be in no way less favourable than those offered by other competing agencies. The Committee do not feel convinced that the operation of MMTC on their own in the market would bring in any tangible results keeping in view their performance during the period when 20 per cent import of rough diamonds was canalised through them. The Committee, therefore, reiterate their earlier recommendation and stress the need for the development of such skill and expertise on the M.M.T.C. as is necessary for making their import of rough diamonds competitive with D.T.C. They would also desire the Government to reconsider their decision for the decanalisation of 20 per cent import of rough diamond through MMTC so as to permit the exercise of some type of partial State control in this field.

1.13. The Committee would also like to know the outcome of the consideration of the question of going to primary sources through the Task Force on Gem and Jewellery constituted by the Ministry of Commerce.

*Valuation of the import price of rough diamonds.* (Paragraph 1.176 —S. No. 14).

1.14. Referring to the disproportionate increase in the average import and export prices of diamonds in India during the year 1971-74, the Committee, in paragraph 1.176 of their Report had observed as under:

"The Committee find that there was disproportionate increase in the average import and export prices of diamonds in India during the year 1971—74. While the import price of rough diamonds had gone up by 110 per cent, the export price of cut and polished diamonds had increased only by 60 per cent. However, in the case of the other manufacturing countries in the world, viz., Israel and Belgium, the increase in export prices of cut and polished diamonds has been in proportion to the increase in the prices of rough diamonds imported into these countries. The Committee have been informed during evidence that the increase in the price of small size rough diamonds imported by India was higher than for large size rough made in Israel and Belgium. In view of the disproportionate increase in the import and export prices of diamonds, the Committee have a suspicion that there could be ever-invoicing in the values of the imported roughs. It is disquieting to learn that a comparison of prices offered by DTC and goods on sale in the open market cannot be made. In view of this they would like to know the expertises available with the Department for the valuation of the rough diamonds and to be assured that the valuation is being done correctly to eliminate all chances of over-invoicing in values of imports."

1.15. The Action Taken Note dated 12.7.1978 furnished by the Department of Commerce with reference to this recommendation is reproduced below:—

"In case of rough diamonds 80 per cent of world production is controlled by the De Beers group. The pricing therefore is done at their instance depending upon total production, the type of goods and the available supply at a particular period. Regarding direct supplies of DTC goods to the sight holders it is unlikely that there would be over-invoicing of imported roughs. Otherwise all supplies of imported rough stones pass through customs authorities and in the light of their knowledge and experience in the field they keep a watch in regard to over-invoicing or under-invoicing."

1.16. The Committee have not been informed about the expertise available with the Customs Department for the valuation of the rough diamonds imported in this country. They are disinclined to agree that merely the knowledge and experience of the Custom authorities in the field can arm them with the requisite expertise so

vitaly needed for the proper valuation of the rough diamonds and exercise of the requisite check on resort to over-invoicing and under-invoicing. In view of the near monopoly of Diamond Trading Company in meeting the requirements of the rough diamonds imported in this country, it is all the more essential that the persons on the job should be highly specialised and fully equipped with all the details and information in regard to the prices charged by Diamond Trading Company for similar material imported by other countries so as to ensure that all efforts towards under-invoicing and over-invoicing are completely frustrated. The Committee would like the Government to make an indepth study of the problem and take suitable remedial measures to make the system fool-proof.

*Grant of replenishment licences for import of rough diamonds.*  
(Paragraphs 1.178 and 1.179—S. Nos 16 and 17).

1.17. Reviewing the position obtaining in regard to the grant of replenishment licences for the import of rough diamonds, the Committee, in paragraphs 1.178 and 1.179, had recommended as follows:

“1.178. The Committee note that imports of rough diamonds are allowed against replenishment licences granted to exporters under the import policy for registered exporters. These licences are granted against exports of cut and polished diamonds. Indian exporters import, mostly smaller size of rough diamonds known as ‘makeables’ which are mainly obtained from Diamond Trading Company, London. The rate of replenishment varies between 60 per cent to 80 per cent of the export realisations in case of ‘makeables’ and ‘sawables’. The replenishment licensing system is intended to encourage the export of better and more value added items by our country.”

“1.179. The Committee have been informed that the allocation of replenishment is done on the basis of the information about the value of exported goods obtained from the Gem and Jewellery Export Promotion Council who collects these details from representative transactions. On the basis of the data furnished by the Council, the replenishment rates are determined by an inter-ministerial policy group consisting of the DGTD, Economic Affairs Department and representative of the Finance Division of the Ministry of Commerce. The Committee are surprised to note that the Government have to depend entirely upon the data furnished by the Gem and Jewellery Export Promotion Council for their judgement on the determination of the replenishment in the inter-ministerial policy group.

The Export Commissioner, Office of the Chief Controller of Imports and Exports has admitted during evidence that 'we do not have any other expert Government agency for the purpose.' The Committee apprehend that in the absence of any external verification of the correctness of the data furnished by the Council, the possibility of manipulation therein and the diversion of the imported rough diamonds on a substantial scale inside India, where there is very good demand for them, cannot be ruled out. The Committee, therefore, recommend that Government should establish a suitable agency with the requisite expertise for the proper and thorough verification of the data furnished by the Council to ensure that the value of replenishment licence is not in excess of that admissible against exports under any circumstances. The Committee are concerned that information regarding the structure and economics of diamond polishing is not being obtained by Government on a regular basis, but obtained from the Council at particular times for policy formulation. This does not appear to be a happy state of affairs."

1.18. In their Action Taken Note dated 12-7-1978, the Department of Commerce have replied:

"The scale of replenishment etc., is kept under continual review. Recently Government have set up Hindustan Diamond Company where it holds 50 per cent shares and its nominee is the Chairman-cum-Managing Director. (CCI&E has been advised that in reviewing the scale of replenishment of diamonds, the data furnished by the Council, wherever felt necessary may be further cross-checked with MMTC and Chairman, Hindustan Diamond Company."

1.19. The Committee have their own doubts if the advice given by the Government to the Chief Controller of Imports and Exports to have the data furnished by the Gem and Jewellery Export Promotion Council for the grant of replenishment licences cross-checked as and when necessary with the MMTC and Chairman, Hindustan Diamond Company would meet the objective of complete and detailed verification. The casual checks would be hardly helpful and are not likely to do away with the possibility of manipulation by unscrupulous traders. The Committee, therefore, reiterate their earlier recommendation and desire that Government should establish its own agency with the requisite expertise for the thorough scrutiny of all the data furnished by the Gem and Jewellery Export Promotion Council on all the occasions.

## CHAPTER II

### RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

#### Recommendation

Another reason advanced by the Department for the delay in disposal is that smuggling had been increasing over the years and the staff augmentation did not keep pace with the staff requirements. The Collector having lesser staff, therefore, paid more attention to seizures inasmuch as this was a line of activity on which they could not afford to relax. The Committee note that with a view to cope with the increase in number of seizures, the Custom House had to divert 30 Preventive Officers and 3 Inspectors from General Preventive duties in the Docks and Binders for handling the disposal of seized/confiscated goods. The Committee feel unhappy that adequate attention was not given to manpower planning. Had the Department been alert and exercised proper watch, they would have equipped themselves in time with the requisite manpower for handling the workload connected with seizures. The Committee would like to know the steps taken by the Department to meet the requirements of the staff needed for deployment on the increased volume of seizures and disposal of diamonds etc. In any case, the Committee are unable to understand as to why the services of the handful of specialists in the valuation of diamonds were not utilised for the prompt disposal of confiscated diamonds. Any diversion of such personnel towards the disposal of other trade goods or other purposes would appear to be not sound personnel management.

[Sl. No. 4 of 54th Report of PAC 1977-78 (6th Lok Sabha)]

#### Action Taken

The observations of the Committee about providing the requisite manpower for handling the increased work load connected with seizures and disposal and the utilisation of the services of jewellery experts in the disposal of diamonds have been noted.

2. Manpower planning for anti-smuggling work in different Collectorates is being done on a continuous basis by the Directorate of Anti-smuggling ever since 1974 and additional staff for



seizures and anti-smuggling work in Bombay and elsewhere as well has since been provided. The additional staff provided at Bombay comprises of 3 assistant Collectors, 6 Superintendents, 9 Preventive Inspectors (now designated as Superintendents), 69 Inspectors of Central Excise, 93 Preventive Officers, 2 Stenos, 3 Deputy Office Superintendents, 12 U.D.Cs., 13 L.D.Cs., 22 Jamadars and 103 Sepoys. The need for additional staff is also reviewed from time to time and steps are also taken for effective deployment of staff and other resources for preventive work.

3. As regards the special staff to be provided for disposal of seized and confiscated goods, the Directorate of O&M have carried out the necessary studies in Bombay Customs House and proposals submitted by them for additional staff for handling the increased volume of work relating to disposal of confiscated goods are presently under examination in consultation with the Financial Adviser.

4. As regards the utilisation of services of the jewellery experts for disposal of diamonds, a copy of the instructions issued to all the Collectors of Customs to adopt the procedure followed by Bombay Custom House in their Standing Order No. 6574 dated 2-2-1977 is enclosed. The procedure, *inter alia*, mentions the valuation by—

- (a) a panel of jewellery appraisers;
- (b) a panel appointed by Associations representing the particular trade; and
- (c) a valuer nominated by the Additional Collector from the panels of experts drawn up in the Custom Houses.

[Ministry of Finance, Deptt. of Revenue, O.M. F.No. 545 13/78-LCI dated 10-8-1978.]

ANNEXURE

F. No. 545 7-M/78-LCI

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Revenue)

New Delhi, the 23rd May, 1978

To

dated 2-2-1977 is enclosed for your information and necessary Bombay).

3619 LS—2.

**SUBJECT: PAC—Recommendations of the PAC contained in para 1.165 of its 54th Report (6th Lok Sabha).**

Sir,

I am directed to enclose a copy of para 1.165 of the 54th Report of the PAC (6th Lok Sabha) regarding proper valuation and weighment of diamonds, precious and semi-precious stones and to say that the Bombay Custom House has issued a Standing Order indicating the detailed procedure to be adopted for the disposal of confiscated goods with specific reference to diamonds, precious and semi-precious stones. A copy of the Standing Order No. 6574 dated 2-2-1977 is enclosed for your information and necessary action.

Yours faithfully,

Sd/-

(N. Krishnamurthy),

*Under Secretary to the Govt. of India.*

Copy forwarded for information to the Collector of Customs, Bombay.

2. Copy also forwarded for information to the Director of Inspector and Audit (Customs and Central Excise) New Delhi.

Sd/- N. Krishnamurthy,

*Under Secretary to the Govt. of India.*

#### APPENDIX

Navin Seema Shulka Griha,  
BAMBAI-400 038.

*Dated the 2nd February, 1977.*

#### STANDING ORDER

**SUBJECT: Disposal of Cut and Polished Diamonds for export and the sale of Rough and Uncut Diamonds and Cut and Polished, rough and Uncut Precious and Semi-Precious Stones—Procedure regarding.**

As per Board's letter F. No. 549/118 71-LCI dated 22-12-1972 and 4-1-1973, Cut and Polished Diamonds and Precious and Semi-Precious Stones are to be sold at the best available price by auction or tender in the local market. As far as Rough and Uncut Diamonds and Precious and Semi-Precious Stones are concerned, in accordance with the Board's letter F. No. 30/21/63-LCI dated 3-7-1968 these are to be sold by auction at CIF price after charging the duty at the prevailing rate and debiting the import licence

issued for rough and uncut diamonds and precious and semi-precious stones. However, in order to prevent the misuse of bills issued by the Customs in respect of cut and polished diamonds to cover the smuggled goods and also with a view to earn foreign exchange, it has been decided that cut and polished diamonds will not be sold for internal use. Cut and Polished diamonds will be sold for Export only against foreign exchange.

Immediately after the goods become ripe for disposal the seizing departments should issue disposal orders to enable the Custodian incharge of precious goods in the Customs House to initiate action for the disposal of the goods. Similarly in respect of precious goods kept at the airport and PAS the concerned Assistant Collectors will ensure that as soon as goods become ripe for disposal the disposal order is issued and the goods together with the relevant files are transferred to the Custodian incharge of precious goods in the Customs Warehouse who will immediately enter the same in the warehouse register showing the file number and the warehouse entry number of the transferring section and other relevant particulars such as description weight, number of pieces per carat average size of the pieces and the value. The Custodian thereafter hand over the packets to the Disposal Officer dealing with precious goods in the Custom House. The Assistant Collector (Disposals) will be informed about the transfer of the goods for disposal. The Disposal Officer in the Custom House concerned with the disposal of Diamond and precious and semi-precious stones will ensure that the seals are intact and will enter the particulars of each packet received from the Custodian in the register to be maintained (Annexure 'I'). After receipt of the packet, the packet will be signed by the Disposal Officer and the Supdt. I C of Warehouse. After the packets are received by the Disposal Officer they will be opened for weighment and inventorisation in the presence of Superintendent, Warehouse and the Jewellery Appraiser.

After the weighment and inventorisation of each lot, the particulars will be compared with the original inventory and the other details in the panchnama prepared at the time of seizure/detention and the number of pieces, weight in carats, average size of the stones the value at the time of seizure and the file number, will be recorded for each lot in the disposal register. Each lot will thereafter be sealed in the presence of the Jewellery Appraiser and the Superintendent, Warehouse and the goods will be deposited in the strong room. The precious goods once transferred to disposal officer will be in the charge of the disposal officer. If any discrepancy is noticed at the time of inventorisation with the particulars available in the seizure/detention files, a note will be made against the relevant entry in the disposal and warehouses registers and

Immediately a report will be submitted to A.C. (Disposal), Additional Collector through.

Cut and Polished Diamonds will be offered for sale only for export and rough and uncut diamonds and rough and uncut precious and semi-precious stones will be sold in local market after debitting the Import Licence and charging the duty leviable at the time of sale. Cut and Polished precious and semi-precious stones etc., other than diamonds will be sold at the best available price in the local market.

#### *Cut and Polished Diamonds*

For export purposes the diamonds will be categorised and arranged lot-wise. The description of the diamonds, the size, weight, number of pieces per carat, colour, shape and such other information as is normally shown in the export invoice by the exporters while shipping such goods out of the country will be recorded for preparing a catalogue of the lots to be offered for. Other precious goods offered for sale will be separately listed in the catalogue. For preparing such a catalogue, the Assistance of the Customs House, Jewellery Experts, the experts on the approved panel of the Custom House and also the experts nominated by the Diamond Merchants' Association or the Association concerned with the particular type of precious stones will be taken.

##### *(i) Cut and Polished Diamonds*

Diamonds sold will be required to be exported by the tenderers directly from the Customs. They, therefore, will be valued in terms of foreign currency, preferably U.S. dollar on FOB export basis keeping in view the ruling prices for goods of similar kind and quality in the international market. Goods will be valued by (a) panel of jewellery appraisers of the Custom House (b) by the panel appointed by the Bombay Diamonds Merchants Association and (c) Valuers nominated by the Additional Collector from the approved panel of experts prepared by the Custom House.

##### *(ii) Rough and Uncut Diamonds and Rough and, Uncut Precious and Semi Precious Stones*

These are to be sold in the internal market but after debitting the import licence by the bid amount accepted and on charging the Customs duty at prevailing rate on the bid amount in addition. Valuation therefore for this item will correspond of the c.i.f import prices for the goods/like kind and quality, imported from abroad.

Goods will be valued by (a) panel of jewellery appraisers of the Custom House (b) by the panel appointed by Associations repre-

sending the particular trade (c) by a valuer nominated by the Addl. Collector from the panels of experts drawn up by this Custom House.

(iii) *Cut and Polished Precious Stones, Pearls, Gun Metals, Gorals etc.*

These goods are to be sold in internal market, valuation will, therefore, be on the basis of prices obtainable in the local markets for the like qualities and quantities of goods.

Goods will be valued by (a) panel of jewellery appraisers of the Custom House (b) by the panel appointed by the respective associations and (c) by a valuer nominated by the Addl. Collector from the panels of experts drawn up by the Custom House.

The valuation of the goods will normally be done after the receipts of the tenders but such valuation shall be completed before the date fixed for the opening of the tenders.

*Tender form:*—After inventerisation of the goods to be offered for sale, a catealogue will be prepared, giving lotwise particulars such as weight, No. of pieces, shape, size, colour etc. The advertisement will be issued through the director of Advertising and Visual Publicity New Delhi indicating the dates and the place of Inspection and General conditions of the sale. Advertisement should be published in all the important English News Papers and at least in one local vernacular language paper at the important trade Centres for the particular commodities. Tender forms will be numbered and sold at a price of Rs. 2/- and the tenders will be properly accounted for. Copies of the tender form will be sent to all the important Collectorates and Associations of the Diamonds and precious and semiprecious stones, gun metals and pearls in the major cities where such goods are generally sold.

*Inspection:*—The disposal officer incharge of diamonds and precious and semi-precious stones will inform the police department and arrange for sufficient number of armed guards to be present during the inspection of the goods. All precious goods shall be taken from the warehouse to the inspection room or back to the strong room only under armed escort. The armed guards will be present through-out the inspection of the goods. At a time not than 3 groups, each consisting of not more than 2 persons, shall be allowed to inspect the goods. The inspection of rough and uncut or cut and polished diamonds, precious and semi-precious stones will be allowed on deposit of inspection fee of Rs. 1000/- which is refundable, or adjustable against the amount recoverable from the party in case of acceptance of the tenders. The Jewellery Apprai-

ser alongwith the Supdt. Warehouse and the disposal officer and atleast one more Prev. Officer shall be present in the inspection room. Each lot will be opened by the jewellery appraiser and passed on in turn to the parties. No fresh lot will be shown for inspection unless the precious lot is returned to the jewellery appraiser and all the pieces are accounted for and handed over to the disposal officer for safe custody.

*Receipt and opening of Tenders:*—The tenders will be closed on the date indicated in the advertisement and will be received by the Supdt. incharge of the warehouse who will record the time and date of the receipt and will issue a receipt for the tender while receiving the tender. The tendered will be informed of the date and time of opening of the tenders. The tenders will be opened before a committee consisting of the Additional Collector, the Assistant Collector incharge of Disposals, Superintendent Warehouse and the Jewellery Appraiser. Each tender opened will be initialed by all the members indicating the date of the opening of the tender. The quotations in each tender will be read out after opening. Within 2 days of the opening of the tenders the Assistant Collector will get a statement prepared for each category of goods listing out the guide price, the price available in the seizure/detention file, and the tendered price for each lot and shall submit it to Collector through the Additional Collector with the recommendations of the Jewellery Appraiser and A.C. Disposals. After the acceptance of tenders the tenderers will be informed about the acceptance and wherever tenders are rejected the rejection letter will be issued and inspection fees and earnest money collected from the tenderers will be refunded to the party. In respect of cut and polished precious and semi-precious stones and rough and uncut diamonds and precious and semi-precious stones for the local consumption the successful bidders will be given a period of 10 days from the date of the receipt of the communication accepting the bid. On sufficient cause being shown this period can be extended by the Additional Collector by not more than 7 days to pay the balance amount and to take the delivery of the goods.

In respect of cut and polished diamonds offered for sale for export against foreign exchange and conditions for sale will be as per the conditions in Annexure 'III'. The exporter will be given a period of 45 days to negotiate with the overseas buyer and for arranging for the opening of the Letter of Credit and for making the payment of all charges to the Custom House and for completing the formalities regarding the shipment of the goods. The extension of

time will be given in suitable cases by the Additional Collector on being satisfied that party will be able to complete the formalities within a reasonable time.

*Auditing*:—After the acceptance of the tenders for the export of cut and polished diamonds and after the party deposits in the Custom House treasury the rupee equivalent of the accepted bid in U.S. Dollars worked out as indicated in Annexure III, the auditor attached to the Warehouse should check up the calculations taking into account the total weight of the lot, the exchange rate and the guide price and the accepted price etc. After auditing and checking of the calculations and after verifying that the amount remitted by the party is correct, the party will be allowed to file a shipping bill for export of the goods and after the evidence regarding the shipment of goods and the receipt of goods by the foreign buyer is furnished by the party and the realisation of foreign exchange bills will be finally audited and the entries in the Warehouse register, the disposal register and the sale register will be audited and closed.

*Revision of Prices*:—Since the disposal of diamonds may be spread over a period of time, prices fixed at a time may not hold good subsequently and this may call frequent revision due to fluctuation of prices. The jewellery appraiser should keep in touch with the fluctuation with the market conditions both in India and abroad and whenever upward trend is noticed the price should be revised. The prices should be reviewed at least once in 3 months for cut and polished diamonds. It will not be necessary to revalue each and every lot during these periodical revisions, it will suffice if the general percentage fluctuation in the prices is ascertained and the valuation is adjusted accordingly.

Sd. J. DATTA

Seema Shulk Samaharta,  
Bombay

C. 002000/77 C.

Encl: 3 Annexures.

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## ANNEXURE 'I'

Disposal register of rough and uncut, cut and polished diamonds precious and semi precious stones etc

S No.	Name of the formation from which received and the warehouse entry No. of the forwarding section.	Date of receipt of the goods for disposal	Weight in carats	No. of pieces	Value at the time of seizure	Date of inventory	Remarks
1	2	3	4	5	6	7	8





## ANNEXURE 'III'

CONDITIONS FOR EXPORT OF CUT AND POLISHED  
DIAMONDS

1. Prices tendered will be considered to be F.O.B. export prices in U.S. Dollars.
2. The successful tenderer will be permitted to load F.O.B. export value 2 per cent to cover the expenditure on account of freight, insurance and the commission to be earned by the tenderer.
3. The successful tenderer will arrange to get irrevocable letter of credit opened by the foreign buyer in his favour. However, the export will be permitted only after a certificate from a bank indicating the opening of the L/C for the goods in question is filed with the Custom House and the amount of the accepted bid converted in rupees at the buying T.T. rate quoted by the State Bank on the date of issue of the letter of acceptance of the bid is paid to the Collector of Customs, Bombay.
4. The goods shall be exported from the Custom House directly and the tenderer will have to bear the freight and the insurance charges. The tenderer will be required to file a shipping bill in his name as exporter on account of the Collector of Customs. The goods will have to be insured to the extent of 120 per cent of the value accepted and the goods will have to be exported within 45 days of the date of acceptance of the tender, failing which the offer will be deemed to have been withdrawn and the earnest money will be forfeited.
5. Goods thus exported will not be allowed to be reimported.
6. The tenderer will be required to declare on the export invoice that the goods are being exported on behalf of the Collector of Customs, Bombay. The tenderer will be required to give an undertaking that he shall perform all the formalities connected with the shipment of the goods viz. filing a shipping bill, filing of G.R. forms, booking of parcel through airlines/foreign post Office and arranging for shipment of the goods to the foreign buyer under Customs Supervision etc.

7. The tenderer shall also be required to undertake to produce within one month of the date of shipment of the goods the bank certificate and such other evidence as may be demanded regarding realisation of foreign exchange there-after the earnest money will be refunded to the exporter.

### **Recommendation**

From the figures made available to the Committee it is seen that the value of goods pending disposal was 1.59 crores on 1-1-1976 and Rs. 52 lakhs in December, 1976. The Committee note that in a short period of 11 months, it had been possible for the Government to dispose of 1.07 crores worth of goods. The Committee cannot refrain from drawing a conclusion that the non-disposal all along had been more due to lack of will rather than other constraints. No less is the responsibility of the Board in not having reviewed the pendency position and issued suitable instructions in time.

[Sl. No. 5 of (54th Report) (Sixth Lok Sabha) ]

### **Action Taken**

The observations of the Committee have been noted.

2. Necessary instructions have been issued to all the Collectors of Customs and Central Excise to take prompt action for disposal of precious and semi-precious stones. As regards disposal of diamonds, separate instructions are under issue. The pendency position will also be regularly reviewed by the Board and such further steps as are considered necessary would be taken to ensure prompt disposal of these goods.

[Min. of Finance (Deptt. of Revenue) O.M. F. No. 545'9-M'78-  
L.C.I. Dated 12-4-78]

### **Recommendation**

The Committee finds that during the period from 1966-67 to 1975-76 the total number of seizures of diamonds, precious stones and semi-precious stones in the various Central Excise|Customs Collectorates was 245, 304 and 171 respectively. From amongst these seizures, the number of releases in respect of diamonds, precious stones and semi-precious stones was 90, 238 and 64 respectively. Referring to the large number of releases the Chairman, Central Board of Excise and Customs, has conceded during evidence that

“this is bad administration because it means that either the seizures were not justified in a large percentage of cases in which case it causes harassment or that there might have been something wrong in ordering release. “I was rather concerned that such a high percentage of these goods were getting released.” The Committee view with great concern the prevailing state of affairs in so far as releases of diamonds, precious stones and semi-precious stones are concerned. They would desire that the matter may be gone into thoroughly with a view to finding out the reasons for such disproportionate release and taking remedial measures.

[S. No. 6 of 54th Report of Public Accounts Committee 1977-78  
(Sixth Lok Sabha)]

### **Action Taken**

The circumstances under which diamonds, precious stones and semi-precious stones seized in the various Customs|Central Excise Collectorate were, in a large unumber of cases, released, have been gone into. The Collectors of Customs and Central Excise have also been consulted. From the reports received from the Collectors, it is observed that seizures were initially made only when the proper officers of Customs has reasons to believe that the goods sought to be seized were smuggled ones. It is also observed that, initiatly, seizures had to be effected as no evidence as to the licit possession of diamonds etc., was produced even when it was specifically asked before effecting the seizures. In a good number of cases, it was only subsequently that the persons from whom the seizures were effected, produced documentary evidence for their legal possession and the seized goods were eventually released. In certain cases relating to seizure of diamonds, when evidence was produced to the effect that the goods were of Indian origin and that they were not “smuggled” goods and the Department could not also establish to the contrary, the seized goods had to be released.

2. In order to ensure that searches are not conducted indiscriminately causing undue harassment to individuals, instructions have been issued to all the field formations (copy enclosed) emphasising the need to exercise care and caution in carrying out the searches.

[Ministry of Finance, (Deptt. of Revenue) O.M. F. No.  
545/63/78-LCI Dated 10-8-1978.]

## ANNEXURE

Copy of letter No. 394/104/77-CUS.III dated 2nd December, 1977 from J. Ramakrishnan, Deputy Secretary to the Government of India, Ministry of Finance, Deptt. of Revenue, New Delhi, to all Collectors of Customs|Collectors of Central Excise, Collector of Customs (Preventive), Bombay|Patna and Collector of Customs & Central Excise, Cochin (copy to DRI & Enforcement Dte.)

Subject:—Precautions to be taken in the matter of searches particularly of occupied residential premises under section 105 of the Customs Act, 1962—Instructions regarding.

I am directed to refer to the Ministry's letter F. No. 394/53/74-Cus. III dated 2-6-1975 setting out the guidelines for conducting raids under the Customs Act, 1962 (copy enclosed). Searches carried out under section 105 of the Customs Act, 1962 constitute an effective anti-smuggling measure for recovery of concealed contraband documents or things relevant to a proceeding under the Customs Act. Yet it appears necessary to avoid vexatious and malicious searches of all premises in general and more particularly of occupied residential premises. Search of a residential premises violates the sanctity of a home and encroaches upon the privacy of an individual. Hence, there is greater need of exercising care and caution in the matter of carrying out such searches.

2. The premises which are usually searched by the Customs Officers could be categorised into two broad groups:—

I. Vulnerable premises:—

- (a) Shops, hawkers, stalls and other marketing centres which are known to be used for storage or distribution of smuggled goods.
- (b) Residential premises located in villages/localities close to the coast/land borders, which have gained notoriety for landing and storage of contraband goods and unoccupied premises.

II. Non-vulnerable premises:—

- (c) Business premises other than (a)
- (d) Occupied residential premises other than (b)

3. Searches of premises falling under categories (a) and (b) could be distinguished from those falling under categories (c) and (d). Whereas, it may not be possible to take elaborate precautions while conducting searches falling in category (a) & (b) which are

to be ordered at a short notice in view of the general information available with the Customs authorities, greater care has to be taken before searches falling in categories (c) and (d) have to be ordered. And even for statistical purposes, the searches falling under categories (c) and (d) should be distinguished and shown separately from the searches falling in categories (a) and (b). Search of residential premises in particular is tantamount to an inroad into the privacy of the persons concerned and hence the need for exercising every possible care to see that searches on the basis of false or frivolous information are avoided by keeping at the back of one's mind the humiliation which the person concerned has to suffer and the stigma that attaches as a result of such searches.

4. Some of the obvious precautions which must be taken before ordering searches of categories (c) & (d) are as follows:—

- (i) the informer should interrogate to test the veracity of the information and the source thereof;
- (ii) the information should be cross-checked independently as far as practicable;
- (iii) the informer should be made aware of the provisions of section 182 of I.P.C., reproduced below, regarding the consequences of giving false information deliberately to a public servant and if necessary even made to commit himself in writing before the information is considered worth acting upon. It would be safe to have the information regarding residential premises falling in category (d) above always reduced in writing, preferably in the handwriting of the informer himself.

#### Section 182 of IPC

“182. Whoever gives to any public servant any information which he knows or believes to be false, intending thereby to cause or knowing it to be likely that he will thereby cause, such public servant—

- (a) to do or omit anything which such public servant ought not to do or omit if the true state of facts respecting which such information is given were known by him, or
- (b) to use the lawful power of such public servant to the injury or annoyance of any person.

shall be punished with imprisonment of either description for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both.”

- (iv) The officer issuing the search warrant should himself satisfy regarding the veracity of the information rather than act on the belief of the officer approaching him for issue of a warrant under section 105 of the Customs Act;
- (v) Where searches are to be conducted by the officers of the Collectorate on intimation received from another Collectorate i.e. in connection with a case being handled by that Collectorate, they should make sure if the Collectorate, which is sending the intimation has already tested the reliability of the information or it requires to be further tested and verified before the search is actually carried out. Likewise, when searches are made as a result of follow-up action within the same Collectorate, the clues already gathered, such as, telephone numbers, names, addresses etc. should be got further verified and checked before any precipitous action taken by way of searches of residential premises is taken.

5. Where the Collector/Additional Collector is of the view that the information was malicious, the question of proceedings against the informer under section 182 of the Indian Penal Code should be considered by taking counsel's opinion and prosecution launched if counsel so advises.

6. Receipt of this letter may be acknowledged.

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#### APPENDIX

Copy of letter No. S.394/53/74-Cus.III dated 2-6-1975 from Shri U. K. Sen, Under Secretary, Ministry of Finance (Deptt. of Revenue) addressed to All Collectors of Customs and Central Excise.

Subject:—Guidelines of conducting raids under the Customs Act the procedure for maintenance and review of dossiers of suspects.

“I am directed to refer to the subject mentioned above and to say that it is felt in certain quarters that the antismuggling drive which was raised to a high pitch immediately after the promulgation of MISA Ordinance has slowed down during the months subsequent to the enactment of the COFEPOSA Act. The Board, therefore, desires that the intensity of the activities in this direction should be increased, even though it is possible that landings of contraband

and open sale of foreign goods in well known markets may have gone down.

2. In this connection, it is suggested that with immediate effect, certain number of raids may be conducted in different markets to cover as many stalls/shops as possible every week. Moreover, while computing the number of raids or searches, not only raids which result in seizure of good but also the infructuous raids/searches i.e., where raids do not yield any goods, should be counted. These two categories may be shown separately and also the total."

### **Recommendation**

The Committee learn that the value of diamonds and precious stones is inflated at the time of seizure with a view to avoid any possibility of the substitution of the goods. Further revaluation is done at the time of their sale in order to ascertain the price they can fetch at the current rate. They have been informed that the normal practice is not to sell the goods at a price lower than the one determined at current prices.

In a particular case of Shillong Collectorate it has been noticed that 134 pieces of precious stones were confiscated on 29-12-1972 and were valued at Rs. 2919. The same were disposed of on 6-4-1973 for Rs. 1315.00 which was less than half the value fixed at the time of seizure. The Chairman, Central Board of Excise and Customs, has admitted during evidence that "it is obvious that the valuation at the time of seizure was wrong." The Committee fail to understand the reasons for such a wide variation between the two valuations which have been done just within a period of three months. The Committee apprehend that there might be similar cases of under valuation. The suspicion of deliberate under valuation with a view to defrauding the National Exchequer of the correct realisation from such sales cannot be over ruled. The Committee accordingly desire that suitable steps should be taken to ensure that the valuation on seizure is done in a most reasonable and realistic manner so that the seized articles fetch realistic price at the time of disposal. For this purpose, it is essential that the seizure documents contain full information regarding the diamonds seized viz. cut industrial or gem quality.

[S. No. 7 of the 54th Report of the PAC—Sixth Lok Sabha]

### **Action Taken**

Necessary instructions have been issued to all the Collectors to ensure that the valuation on seizure is done carefully, on a realistic



basis. The earlier instructions on the subject have also been reiterated.

2. Instructions have also been issued emphasising that full details of the goods namely diamonds—whether they are rough and uncut or cut and polished, industrial or gem quality and number of pieces per carat etc. should invariably be indicated.

[M]o Finance, Deptt. of Revenue O.M. F. No. 545|11|78-LCI  
D| 24-4-78]

### **Recommendation**

The Committee are surprised to note that whereas a fidelity guarantee of Rs. 10000/- is executed by the officers who are placed in charge of the Strong Room in Calcutta and Madras Custom House, no such security is obtained from the officer given similar assignment in Bombay Custom House. The Committee cannot appreciate the rationale behind such a discrimination. It is surprising that on such a basic issue, no instructions appear to have been issued by the Board.

[S. No. 8 of 54th Report (Sixth Lok Sabha)]

### **Action Taken**

Necessary instructions have been issued to the Collector of Customs, Bombay to make it obligatory on the part of the custodians of the warehouse to furnish a fidelity guarantee.

[M]o Finance, Deptt. of Revenue O.M. F. No. 545|5|M|78-LCI  
D| 15-4-78]

### **Recommendation**

The Committee regret to note that there is no uniformity in the procedure followed at various Customs Houses for the verification of the seized stocks of diamonds and precious stones. While the stock of sealed packets at Madras and Calcutta Custom Houses are verified by the Assistant Collector the same is verified by Superintendent of Customs (Preventive) in the Bombay Custom House. Stock taking is done once a year at Bombay and Calcutta while at Madras it is done twice a year. The Committee desire that Government may consider the possibility of adopting a uniform procedure for the verification of such stocks so as to ensure that officers of the same rank are deputed on the job at all the Customs Houses and periodicity of verification is also uniform at these places.

[S. No. 9 of 54th Report of the PAC 1977-78 (6th Lok Sabha).]

**Action Taken**

Instructions have been issued to all the Collectors of Customs and Central Excise to ensure that the procedure laid down by the Board that once every six months the Assistant Collector, Preventive, or an Assistant Collector nominated by the Collector shall conduct a complete stock taking of all valuables in the custody of the Custom House, is strictly followed. A copy of the Ministry of Finance (Department of Revenue) letter F. No. 545|3-M|78-L.C.I. dated 10-2-1978 is also enclosed.

[M<sup>o</sup> Finance, Deptt. of Revenue O.M. F. No. 545|3-M|78-LCI  
D| 13-3-78]

**ANNEXURE****GENERAL INSTRUCTION NO. I**

Land Custom

F. No. 545|3-M|78-LCI

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Revenue)

New Delhi, the 10th February, 1978.

To

All Collectors of Customs and Central Excise,  
(except CCE, Bombay|Baroda|Calcutta).

Subject:—PAC—Recommendations of the PAC contained in para 1.171 of their fifty-fourth report (Sixth Lok Sabha) regarding stock verification of valuables.

Sir,

I am directed to enclose a copy of para 1.171 of the Fifty-fourth Report of the P.A.C. (Sixth Lok Sabha) on the above subject, and to say that the PAC has observed that there is no uniformity in the procedure followed at various Custom Houses for the verification of the seized stocks of diamonds and precious stones. The Committee, therefore, desire that a uniform procedure may be adopted for the verification of such stocks so as to ensure that officers of the same rank are deputed on the job at all the Custom Houses and periodicity of verification is also uniform at these places.

2. In this connection, attention is invited to para 20 of the Procedure for Receipt, Storage and Disposal of Seized/Detained and Confiscated goods forwarded with Board's letter F. No. 11|6|61-Cus.

IV dated 13-6-1961 wherein it has been laid down that once every six months the Assistant Collector, Preventive, or an Assistant Collector nominated by the Collector, shall conduct a complete stock taking of all valuables in the custody of the Custom House. It is, therefore, requested that it may please be ensured that the procedure as laid down by the Board in the aforesaid letter and subsequent instructions is strictly followed.

3. The receipt of this letter may please be acknowledged.

Yours faithfully,

(N. Krishnamurthy)

*Under Secy. to the Govt. of India.*

Copy forwarded for information to:—

1. D.I.E.C.E.
2. DTE of Revenue Intelligence.
3. OSD (Bulletin) Manual with 3 copies each.

*Under Secy. to the Govt. of India.*

1.171. The Committee regret to note that there is no uniformity in the procedure followed at various Customs Houses for the verification of the seized stocks of diamonds and precious stones. While the stock of sealed pockets at Madras and Calcutta Custom Houses are verified by the Assistant Collector the same is verified by Superintendent of Customs (Preventive) in the Bombay Custom House. Stock taking is done once a year at Bombay and Calcutta while at Madras, it is done twice a year. The Committee desire that Government may consider the possibility of adopting a uniform procedure for the verification of such stocks so as to ensure that officers of the same rank are deputed on the job at all the Customs Houses and periodicity of verification is also uniform at these places.

[Public Accounts Committee—1977-78 (Sixth Lok Sabha)  
Fifty Fourth Report]

### **Recommendation**

The Committee find that no representative of the Government was included in any of the delegations which went abroad for the promotion of jewellery export. A number of delegations were sent to P.S.A. and U.K., Switzerland, Holland, Italy, France, West Germany, Belgium, Canada and Venezuela which consisted of members of Diamond and other Panels of the Gem and Jewellery Export

Promotion Council and trade. The Committee are unable to understand the reasons for the non-inclusion of a Government representative in any of the delegations sent so far. They desire that the Government should examine the possibility of including Government representative in such delegations in future, so that the interests of the Public apart from these of the trade could be looked into.

[Sl. No. 10 of the 54th Report of PAC (6th Lok Sabha)]

#### **Action Taken**

It is generally the members of the trade included in such delegations visiting abroad for export market exploration. However, the suggestion has been noted and as recommended by the Committee possibilities to include Government representatives will be kept in view.

[Deptt. of Commerce, O.M. No. 14 (52) | 77-EP (LSG),  
Dated 12-7-1978]

#### **Recommendation**

The Committee note that the production of industrial diamonds in Panna Project account for about 20 per cent of its total production of 5000 to 6000 carats per year. This production falls short of the domestic requirements and the shortages are supplemented through imports. The Committee have been informed that a scheme for the expansion of the aforesaid project for the augmentation of the production of industrial diamonds is under consideration. The Committee desire that this scheme may be finalised expeditiously and implemented without delay so that the maximum requirements of industrial diamonds are met from indigenous production and the need for imports is reduced to the barest minimum.

[Sl. No. 11 of the 54th Report of PAC (6th Lok Sabha)]

#### **Action Taken**

The currentt production of Industrial Diamonds in the National Minerals Development Corporation's Diamond Mines at Panna is about 5000-6000 carats annually. This quantity represents about 25 per cent of the total production of 20,000 carats per year from the mine.

The NMDC have since entered into an agreement with the USSR for the deputation of three Soviet Specialists for three months in connection with maximising the production of diamonds from its

existing diamonds mines Majhgawan and Ramkheria in Panna in an economical manner and developing new mines in the area.

[Deptt. of Commerce, O.M. No. 14(52) 77-EP (LSG),  
Dated 12-7-1978.]

### **Recommendation**

The Committee have been informed that one of the qualifications prescribed for the post of valuer requires the incumbent to be diploma holder in Gemology. From the details of qualifications furnished by the Department in respect of the Jewellery experts working in the Bombay Custom House, it appears that none of them possesses a diploma in Gemology. The Committee desire that in the interest of optimum efficiency essential for the valuation of diamonds etc., the possession of a diploma in Gemology should be insisted upon in case of all the candidates for the post.

[Sl. No. 20 of the 54th Report of PAC (6th Lok Sabha).]

### **Action Taken**

In the Recruitment Rules for Customs 'Appraisers' Service (Group 'B') 1961, the qualifications originally prescribed for a Jewellery Expert Appraiser was 'Degree of a recognised University with expert knowledge of precious and semi-precious stones, jewellery, precious metals and watches.' It was in the interest of efficiency in the valuation of precious stones that qualification was revised in October, 1977 making the Diploma in Gemology as a desirable qualification. Persons possessing Diploma in Gemology are not easily available as will be seen from the fact that when the UPSC advertised the post of Jewellery Expert in 1974, none of the candidates who applied had a Diploma in Gemology. However, if a diploma holder in Gemology is available for selection at the time of Union Public Service Commission interviews, they could be preferred to others provided he is otherwise found equally fit. One insisting on this qualification would, therefore, not be desirable and we may runshort of eligible candidates.

[Ministry of Finance, Deptt. of Revenue, O.M. F. No.  
A-12034/478-Ad.I|I-A, Dated 8-6-1978]

### **Recommendation**

The Committee would urge Government to make an indepth study of the problems relating to the diamond cutting industry and take

steps to regulate the quantity and prices of the imports|exports and so frame policies to ensure that the interests of this country are not jeopardised.

[Sl. No. 25 of the 54th Report of PAC (6th Lok Sabha).]

#### **Action Taken**

Government has since constituted a Task Force on Gem and Jewellery for a comprehensive indepth study.

[Deptt. of Commerce, O.M. No. 14 (52) |77-EP (LSG),  
Dated 12-7-1978.]

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## CHAPTER III

### RECOMMENDATIONS/OBERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES FROM GOVERNMENT

#### Recommendation

The Committee note that a decision to suspend the sale of diamonds was taken in 1965. Orders for sale of rough and uncut diamonds were issued in September, 1966 and modified in November, 1968. As regards cut and polished diamonds, instructions were issued in April, 1968 which were superseded in 1972. The Committee cannot over look the inordinate delay at the Board's level in deciding upon the policy in issuing instructions. It also seems open to doubt whether the ability of the Handicrafts and Handloom Export Corporation to dispose of the cut and polished diamonds was properly assessed before the issue of the instructions in 1968, as could be seen from their total failure in this regard. The Committee are dismayed that the Board took nearly 5 years to rectify this position.

[Sl. No. 2 of 54th Report of the PAC (6th Lok Sabha)]

#### Action Taken

The observations of the Committee have been noted.

The disposal of confiscated diamonds was suspended in 1965. This was done with a view to facilitating the review of the policy concerning its disposal. The Ministry of Commerce and the Department of Economic Affairs in the Ministry of Finance were also consulted. Taking into account the scheme announced on 5-7-1966 by the Chief Controller of Imports and Exports in regard to import of rough and uncut diamonds, instructions were issued on 23-9-1966 for disposal of rough and uncut diamonds by auction or by tender to import licence holders against debit of their licences, in consonance with this policy.

2. In regard to the manner of disposal of cut and polished diamonds, detailed consultations were held with the Department of Economic Affairs and the Department of Expenditure in the Minis-

try of Finance and the Handicrafts and Handloom Export Corporation, a public sector undertaking. As a result of these consultations, it was decided that the Handicrafts and Handloom Export Corporation should be entrusted, *on an experimental basis*, with disposal of cut and polished diamonds and precious and semi-precious stones, in foreign countries, i.e., by way of export out of India. This decision was communicated to HHEC on 17-4-1968. As the HHEC was not able to sell these goods in the foreign market at the guide price indicated by the Collector of Customs, Bombay, orders were issued in February, 1969 that the goods might be sold provided the offer was above 80 per cent of the guide price indicated by the Collector of Customs, Bombay.

3. In the meantime, in pursuance of the recommendations contained in para 1.35 of the 24th Report of the PAC, a Committee on Disposal of Confiscated Goods was appointed for examining the procedure, *inter-alia*; for disposal of goods seized/confiscated and making suitable suggestions. The Committee submitted its report in April, 1971. Taking note of the fact that there was no progress in the disposal of cut and polished diamonds, through HHEC, the Committee recommended that the Government may consider utilisation of the 191. Taking note of the fact that there was no progress in the disposal of confiscated cut and polished, precious and semi-precious stones abroad. This was accordingly examined. But NMDC expressed their inability to undertake this task.

4. Thereafter, taking all aspects into consideration, decision was taken to permit local sales.

5. All the above processing took time. The processing of the above matters in the relevant files have been seen as far as possible. It has been found that there were certain stages where delays could have been avoided. This matter relates to the period 1965—72 and it would be very difficult at this point of time to pinpoint each area where delay could have been avoided. However, the progress made in disposal of diamonds/precious stones during the last 3 or 4 years has been quite satisfactory.

[Ministry of Finance, Deptt. of Revenue, O.M. F. No. 545/10-M/78-LCI, Dated 24-5-1978.]

#### **Recommendation**

The Committee has been informed that one of the reasons which accounted for the delay in disposal has been inbuilt inhibition to touch diamond auctions. The position arose because in one of the



auctions held on 31-5-1953 some diamonds were sold for Rs. 14,000 which three hours later fetched a sum of not less than Rs. 72,000. Also the weight of the diamond was estimated at 230 carats whereas the correct weight was 100 carats more. As a consequence of this default two gazetted officers were reduced in their respective ranks. The Committee would like that the lacunae and loopholes revealed in the course of enquiry in this case should be set right by the Department to avoid the repetition of cases of similar nature in future. They would also like to be apprised of the details of the procedural improvement effected.

[Sl. No. 3 of 54th Report of the PAC (6th Lok Sabha)]

### Action Taken

Instructions have already been issued to all Collectors that minimum price for each lot should be fixed with the assistance of competent appraisers and experts from the trade and only the bids above such minimum price accepted. While fixing the prices, the three agencies are consulted namely, Customs expert appraiser, diamond merchants' Association or the Association relating to the respective precious and semi-precious stones and also an independent valuer from the respective trade. The Bombay Custom House has also adopted a detailed procedure (copy enclosed) regarding disposal of diamonds, precious and semi-precious stones ripe for disposal and this has been circulated to all other Collectors for their information and necessary action.

[Ministry of Finance, Deptt. of Revenue, O.M. F. No. 545/7-M/78-LCI, Dated 23-5-1978.]

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### APPENDIX

No. 6574

Navin Seema Shulk Griha,  
BAMBAL—400038.

*Dated the 2nd February, 1977.*

### STANDING ORDER

**SUBJECT.**—*Disposal of Cut and Polished Diamonds for export and the sale of Rough and Uncut Diamonds and Cut and Polished, Rough and Uncut Precious and Semi-Precious Stones—Procedure regarding.*

As per Board's letter F. No. 549/118/71-LCI, dated 22-12-1972 and 4-1-1973, Cut and Polished Diamonds and Precious and Semi-Precious

Stones are to be sold at the best available price by auction or tenders in the local market. As far as Rough and Uncut Diamonds and Precious and Semi-Precious Stones are concerned, in accordance with the Board's letter F. No. 30|21|63-LCI, dated 3-7-1968 these are to be sold by auction at G.I.F. price after charging the duty at the prevailing rate and debiting the import licence issued for rough and uncut diamonds and precious and semi-precious stones. However, in order to prevent the misuse of bills issued by the Customs in respect of cut and polished diamonds to cover the smuggled goods and also with a view to earn foreign exchange, it has been decided that cut and polished diamonds will not be sold for internal use. Cut and Polished diamonds will be sold for Export only against foreign exchange.

Immediately after the goods become ripe for disposal the seizing departments should issue disposal orders to enable the Custodian in-charge of precious goods in the Customs House to initiate action for the disposal of the goods. Similarly in respect of precious goods kept at the airport and P.A.S. the concerned Assistant Collectors will ensure that as soon as goods become ripe for disposal the disposal order is issued and the goods together with the relevant files are transferred to the Custodian incharge of precious goods in the Custom Warehouse who will immediately enter the same in the warehouse register showing the file number and the warehouse entry number of the transferring section and other relevant particular such as description weight, number of pieces per carat average size of the pieces and the value. The Custodian thereafter handover the packets to the disposal officer dealing with precious goods in the Custom House. The Assistant Collector (Disposals) will be informed about the transfer of the goods for disposal. The Disposal Officer in the Custom House concerned with the disposal of Diamond and precious and semi-precious stones will ensure that the seals are intact and will enter the particulars of each packet received from the Custodian in the register to be maintained (Annexure 'T'). After receipt of the packet, the packet will be signed by the disposal officer and the Supdt. I/C of Warehouse. After the packets are received by the Disposal Officer they will be opened for weighment and inventorisation in the presence of Supdt. Warehouse and the Jewellery Appraiser.

After the weighment and inventorisation of each lot, the particulars will be compared with the original inventory and the other details in the panchname prepared at the time of seizure|detention and the number of pieces, weight in carats, average size of the stones the value at the time of seizure and the file number, will be recorded

for each lot in the disposal register. Each lot will thereafter be sealed in the presence of the Jewellery Appraiser and the Superintendent Warehouse and the goods will be deposited in the strong room. The precious goods once transferred to disposal officer will be in the charge of the disposal officer. If any discrepancy is noticed at the time of inventorisation with the particulars available in the seizure/detention files, a note will be made against the relevant entry in the disposal and warehouses registers and immediately a report will be submitted to A.C. (Disposal), Additional Collector through.

Cut and Polished Diamonds will be offered for sale only for export and rough and uncut diamonds and rough and uncut precious and semi-precious stones will be sold in the local market after debiting the Import Licence and charging the duty leviable at the time of sale. Cut and Polished precious and semi-precious stones etc., other than diamonds will be sold at the best available price in the local market.

#### *Cut and polished diamonds*

For export purposes the diamonds will be categorised and arranged lot-wise. The description of the diamonds, the size, weight, number of pieces per carat, colour, shape and such other information as is normally shown in the export invoice by the exporters while shipping such goods out of the Country will be recorded for preparing a catalogue of the lots to be offered for. Other precious goods offered for sale will be separately listed in the catalogue. For preparing such a catalogue, the Assistance of the Customs House, Jewellery Experts, the experts on the approved panel of the Custom House and also the experts nominated by the Diamond Merchant's Association or the Association concerned with the particular type of precious stones, will be taken.

#### *(i) Cut and Polished Diamonds*

Diamonds sold will be required to be exported by the tenderers directly from the Customs. They, therefore, will be valued in terms of foreign currency, preferably U.S. \$ on F.O.B. export basis keeping in view the ruling prices for goods of similar kind and quality in the international market. Goods will be valued by (a) panel of jewellery appraisers of the Custom House, (b) by the panel appointed by the Bombay Diamonds Merchants Association and (c) Valuers nominated by the Additional Collector from the approval panel of experts prepared by the Custom House.

(ii) *Rough and Uncut Diamonds and Rough and Uncut Precious and Semi-Precious Stones*

These are to be sold in the internal market but after debiting the import licence by the bid amount accepted and on charging the Customs duty at prevailing rate on the bid amount in addition. Valuation therefore for this item will correspond to the c.i.f. import prices for the goods of like kind and quality, imported from abroad.

Goods will be valued by (a) panel of jewellery appraisers of the Custom House (b) by the panel appointed by Associations representing the particular trade (c) by a valuer nominated by the Addl. Collector from the panels of experts drawn up by this Custom House.

(iii) *Cut and Polished Precious Stones, Pearls, Gun Metals, Corals/ etc.*

These goods are to be sold in internal market, valuation will, therefore, be on the basis of prices obtainable in the local markets for the like qualities and quantities of goods.

Goods will be valued by (a) panel of jewellery appraisers of the Custom House, (b) by the panel appointed by the respective associations and (c) by a valuer nominated by the Addl. Collector from the panels of experts drawn up by the Custom House.

The valuation of the goods will normally be done after the receipts of the tenders but such valuation shall be completed before the date fixed for the opening of the tenders.

*Tender form.*—After inventorisation of the goods to be offered for sale, a catalogue will be prepared, giving lotwise particulars such as weight, No. of pieces, shape, size, colour etc. The advertisement will be issued through the director of Advertising and Visual Publicity, New Delhi indicating the dates and the place of Inspection and General conditions of the sale. Advertisement should be published in all the important English News Papers and at least in one local vernacular language paper at the important trade Centres for the particular commodities. Tender forms will be numbered and sold at a price of Rs. 2/- and the tenders will be properly accounted for. Copies of the tender form will be sent to all the important Collectorates and Associations of the Diamonds and precious and semi-precious stones, gun metals and pearls in the major cities where such goods are generally sold.

*Inspection.*—The disposal officer incharge of diamonds and precious and semi-precious stones will inform the police department and arrange for sufficient number of armed guards to be present during the inspection of the goods. All precious goods shall be taken from

the warehouse to the inspection room or back to the strong room only under armed escort. The armed guards will be present throughout the inspection of the goods. At a time not more than 3 groups, each consisting of not more than 2 persons, shall be allowed to inspect the goods. The inspection of rough and uncut or cut and polished diamonds, precious and semi-precious stones will be allowed on deposit of inspection fee of Rs. 1000 which is refundable, or adjustable against the amount recoverable from the party in case of acceptance of the tenders. The Jewellery Appraiser alongwith the Supdt. Warehouse and the disposal officer and atleast one more Prev. Officer shall be present in the inspection room. Each lot will be opened by the jewellery appraiser and passed on in turn to the parties. No fresh lot will be shown for inspection unless the previous lot is returned to the jewellery appraiser and all pieces are accounted for and handed over to the disposal officer for safe custody.

*Receipt and Opening of Tenders.*—The tenders will be closed on the date indicated in the advertisement and will be received by the Supdt. incharge of the warehouse who will record the time and date of the receipt and will issue a receipt for the tender while receiving the tender. The tenderer will be informed of the date and time of opening of the tenders. The tenders will be opened before a committee consisting of the Additional Collector, the Assistant Collector incharge of Disposals, Superintendent Warehouse and the Jewellery Appraiser. Each tender opened will be initialed by all the members indicating the date of the opening of the tender. The quotations in each tender will be read out after opening. Within 2 days of the opening of the tenders the Assistant Collector will get a statement prepared for each category of goods listing out the guide price, the price available in the seizure detention file, and the tendered price for each lot and shall submit it to Collector through the Additional Collector with the recommendations of the Jewellery Appraiser and A C. Disposals. After the acceptance of tenders the tenderers will be informed about the acceptance and wherever tenders are rejected the rejection letter will be issued and inspection fees and earnest money collected from the tenderers will be refunded to the party. In respect of cut and polished precious and semi-precious stones and rough and uncut diamonds and precious and semi-precious stones for the local consumption the successful bidders will be given a period of 10 days from the date of the receipt of the communication accepting the bid. On sufficient cause being shown this period can be extended by the Additional Collector by not more than 7 days to pay the balance amount and to take the delivery of the goods.

In respect of cut and polished diamonds offered for sale for export against foreign exchange and conditions for sale will be as per the conditions in Annexure 'III'. The exporter will be given a period of 45 days to negotiate with the overseas buyer and for arranging for the opening of the Letter of Credit and for making the payment of all charges to the Custom House and for completing the formalities regarding the shipment of the goods. The extension of time be given in suitable cases by the Additional Collector on being satisfied that party will be able to complete the formalities within a reasonable time.

*Auditing.*—After the acceptance of the tenders for the export of cut and polished diamonds and after the party deposits in the Custom House treasury the rupee equivalent of the accepted bid in U.S. Dollars worked out as indicated in Annexure III, the auditor attached to the Warehouse should check up the calculations taking into account the total weight of the lot, the exchange rate and the guide price and the accepted price etc. After auditing and checking of the calculations and after verifying that the amount remitted by the party is correct, the party will be allowed to file a shipping bill for export of the goods and after the evidence regarding the shipment of goods and the receipt of goods by the foreign buyer is furnished by the party and the realisation of foreign exchange bills will be finally audited and the entries in the Warehouse register, the disposal register and the sale register will be audited and closed.

*Revision of Prices.*—Since the disposal of diamonds may be spread over a period of time, prices fixed at a time may not hold good subsequently and this may call frequent revision due to fluctuation of prices. The jewellery appraiser should keep in touch with the fluctuation with the market conditions both in India and abroad and whenever upward trend is noticed the price should be revised. The prices should be revised. The prices should be reviewed at least once in 3 months for cut and polished diamonds. It will not be necessary to revalue each and every lot during these periodical revisions, it will suffice if the general percentage fluctuation in the prices is ascertained and the valuation is adjusted accordingly.

C.002000/77-C.

Sd./- J. Datta  
SEEMA SHULK SAMAHARTA  
BOMBAY.

Encl. 3 Annexures



**ANNEXURE 'II'**  
**SALE REGISTER**

*Cut and polished diamonds/Rough and uncut diamonds/cut and polished precious and semi-precious stones/rough and uncut precious and semi-precious stones/rough and uncut corals/cut and polished corals, raw/processed corals and gun metarials.*

S. No.	Quantity accepted in the sale	Value accepted	Guide price	File No.	Amount realised cash number and date	Date of Delivery	Remarks if any	Auditors initials & stamp.
1	2	3	4	5	6	7	8	9



**ANNEXURE 'III'**  
**CONDITIONS FOR EXPORT OF CUT AND POLISHED  
DIAMONDS**

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1. Prices tendered will be considered to be F.O.B. export prices in U.S. Dollars.
2. The successful tenderer will be permitted to load F.O.B. export value 2 per cent to cover the expenditure on account of freight, insurance and the commission to be earned by the tenderer.
3. The successful tenderer will arrange to get irrevocable letter of credit opened by the foreign buyer in his favour. However, the export will be permitted only after a certificate from a bank indicating the opening of the L/C for the goods in question is filed with the Custom House and the amount of the accepted bid converted in rupees at the buying T.T. rate quoted by the State Bank on the date of issue of the letter of acceptance of the bid is paid to the Collector of Customs, Bombay.
4. The goods shall be exported from the Custom House directly and the tenderer will have to bear the freight and the insurance charges. The tenderer will be required to file a shipping bill in his name as exporter on account of the Collector of Customs. The goods will have to be insured to the extent of 120 per cent of the value accepted and the goods will have to be exported within 45 days of the date of acceptance of the tender, failing which the offer will be deemed to have been withdrawn and the earnest money will be forfeited.
5. Goods thus exported will not be allowed to be reimported.
6. The tenderer will be required to declare on the export invoice that the goods are being exported on behalf of the Collector of Customs, Bombay. The tenderer will be required to give an undertaking that he shall perform all the formalities connected with the shipment of the goods, viz., filing a shipping bill, filing of G.R. forms, booking of parcel through airlines foreign post office and arranging for shipment of the goods to the foreign buyer under Customs Supervision etc.
7. The tenderer shall also be required to undertake to produce within one month of the date of shipment of the goods the bank certificate and such other evidence as may be demanded regarding realisation of foreign exchange thereafter the earnest money will be refunded to the exporter.

### **Recommendation**

The Committee are distressed to learn that Indian Diamond Industry specialises only in cutting very small size of diamonds in single and double cut known as 'makeables' in the trade circle. It does not operate in bigger sizes of diamonds, i.e. sawables which are mechanised and skill for which has been developed in countries like Israel and Belgium. The share of makeables is only a small portion of the diamond market. The Committee have been informed that encouragement is now being given for the import machinery to work on bigger size of diamonds. The Gem and Jewellery Export Promotion Council has also set up two artisan schools for the purpose of giving training in cutting and polishing of 'Sawbles'. The Committee desire that concerted efforts should be made to afford all incentives to develop full expertise in the cutting and polishing of 'sawables'. They would also like the Government to consider the desirability of entrusting this work to the Public Sector.

[Sl. 15 of the 54th Report of PAC (6th Lok Sabha)]

### **Action taken**

The importance of diversification to the area of cutting and polishing bigger size diamonds mainly with a view to enlarge the trading activities and earn higher caratage value is well recognised. A training school at Surat has been inaugurated this year for imparting training to artisans. Further the import policy for diamond cutting machines has been liberalised and many of these have been placed under Open General Licence (OGL). There is also provision for higher percentage of replenishment against higher value per carat realisation. The question of diversification and the relative importance to be given to bigger stones has also been included in the terms of reference of the Task Force on Gem and Jewellery now constituted by the Ministry of Commerce.

[Department of Commerce O.M. No. 14 (52)/77-E.P. (L.S.G.)

Dated 12-7-78.]

### **Recommendation**

The Committee find that the appreciation in the value of diamond takes place only after it is cut and polished by the craftsman. It is however surprising that no figures are available about the actual share of the appreciated value which is taken into account for making payment's to the craftsman. The Committee would like the Government to ensure that the entire profits are not pocketed by the traders and middlemen and that the remuneration paid to

the personnel employed on the job of cutting and polishing the diamonds is commensurate with the labour and skill put in by them

[S. No. 19 of the 54th Report of PAC (6th Lok Sabha)]

#### **Action taken**

The diamond trade is highly sensitive and is carried on mostly on a very personalised basis. The importers of rough diamonds are mostly merchant exporters who do not have any regular processing unit under their charge. The cutting and polishing work is done by artisans who through their long associations with the individual diamond exporters have developed their own working understanding and personal equation and are thus paid on their own agreed terms and conditions. Besides the artisans work at their place of residence etc. In view of these factors, fixation of minimum remuneration at Government level is considered difficult. However the observation of the Committee has been brought to the notice of the trade, the Gem and Jewellery Export Promotion Council and the State Governments of Gujarat and Maharashtra to ensure that the artisans are paid in proportions to their hard labour.

[Department of Commerce O.M. No. 14 (52)/77-E. P. (L.S.G.)

Dated 12-7-78.]

#### **Recommendations**

From the evidence given by the representative of the Ministry of Commerce as well as the written statements, the Committee gather the impression that the Diamond Trading Company has a near monopoly position in regard to the supply of rough diamonds and Government does not have any say on the DTC in nominating the sight holders or in determining the price. It was also brought out during the evidence that efforts of the Government to locate alternate sources of supply failed.

The resulting picture seems to be that Government is helpless in regulating the flow of imports or their prices and has to depend on the mercy of the DTC. In the circumstances, it is not clear to the Committee why the Central Selling Organisation (an affiliate of the DTC maintains a retired Major General in India presumably for purposes of liaison with the Government. Obviously, the DTC looks for some favours from Government. It may be that DTC is anxious to avail of the skill and facilities available cheaply in India for cutting and polishing small sized diamonds as such facilities are reported to be not available elsewhere. In other words, the DTC would like to exploit for their own ends the professional ex-

pertise available in India, in respect of these small sized diamonds. If so, Government does not seem to be as helpless as is made out.

In this connection, the Committee note that the share of the D.T.C. in the imports into India increased from 6 per cent in 1970-71 to 61.6 per cent in 1975-76. Another disturbing trend is the abnormal increase during 1971—74 in the prices of the imported roughs (110 per cent) which is not suitably reflected in the prices of the exported cut and polished diamonds (60 per cent).

The Committee note that Government have the power to grant licences and make available bank credits through the regulations of the export policy. The Committee would like to be assured that the exercise of these powers has not had the effect of benefitting the Company in expanding its market in this country and increasing our dependence on it.

[S. Nos. 21, 22 and 23 of the 54th Report of PAC  
(6th Lok Sabha)]

#### **Action taken**

The Diamond Trading Co., London has a near monopoly position in regard to supplies of rough diamonds and controls about 80% of the production and supplies of roughs in the world. All the major countries in the diamond trade cannot help, in the circumstances, dependence on DTC for its supplies of rough diamonds. It has to be noted that our domestic production of rough diamonds is far too small for the export requirements and for exports we depend entirely on imported roughs. The pricing policy for its supplies is determined by DTC on global scale keeping various factors in view. Government, however, closely watches the situation and in cases of genuine difficulties of the trade in regard to price and quality of DTC supplies, the matter is appropriately taken up with DTC.

As for the export policy of the Government, the same is fashioned keeping entirely in view the interest of the domestic diamond trade. In regard to lessening our dependence on DTC supplies, the same can be done only if we are able to make a successful entry into the primary sources. The position in regard to primary sources has been explained elsewhere.

[Department of Commerce O.M. No. 14 (52)/77-E. P. (L.S.G.)  
Dated 12-7-78.]

## CHAPTER IV

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

#### Recommendation

The Committee are distressed to note that diamonds and precious| semi precious stones seized in Bombay Customs Collectorate during the period 1959 to 1973 were lying undisposed till the end of 1975, although disposal orders had been passed by the competent authorities in many cases. The value of these goods at the then prevalent prices was stated to be of the order of Rs. 1.09 crores. From the information subsequently furnished to the Committee it is noticed that the value of the goods not disposed of in the Bombay Customs Collectorate as on 1-1-76 was about Rs. 1.35 crores. The Committee view with great concern the inordinate delay in disposal, a fact which has been admitted by the representative of the Department of Revenue and Banking when he said during evidence "We are sorry that the delay had occurred. I do not want to defend something which cannot be defended." The Committee would like to know of the rectificatory steps proposed to be taken to ensure that such delays are a thing of the past.

[S. No. 1 of 54th Report of the PAC (6th Lok Sabha)]

#### Action taken

The Collector of Customs, Bombay has reported that he has sold diamonds worth Rs. 1.39.56.112 during the period December, 1975 to September, 1977. The stock of confiscated cut and polished diamonds as on 1-2-1978 was nil in the Bombay Custom House. The Collector of Customs, Bombay has also reported that as on 1-2-1978 the value of the stock of confiscated rough and uncut diamonds is Rs. 1,96,915 and that of cut and polished precious and semi-precious stones. Rs. 45,26,056.

2. Instructions have already been issued to all the Collectors of Customs and Central Excise, to follow the procedure devised by the Bombay Custom House for sale of confiscated and polished diamonds for export.

[Ministry of Finance Department of Revenue OM No. 545/13/78-  
LCI Dated 10-8-78]

### Recommendations

The Committee find that the Mineral and Metal Trading Corporation of India is at present importing only 20% of the total requirement of rough diamonds of the country from various markets. The share of their total imports may be increased further if their efforts for the negotiation of some kind of contract for direct purchase from some African countries prove successful. The Committee however, understand that the MMTC do not have the requisite expertise for importing diamonds from primary sources. The Committee desire that Government should take measures to develop the requisite skill and expertise on the MMTC.

The Committee understand that traders prefer the DTC and its subsidiaries for import of their requirements of rough diamonds. They have developed a sort of apathy or allergy towards the canalisation of imports of rough diamonds by MMTC. One of the reasons for this attitude is that MMTC has not been able to offer such credit terms as are available to them from other agencies. The Committee would urge that if the MMTC has to play a positive role in the imports of rough diamonds Government should ensure that the terms offered by them are in no way less attractive than those offered by other competing agencies.

[S. Nos. 12 and 13 of the Report of PAC (6th Lok Sabha)]

### Action taken

In 1965-66, the exports of cut and polished diamonds from India had stood at about Rs. 5.00 crores which subsequently rose to Rs. 30.00 crores in 1968-69. The Diamond Trading Company (DTC), London had still not recognised Indian exporters as their sight-holders for the purpose of direct import of rough diamonds by DTC to Indian exporters. Since the production of rough diamonds in major producing countries and their marketing throughout the world had been mostly under the control of companies under the De Beers group and marketing of gem variety by the DTC of the same group, Indian exporters in the absence of direct imports from DTC, London, had to depend on the intermediate sources like Belgium and Antwerp. With a view to finding some alternative sources, the National Minerals and Development Corporation (NMDC) was asked to go to primary sources like Ghana and obtain rough diamonds supplies. The NMDC had made some moves and purchased a few lots in the open auction in Ghana. Since the NMDC had gone for such purchases from primary sources, it was decided to canalise 10% of the country's imports of rough diamonds (other than those of advance licences) through the NMDC from October, 1970. This is how the canalisation started. However subsequently it was found difficult

by the NMDC to participate in such open auctions as the lots for sale contained mixed goods of which 70% or more were Industrial varieties which had no domestic market and as a result no further efforts were made.

However consequent to above move by Government and partial canalisation of rough diamonds imports, the Indian Diamond Industry was able to persuade the Diamond Trading Company, London to agree to supply rough diamonds directly to Indian importers as the DTC's direct sight holders. The number of such Indian sight holders have since increased to 55 to 59 from a zero level in 1968-69. More than 90% of diamond imports is accounted by these sight holders as a consequence of direct supplies by DTC to them.

In so far the MMTC is concerned, the canalisation work was transferred to them from NMDC during 1972 for supply of 20% rough diamonds to Indian parties against only their replenishment entitlement. After the Ghana experiment, the efforts of MMTC because of various difficulties involved to go to primary sources, met with little success. Even efforts made at the Government level to get supplies of roughs from the Governments of USSR and Tanzania have not borne fruits so far. Under the circumstances whatever type of diamonds were procured by the MMTC were from the same sources from where other individuals had procured. The trade therefore repeatedly represented against partial canalisation, MMTC, however, did offer limited credit under the Bill Marketing Scheme, but the response from the trade has not been encouraging.

Keeping all factors in view Government have now decided to de-canalise diamond imports through the MMTC with effect from April 1978-79. MMTC would however continue to operate on their own in the market on the basis of their own skill and expertise which they have acquired over a period of time in order to supplement trade's effort in the matter.

The question of going to primary sources has been included in the terms of reference of the Task Force on Gem and Jewellery recently constituted by the Ministry of Commerce, for further consideration.

[Department of Commerce O.M. No. 14(52)77-E.P.(LSG)  
Dated 12-7-78]

### **Recommendation**

The Committee find that there was disproportionate increase in the average import and export prices of diamonds in India during

the years 1971—74. While the import price of rough diamonds had gone up by 110 per cent the export price of cut and polished diamonds had increased only by 60 per cent. However, in the case of the other manufacturing countries in the world *viz.*, Israel and Belgium, the increase in export prices of cut and polished diamonds has been in proportion to the increase in the prices of rough diamonds imported in India. The Committee have been informed during evidence that the increase in the price of small size rough diamonds imported by India was higher than for large size rough made in Israel and Belgium. In view of the disproportionate increase in the import and export prices of diamonds, the Committee have a suspicion that there could be over-invoicing in the values of the imported roughs. It is disquieting to learn that a comparison open market cannot be made. In view of this they would like to know the expertise available with the Department for the valuation of the rough diamonds and to be assured that the valuation is being done correctly to eliminate all chances of over-invoicing in values of imports.

[S. No. 14 of the 54th Report of PAC (6th Lok Sabha)]

#### **Action Taken**

In case of rough diamonds 80% of World production is controlled by the De Beers group. The pricing therefore is done at their instance depending upon total production, the type of goods and the available supply at a particular period. Regarding direct supplies of DTC goods to the sight holders it is unlikely that there would be overinvoicing of imported roughs. Otherwise all supplies of imported rough stones pass through customs authorities and in the light of their knowledge and experience in the field they keep a watch regard to overinvoicing or underinvoicing.

[Department of Commerce OM No. 14 (52)77-EP (LSG)  
Dated 12-7-78]

#### **Recommendations**

The Committee note that imports of rough diamonds are allowed against replenishment licences granted to exportes under the import policy for registered exporters. These licences are granted against exports of cut and polished diamonds. Indian exporters import mostly smaller size of rough diamonds known as 'makeables' which are mainly obtained form Diamond Trading Company London. The rate of replenishment varies between 60 per cent to 80 per cent of the export realisations in case of 'makeables' and 'sawables'. The replenishment licensing system is intended to encourage the export of better and more value added items by our country.



The Committee have been informed that the allocation of replenishment is done on the basis of the information about the value of exported goods obtained from the Gem & Jewellery Export Promotion Council who collects these details from representative transactions. On the basis of the data furnished by the Council, the replenishment rates are determined by an interministerial policy group consisting of the D.G.T.D., Economic Affairs Department and representative of the Finance Division of the Ministry of Commerce. The Committee are surprised to note that the Government have to depend entirely upon the data furnished by the Gem. and Jewellery Export Promotion Council for their judgement on the determination of the replenishment in the inter-ministerial policy group. The Export Commissioner, Office of the Chief Controller of Imports and Export has admitted during evidence that 'we do not have any other expert Government Agency for the purpose'. The Committee apprehend that in the absence of any external verification of the correctness of the data furnished by the Council, the possibility of manipulation therein and the diversion of the imported rough diamonds on a substantial scale inside India, where there is very good demand for them, cannot be ruled out. The Committee, therefore, recommend that Government should establish a suitable agency with the requisite expertise for the proper and thorough verification of the data furnished by the Council to ensure that the value of replenishment licence is not in excess of that admissible against exports under any circumstances. The Committee are concerned that information regarding the structure and economics of diamond polishing is not being obtained by Government on a regular. But obtained from the Council at particular times for policy formulation. This does not appear to be a happy state of affairs.

[S. Nos. 16 and 17 of the 54th Report of P.A.C. (6th Lok Sabha)]

The scale of replenishment etc. is kept under continual review. Recently Government have set up Hindustan Diamond Co., where it holds 50% shares and its nominee is the Chairman-cum-Managing Director. CCI&E has been advised that in reviewing the scale of replenishment of diamonds, the data furnished by the Council, wherever felt necessary may be further cross-checked with MMTC and Chairman, Hindustan Diamond Co.

[Department of Commerce OM No. 14 (52)77- E.P. (LSG)  
Dated 12-7-78]

## **CHAPTER V**

### **RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES.**

#### **Recommendation**

The Committee find that the Study Team on 'Leakage of Foreign Exchange through Invoice Manipulations' in its report pointed out that the exporters do not give sufficient details of the diamonds in the documents including invoices. The market value of the diamonds is also not indicated in the shipping bills. They have desired that the exporters should be asked to declare the size, colour, cut and perfection of the diamond in the invoices which can help considerably in their valuation. They have also suggested that local market value of the diamonds should be declared in the shipping bills in addition to the export value to enable the Appraising Officer to make a better judgement about values. The Committee would like to know the action taken by the Government on these recommendations.

[S. No. 18 of the 54th Report of P.A.C. (6th Lok Sabha)]

#### **Action Taken**

The suggestions about details to be given in the export documents are with a view to help the Appraising Officer to make better judgement about values. Appraising work is done by the Officer of the Department of Revenue (Central Board of Excise & Customs). Ministry of Finance (CBEC) have therefore been requested to answer the points made in this para.

[Deptt. of Commerce O.M No. 14 (52 77-E.P. (L.S.G.)  
Dated 12-7-78]

#### **Recommendation**

The Committee would also like to be informed whether the profit of the Diamond Trading Company on sales through sight-holders which would constitute a deemed income accruing or arising in India under Section 9(1) (i) of the Income Tax Act, 1961, have in fact been assessed to Income Tax.

[S. No 24 of the 54th Report of P.A.C. (6th Lok Sabha)]

**Action Taken**

The Diamond Trading Company is a foreign based company and its supplies of rough diamonds to their sight-holders world over including India are considered as exports to the recipient countries. The supplies of rough diamonds thus obtained from the D.T.C. by the Indian sight-holders are considered as imports into India. However Department of Revenue would separately give their comments in the matter.

[Deptt. of Commerce O.M. No. 14 (52)/77-E.P. (L.S.G.)  
dt. 12-7-78]

*December 15, 1978.*

*Agrahayana 24, 1900 (S).*

P. V. NARASIMHA RAO,

*Chairman,*

*Public Accounts Committee.*

**APPENDIX I**  
**STATEMENT OF ROUGH AND UN CUT DIAMONDS**

Year/ Month	Estimated Price Fixed by Valua- tion Committee	Sale Pro- ceeds	Import duty	Total Sale Pro- ceeds and Import Duty	Remarks
	Rs.	Rs.	Rs.	Rs.	
December 75 . . . . .	NIL	NIL	NIL	NIL	NIL
Feb-March 76 . . . . .	4,74,078	4,15,101	20,775	4,35,876	
May 76 . . . . .	68,880	68,000	3,425	71,425	
June-July 76 . . . . .	9,40,739	8,83,611	44,180	9,27,791	
August 76 . . . . .	10,07,267	9,07,795	45,389	9,53,184	
November 76 . . . . .	35,355	35,501	1,775	37,276	
Feb 77 . . . . .	1,23,619	75,525	30,201	1,05,726	
	89,970	70,000	5,750	1,20,750	
	58,032	45,000			
	35,544	32,501	1,625	34,126	
May 1977 . . . . .	3,471	2,801	140,00	2,941	
<b>TOTAL . . . . .</b>	<b>28,96,955</b>	<b>25,35,835</b>	<b>1,53,260</b>	<b>26,89,095</b>	

**APPENDIX II**

**STATEMENT OF CUT AND POLISHED DIAMONDS**

Year/Month	Estimated Price in USA Dollars Fixed by Valuation Committee	Sale Price in USA Dollars	Amount in India Rupees	Remarks
			Rs	
Dec., 75 to May, 76 . . . . .	NIL	NIL	NIL	NIL
June-July, 1976 . . . . .	Dollars 5,93,031	5,60,047	49,78,209 1,82,575 the party as	Goods sold but not exported by such in- prest of Rs 1000/- forfeited
August 76 . . . . .	NIL	NIL	NIL	NIL
November 76 . . . . .	Dollars 73,689	72,879	6,37,044	
Feb 1977 . . . . .	1,90,312	2,18,502	19,11,654	
May 1977 . . . . .	NIL	NIL	NIL	NIL
Sept. 1977 . . . . .	2,216	1,911	21,202	
		TOTAL	77,33,684	

### APPENDIX III

#### Conclusions/Recommendations

S.No.	Para No.	Ministry/Deptt. Concerned	Conclusions/Recommendation
1	18	Min. of Finance. (Duptt. of Revenue)	1.8. The Committee have carefully considered the reply furnished by the Department of Revenue explaining the position in regard to the disposal of confiscated diamonds, precious and semi-precious stones in Bombay Custom House. They cannot help feeling that the sale of the diamonds etc. had actually started only after the matter was reported by Audit and not on the Collector's own initiative. In these circumstances, the Committee are constrained to conclude that the handling of the case by the Bombay Custom House was far from satisfactory.
2	1.9	Do	1.9. The Committee further note that the value of the stock of confiscated rough and uncut diamonds which stood at Rs. 1.35 crores on 1-1-1976 has since been reduced to the order of Rs. 1,96,915 and that of cut and polished precious and semi-precious stones to Rs. 45,26,056 in the Bombay Custom House on 1-2-1978. This position has emerged due to substantial disposal between December 1975 and September 1977. The Committee desire that this tempo of disposal should be maintained and the position kept under constant

watch and such remedial steps as are considered necessary on the basis of the past experience taken to ensure that the inordinate delay of the type that occurred earlier does not come to be repeated in future. They would also like to be apprised of the impact on the disposal of confiscated diamonds etc. in other Customs Houses by following the procedure adopted by the Bombay Custom House.

3    1.12    Min. of Commerce

1.12. The Committee are sorry to observe that the Government seems to have given in to the pressure of the trade in taking the decision for the decanalisation of even 20 per cent rough diamonds imported through the Minerals and Metals Trade Corporation. The partial canalisation of 20 per cent for the import of rough diamonds was introduced primarily with the objective of breaking gradually the influence of Diamond Trading Company, London which virtually monopolised the supply of rough diamonds to this country. Instead of complete withdrawal of State control on the imports of rough diamonds the Government should have, as recommended by the Committee, made all-out efforts to develop such skill and expertise on the MMTC as was necessary for making the import of rough diamonds as much attractive for the trade as through the DTC. They should have also devised some methodology whereby the terms offered by the MMTC could be in no way less favourable than those offered by other competing agencies. The Committee do not feel convinced that the operation of MMTC on their own in the market would bring in any tangible results keeping in view their performance during the period when 20 per cent import of rough diamonds was canalised through them. The Committee,

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therefore, reiterate their earlier recommendation and stress the need for the development of such skill and expertise on the MMTC as is necessary competitive with DTC. They would also desire the Government to reconsider their decision for the decanalisation of 20 per cent import of rough diamond through MMTC so as to permit the exercise of some type of partial State control in this field.

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1.13

Min. of Commerce

1.13. The Committee would also like to know the outcome of the consideration of the question of going to primary sources through the Task Force on Gem and Jewellery constituted by the Ministry of Commerce.

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1.16

Min. of Finance  
(Dept. of Revenue)

1.16. The Committee have not been informed about the expertise available with the Customs Department for the valuation of the rough diamonds imported in this country. They are disinclined to agree that merely the knowledge and experience of the Custom authorities in the field can arm them with the requisite expertise so vitally needed for the proper valuation of the rough diamonds and exercise of the requisite check on resort to over-invoicing and under-invoicing. In view of the near monopoly of Diamond Trading Company in meeting the requirements of the rough diamonds imported in this country, it is all the more essential that the persons on the job should be highly specialised and fully equipped with all the details and information in regard to the prices charged by Diamond Trading Company for similar material imported by



other countries so as to ensure that all efforts towards under-invoicing and over-invoicing are completely frustrated. The Committee would like the Government to make an indepth study of the problem and take suitable remedial measures to make the system fool-proof.

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Min. of Commerce

1.19. The Committee have their own doubts if the advice given by the Government to the Chief Controller of Imports and Exports to have the data furnished by the Gem and Jewellery Export Promotion Council for the grant of replenishment licences cross-checked as and when necessary with the MMTC and Chairman, Hindustan Diamond Company would meet the objective of complete and detailed verification. The casual checks would be hardly helpful and are not likely to do away with the possibility of manipulation by unscrupulous traders. The Committee, therefore, reiterate their earlier recommendation and desire that Government should establish its own agency with the requisite expertise for the thorough scrutiny of all the data furnished by the Gem and Jewellery Export Promotion Council on all the occasions.

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