

**PUBLIC ACCOUNTS COMMITTEE
(1977-78)**

(SIXTH LOK SABHA)

FIFTY-FOURTH REPORT

CUSTOMS RECEIPTS

MINISTRY OF FINANCE

(DEPARTMENT OF REVENUE)

[Paragraph 15 of the Report of the Comptroller & Auditor General of India for the year 1974-75, Union Government. (Civil), Revenue Receipts, Volume I, Indirect Taxes (Customs Receipts)]

Presented to Lok Sabha on

Laid in Rajya Sabha on



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 1977/Agrahayana, 1899 (Saka)

Price : Rs. 4.00

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

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
ANDHRA PRADESH					
1.	Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam)	8	12.	Charles Lambert & Company, 101, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.	30
2.	G.R. Lakshminpathy Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	94	13.	The Current Book, House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.	60
			14.	Deccan Book Stall, Ferguson College Road, Poona-4.	65
ASSAM					
3.	Western Book Depot, Pan Bazar, Gauhati.	7	15.	M/s. Usha Book Depot, 585/A, Chira Bazar Khan House, Girgaum Road, Bombay-2 B.R.	5
BIHAR					
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	37	MYSORE		
			16.	M/s. Peoples Book House, Opp. Jaganmohan Palace, Mysore-1	16
GUJARAT					
5.	Vijay Stores, Station Road, Anand.	35	RAJASTHAN		
6.	The New Order Book Company Ellis Bridge, Ahmedabad-6.	63	17.	Information Centre, Government of Rajasthan, Tripolia, Jaipur City.	38
HARYANA					
7.	M/s. Prabhu Book Service, Nai Subzmandi, Gurgaon, (Haryana).	14	UTTAR PRADESH		
			18.	Swastik Industrial Works, 59, Holi Street Meerut City.	2
MADHYA PRADESH					
8.	Modern Book House, Shiv Vilas Palace, Indore City.	13	19.	Law Book Company, Sardar Patel Marg, Allahabad-1	48
MAHARASHTRA					
9.	M/s. Sunderdas Gianchand, 601, Girgaum Road, Near Princess Street, Bombay-2.	6	WEST BENGAL		
10.	The International Book House (Private) Limited, 9, Ash Lane, Mahatma Gandhi Road, Bombay-1	22	20.	Granthaloka, 5/1, Ambica Mookherjee Road, Belgharia, 24 Parganas.	10
11.	The International Book Service, Deccan Gymkhana Poona-4	26	21.	W Newman & Company Ltd, 3, Old Court House Street, Calcutta	44
			22.	Firma K.L. Mukhopadhyay, 6/1A, Banchharam Akrur Lane, Calcutta 12.	82
			23.	M/s. Mukherji Book House, 8B, Duff Lane, Calcutta-6	4

CLERICAL CORRIGENDA TO FIFTY-FOURTH REPORT OF THE PUBLIC
ACCOUNTS COMMITTEE

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
57	1.164	5	superceded	superseded
		7	assessed	assessed
60	1.176	8	tries of the world viz., Israel and Belgium the increase in export prices.	prices of rough diamonds impor- ted into these countries. The Committee
		1 (from bottom)	expertice	expertise
61	1.177	12	available	available
62		11	expertis regular.But	expertise regular basis, but
63		26	1.85	1.185
81	1.164 (Sr.No.2)	5	superceded	superseded
86	1.173 (Sr.No.11)	10	bearest	barest
87		1	agenciess.	agencies.
87	1.176 (Sr.No.13)	12	diamonds. The Committee	diamonds, the Committee
90		4	perfection	perfection

CONTENTS

	PAGES
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1977-78)	(iii)
INTRODUCTION	(v)
REPORT	1
APPENDICES	
I. Statement showing the total number of seizures of Diamonds made during the period from 1966-67 to 1975-76 and the break-up of their disposal	64
II. Statement showing the total number of seizures of Precious Stones made during the period from 1966-67 to 1975-76 and the break-up of their disposal	65
III. Statement showing the total number of seizures of Semi-precious Stones made during the period from 1966-67 to 1975-76 and the break-up of their disposal	66
IV. Statement showing details of the low valuation on seizures of 'Diamonds' during the period from 1966-67 to 1975-76	67
V. Statement showing details of low valuation on seizures of 'Precious Stones' during the year 1966-67 to 1975-76	69
VI. List of Indian Sight Holders of the Diamond Trading Company	71
VII. Statements on the replenishment given for the imports of rough diamonds during the year 1966-67 to 1977-78	73
VIII. Conclusions/Recommendations	80

PARLIAMENT LIBRARY
 Library & Reference Dept.
 Central Govt. Publications
 Acc. No. B. 9725 (6)
 Date 29-7-78

PUBLIC ACCOUNTS COMMITTEE

(1977-78)

CHAIRMAN

Shri C. M. Stephen

MEMBERS

Lok Sabha

- *2. Shri Halimuddin Ahmed
3. Shri Balak Ram
4. Shri Brij Raj Singh
5. Shri Tulsidas Dasappa
6. Shri Asoke Krishna Dutt
7. Shri Kanwar Lal Gupta
8. Shri P. K. Kodiyan
- *9. Shri Vijay Kumar Malhotra
10. Shri B. P. Mandal
11. Shri R. K. Mhalgi
12. Dr. Laxminarayan Pandeya
13. Shri Gauri Shankar Rai
14. Shri M. Satyanarayan Rao
15. Shri Vasant Sathe

Rajya Sabha

16. Smt. Sushila Shankar Adivarekar
17. Shri Sardar Amjad Ali
18. Shri M. Kadershah
19. Shri Piare Lall Kureel
ur Piare Lall Talib
20. Shri S. A. Khaja Mohideen
21. Shri Bezawada Papireddi
22. Shri Zawar Hussain.

SECRETARIAT

1. Shri B. K. Mukherjee—*Joint Secretary.*
2. Shri T. R. Ghai—*Senior Financial Committee Officer.*

*Elected w.e.f. 23 November, 1977 vice *Sargathi Sheo Narain and Jagdambi Prasad* who have ceased to be Members of the Committee on their appointment as Ministers of State.

INTRODUCTION

1, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Fifty-Fourth Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraph 15 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes relating to Customs Receipts.

2. The Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes was laid on the Table of the House on 14 May, 1976. The Public Accounts Committee (1976-77) examined this paragraph at their sittings held on 23rd and 24th December, 1976, but could not finalise this Report on account of dissolution of the Lok Sabha on 18 January, 1977. The Public Accounts Committee (1977-78) considered and finalised this Report at their sitting held on 6 December, 1977 based on the evidence taken and further written information furnished by the Ministry of Finance (Department of Revenue). The Minutes of the sittings form Part II* of the Report.

3. A statement containing main conclusions/recommendations of the Committee is appended to this Report. For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the Commendable work done by the Chairman and Members of the Public Accounts Committee (1976-77) in taking evidence and obtaining information for this Report.

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

6. The Committee would also like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
December 9, 1977.
Agrahayana 18, 1899(S).

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

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

REPORT

DELAY IN DISPOSAL OF SEIZED DIAMONDS, PRECIOUS STONES AND SEMI-PRECIOUS STONES ETC.

Audit Paragraph

1.1. In September, 1966 the Government of India issued orders that confiscated rough and uncut diamonds for disposal should be sold in auction by the Department to the holders of incentive licences. In December, 1972, the Government of India further decided that cut and polished diamonds and precious and semi-precious stones should also be sold in auction or by sealed tenders at the discretion of the Department.

1.2. The seized diamonds, precious/semi-precious stones etc. are stored in a strong room of the Customs Warehouse pending disposal. A review (May, 1975) of the Warehouse registers of a major Custom House, for the years 1959 to 1973, revealed that diamonds, precious/semi-precious stones etc. seized during the period from 1959 to 1973 were lying in the Warehouse undisposed of (August, 1975) in 76 cases, although disposal orders had been passed by the competent authorities in many cases. The total value recorded in the register in respect of 31 cases amounted to Rs. 57,91,556. In the remaining 45 cases neither the value nor the exact description of the precious stones were indicated.

1.3. The Ministry have stated that the disposal of diamonds could not be taken up since 1970 as the available staff was utilised for the disposal of bulk consignments like textiles and electronic goods. The total value of diamonds and semi-precious and precious stones lying undisposed of, excluding 'a few cases where the value particulars are not available' is given as Rs. 1,08,77,888 by the Ministry. They have added that now the disposal of diamonds has been taken up on priority basis and efforts are being made to dispose of all cases upto 1971.

[Paragraph 15 of the Report of the Comptroller and Auditor General of India, Union Government (Civil), Vol. V—Indirect Taxes].

1.4. This paragraph points out the delay in disposal of diamonds, precious and semi-precious stones, seized during the period from 1959 to 1973 in Bombay Customs House. It also brings into focus the failure on the part of the Department to ensure prompt disposal of the goods despite the existence of instructions in regard to the manner of disposal. The goods seized and not disposed of, fall under the categories: (i) Rough and uncut and (ii) cut and polished. In respect of the former the instructions of September, 1966, stipulate sale by auction to holders of licences. To expedite the disposal, the Custom Officers were permitted in November, 1968.

to accept bids which are about 10 per cent less than the estimated c.i.f. prices. In respect of the latter, instructions were issued in April, 1968, to have them disposed of by the Handicrafts Handlooms Export Corporation in foreign countries at prices not lower than the fair prices fixed by the Collectors. These instructions were superseded in December, 1972 when they were ordered to be sold in the internal market by auction. Again in January, 1973, Collectors were empowered to sell them by sealed tenders also. Despite all this no auction of the goods has been made after 1968. An auction proposed in 1974 was also not held.

1.5. The Committee wanted to know the reasons for the non-disposal of diamonds etc. from 1959 to 1973. The Additional Secretary, Department of Revenue and Banking, has stated during evidence:—

“We are very sorry that the delay has occurred. I do not want to defend something which cannot be defended. In the case of diamonds and precious stones, there was a delay in disposal and sale of confiscated goods, but one redeeming feature is that there has been no loss or theft because of this delay.”

1.6. Explaining further the factors which contributed to this delay, the Chairman, Central Board of Excise and Customs, has stated:—

“Sir, it is my duty to be frank with you. There has been a special aspect with regard to the sale of diamonds. Two of our very senior officers got charge-sheeted because in a particular auction, the value realised was not what should have been realised, even though the valuation had been done by the export values. On account of that, there has been an inbuilt inhibition to touch diamond auctions. Anybody who knew that he had to auction diamonds felt-hesitant. I am telling you facts.”

1.7. In regard to the particular auction referred to, the Department of Revenue and Banking have furnished in writing the following information about the diamonds auctioned, the value realised in the auction and that determined by experts:—

“It has been reported by the Collector, Customs, Bombay that records as to the details of the diamonds auctioned and value realised and the value determined by the experts are not available as the matter pertains to the early fifties. However, from the information available with the Department, it may be stated that in a letter addressed to the Finance Ministry in 1953, a complaint was made that the quantity of diamonds

seized by the Customs had been appraised at a low value and sold on 31-5-1953 for Rs. 14,000, although three hours later the same diamonds were sold in the bazar for no less a sum than Rs. 72,000. Similarly, their weight had been estimated at 230 carats whereas their correct weight was about 100 carats more."

1.8. Giving details about the officials responsible for the default and the action taken against them, the Department of Revenue and Banking have stated in writing as under:—

"The officials involved in the case were two Assistant Collectors, namely, Shri M. Ramachandran and Shri R. C. Misra and two non-gazetted officers in the Bombay Custom House.

The Government ordered proceedings against the officers. After conducting an oral enquiry into the matter as laid down in the CCS(CCA) Rules, the Government imposed penalty of reduction in rank for a period of two years on the two gazetted officers. While Shri Ramachandran was reduced from the Senior Scale Assistant Collector's rank to the Junior Scale, Shri Misra was reduced to the rank of Principal Appraiser from the rank of Assistant Collector (Junior Scale)."

1.9. The Committee desired to know whether it was because of lack of staff that the diamonds and precious stones could not be sold in time. The Chairman, Central Board of Excise and Customs, has replied during evidence:—

"It is true that over the years, smuggling had been increasing. It is a fact that the staff augmentation seldom keeps pace with the staff requirements. It takes quite some time. In the meantime, it is the duty of the Collector, Customs, to deploy his existing staff on matters which are more important to him. When a person has got less staff, he would not like to relax on seizures; he would like to do that as much as possible. If something has already been confiscated and there is going to be some delay in its disposal, it is not going to do as much damage as if he were not to seize. Therefore, much greater attention had been paid to seizures and even in regard to disposals, much greater attention was paid to goods which were likely to deteriorate."

1.10. At the instance of the Committee, the Department of Revenue and Banking have furnished a written note explaining the requirements of staff and the difficulties in positioning the staff which led to the delays in disposal of diamonds:—

“Only 6 posts of Preventive Officers for handling the disposal and looking after the seized goods have been sanctioned. The earlier sanctioned strength did not provide for these items of work. Since the sanctioned staff was not adequate to cope up with the increase in work relating to custody and disposal of seized/confiscated goods, and due to the increase in number of seizures after 1971, the Custom House had to divert 30 preventive officers and 3 Inspectors from General Preventive duties in the Docks and Bunders for handling the disposal of seized/confiscated goods.”

1.11. The Committee wanted to know the latest stock position of diamonds and precious stones, etc. in the custody of Customs at various ports. The Additional Secretary, Ministry of Revenue and Banking, has stated during evidence:—

“The total pending in the Bombay Customs House, as in January, 1976 is Rs. 1,05,19,684 worth of diamonds and Rs. 29,95,572 worth of precious stones and semi-precious goods, the total being Rs. 1,35,15,256/- . . . As on 8th December, 1976, the balance of diamonds is Rs. 31,11,023 and that of precious and semi-precious stones is Rs. 11,87,071. So, the total has been reduced from Rs. 1,35,15,256 to Rs. 42,98,094. The difference has been disposed of during the last eleven months. . . In Madras Customs House, on 1-1-1976 the total value of diamonds in custody was Rs. 3,19,169 and of precious and semi-precious stones was Rs. 16,19,798, the total amounting to Rs. 19,38,967. As on 16th December, 1976, the total of both these is only Rs. 7,37,964, out of which diamonds are Rs. 1,83,563 and precious stones Rs. 5,54,01. Calcutta Customs House: as on 1-1-1976, diamonds were Rs. 2,41,127 and precious stones and semi-precious stones Rs. 2,29,000, thus making a total of Rs. 4,70,127. According to the latest figures, as on 21st December, the diamonds were reduced to Rs. 2,338 from Rs. 2,41,127 and precious stones and semi-precious stones were Rs. 1,37,100, thus making a total of Rs. 1,39,438.”

1.12. The Committee wanted to know whether any time limit had been prescribed for the disposal of the confiscated goods. The Chairman, Central Board of Excise and Customs, has stated during evidence:—

“Instructions to all our officers are very clear that they shall be judged by the results they produce. I am quite sure within the next few months we will be able to sell most of the stocks which are there. The rate at which we are disposing of is quite encouraging. I do expect that within the course of next few months, may be six months or nine months, we may be able to clear most of the arrears.”

1.13. In a written note, the Department of Revenue and Banking have furnished the following information showing the stocks of diamonds both cut and polished, and uncut and rough diamonds and precious and semi-precious stones as on 1-1-1977. disposal between 1-1-1977 and 31-5-77 and pendency as on 31-5-1977:—

Name of the Custom House/GIE Collectorate	Pendency as on 1-1-77		Disposed up to 31-5-77		Pendency as on 31-5-77	
	Qty. (Cts.)	Value (Rs.)	Qty. (Cts.)	Value (Rs.)	Qty. (Cts.)	Value (Rs.)
	2	3	4	5	6	7
CUT AND POLISHED DIAMONDS						
CC, Bombay	1335.44	21,22,764	1335.44	19,11,654	..	..
CC(P), Bombay	15.26	2,664	..	..	15.26	2,964
CC, Madras	26.07	82,143	..	..	26.07	82,143
CC, Calcutta	8.58	17,465	..	..	8.58	7,465
CCE, Ahmedabad	132.05	73,473	..	..	132.05	73,473
CCE, WB, Calcutta	38.08	37,707	..	..	38.08	37,707
CCE, Delhi	40.99	64,000	40.99	64,000	..	..
CCE, Shillong	0.95	425	..	..	0.95	425
CCE, Madras	187.49	3,57,000	..	..	187.49	3,57,000
CCE, Madurai	(Qty. in cts. not known)	1,50,000	..	..	(Qty. in cts. not known)	1,50,000

ROUGH AND UNCUT DIAMONDS

CC, Bombay	8,350.06	5,04,092	6,375.48	2,29,026	2,18,148	[1,96,927
CC(P), Bombay	3,952.18	3,90,166	..	..	3,052.18	3,90,166
CC, Madras	1,190.00	1,01,420	..	..	1,190.00	[1,01,420
CCE, Ahmedabad	851.08	744,300	..	..	851.08	44,390
CCE, Madurai	12.5	1,650	..	..	12.5	[1,650

PRECIOUS AND SEMI-PRECIOUS STONES

CC, Bombay	4,46,788.75 + 21,618.50 became ripe after 1-1-77 = 26,10,798.75	9,27,131	1,16,308.40	6,75,328	23,04,430.34	2,72,612
CC(P), Bombay	8,635.00	1,20,660	..	..	8,635.00	1,20,660
CC, Calcutta	25,040.90	1,09,465	..	..	25,040.90	1,09,465
CC, Madras	1,77,849.92	6,41,638	..	..	1,77,849.92	6,41,638
CCE, WB, Calcutta	36,598.60	13,925	..	..	36,598.60	13,925
CCE, Delhi	453.04	37,775	5,453.04	37,775	..	..
CCE, Shillong	4,16,980.134	9,91,296	..	..	4,46,080.134	9,91,296
CCE, Madurai	51,655.80	60,359	..	..	51,655.80	60,359
CCE, Madras	1,16,828.82	3,65,073	..	..	1-16,828.82	3,65,073
CCE, Bhubaneswar	12.81	180	..	..	12.81	180
(CCE(P), Patna	732.50	600	..	..	732.50	600
CCE, Jaipur	74,218.82	98,263	..	..	74,218.82	98,263

1.14. The Committee wanted to know the methodology adopted for the disposal of diamonds, etc. The Additional Secretary, Department of Revenue and Banking, has stated during evidence:—

“The method of sale in the case of diamonds and precious stones is by tender or by auction.”

1.15. The Committee desired to know whether the disposal was also made by private negotiation. The witness has replied:—

“In Madras Customs House, in 1974, they sold to the Tirupati Devasthanam for Rs. 76,899, by negotiation.”

1.16. Asked whether private negotiation was permissible under the law, the witness has replied:—

“When they sold in 1974 to the Devasthanam, they must have got the tenders for it. Whether they resorted to further negotiations later on, I do not know. There is no law on the point; these are all executive instructions that the sale should be by tender or public auction. I would check up about this particular case as to how it was done or if they got special permission and would let you know.”

1.17. At the instance of the Committee, the Department of Revenue and Banking, have furnished in writing the following details of the diamonds sold to Tirupathi Devasthanam in 1974 through negotiation:—

“The sale was made at the best market price ascertained by the Custom House according to the usual procedure. The diamonds were first valued by the Departmental expert (Appraiser), secondly by the representative of the Diamond Merchants' Association, and thirdly by an independent diamond Merchant. The above operations were carried out in the presence of Assistant Collector (Disposals) and the highest of these values was fixed as the sale price.

The sale effected to Thirupathi Devasthanam was thus at the highest price as arrived at in the above manner. The amount realised cannot, therefore, be expected to be less than the competitive price prevailing in the market, since the price adopted has been the highest one estimated by three different agencies, valued independently. It may also be mentioned that the book value of the diamonds in question noted at the time of seizure was stated to be Rs. 38,900 while their sale price realised was Rs. 76,899.”

1.18. The Committee pointed out that if there was some private arrangement in regard to sale of diamond, it had to be justified by reference to some proviso in the rule. The Chairman, Central Board of Excise and Customs, has replied during evidence:—

“Whatever general instructions are issued, they are issued in the case of diamonds with the specific approval of the Minister and if there is any specific request from a particular type of institution—I am not talking of an individual—the approval to depart from anything is also taken from the Minister.”

1.19. In a written note, the Department of Revenue and Banking have furnished the following information in regard to the total sale by tender and by public auction made during 1974-75 and 1975-76:—

Name of the Custom House	1974-75		1975-76	
	By tender	By auction	By tender	By auction
1. C.C., Madras	..	5,24,570.80	..	..
2. C.C., Calcutta	..	6,32,870.00	..	..
3. C.C., Bombay	4,27,202.00	..

There has been no sale in other Custom Houses/Central Excise Collectorats during 1974-75 and 1975-76.”

1.20. Adding further in regard to departure from any of the two methods of sale either by tender or auction, the Department of Revenue and Banking have intimated as under:—

“There was a departure from these two methods, namely, direct sale of the cut and polished diamonds was made by the Madras Custom House to the Tirupathi Devasthanam. The Tirupathi Devasthanam approached the Ministry with a request for the purchase of the cut and polished diamonds for decorating the Diety. Since a large stock of diamonds were available with Madras Custom House and with a view to dispose of the diamonds, the Custom House was directed to sell the diamonds to Tirupathi Devasthanam at the best internal market price. Accordingly the Custom House sold diamonds valued at Rs. 76,899 to the Tirupathi Devasthanam. Excepting this, there has been no case of deviation from the prescribed procedure during the above period viz. 1974-75 and 1975-76.”

1.21. Asked to state the methodology by which the public was informed about the sale of diamonds, etc., the Additional Secretary, Central Board of Excise and Customs, has stated during evidence:—

“The sale, either by tenders or by auction, is appropriately advertised; and notices are sent to the concerned associations for participating in the tender or auction, as the case may be. The public are allowed to come and see them. They are exhibited in the Customs House itself. The information whether the sale is by tenders or auction, is also advertised in the Press.”

1.22. Explaining the details about sale of diamonds, the Department of Revenue and Banking have intimated in writing as under:—

“The rough and uncut diamonds are sold either by auction or by tender at c.i.f. price after charging duty at the prevailing rate and debiting the import licences issued for rough and uncut diamonds.

Cut and polished diamonds are sold in the internal market at the best price either by auction or by sealed tenders. The Bombay Custom House, however, evolved a procedure for the disposal of the cut and polished diamonds for export by inviting sealed tenders.

After valuation and arranging the lots the sale list/catalogue is printed by the auctioneer if the sale is by auction or by the Custom House if the sale is by tenders. Particulars like the type of stones *i.e.* whether diamonds, precious and semi-precious stones, cut and polished or rough and uncut, with weight, number of pieces etc. are given in the Catalogue/Sale List. The goods are allowed inspection by the prospective buyers. The date and the period for inspection as well as the date of auction and of receiving the sealed tender are published in the advertisement through the Directorate of Audio Visual Publicity, Ministry of Information and Broadcasting, New Delhi. If the prices offered in the tenders or at the time of auction is above the reserve price, the offers/bids are accepted.”

1.23. In regard to the safeguards provided to avoid substitution of the displayed items, the Department of Revenue and Banking have state in writing thus:—

“The display of the diamonds is invariably done under the direct supervision of either the Assistant Collector or Superintendent of Customs (Preventive) assisted by jewellery appraiser and

sufficient number of preventive officers. The inspection is allowed in a well closed and secure room of the Custom House. Armed safeguards are also provided. Both at the time of taking from the strong room to the inspection room, and back are escorted by the armed guards. Inspection is allowed to the parties in small batches not exceeding two to three persons. Each lot is opened by the Jewellery appraiser and passed on in turn to the parties. No fresh lot is shown for inspection unless the previous lot is returned to the jewellery appraiser and all the pieces are accounted for and handed over to the disposal officer for safe custody. In view of the precautions and close surveillance maintained by the officials, the possibility for substitution of the items is sought to be eliminated."

1.24. The Department of Revenue and Banking have intimated in writing the names of the Associations to whom the advertisements for the sale of Diamonds are sent for participation in the tender or auction, as the case may be, Collectorate-wise, which are given below:—

Name of the Custom House/Collectorate 1	Name of the Associations 2
Custom House, Bombay	<ol style="list-style-type: none"> 1. Jewellers Association, Johri Bazar, Jaipur. 2. All India Jewellery Association 19-E, Connaught Place, New Delhi.-1 3. Calcutta Johri Mandal, 38-Bartalla Street, Calcutta-7. 4. Madras Jewellers and Diamond Merchants' Association, 11/12 Car. St., Netaji Subhash Bose Lane, Madras. 5. Bombay Precious Stones Exporters Association, Vasavda Vad, Jawahar Road, Bombay. 6. Bangalore Jewellers Association, Nagarth Peth, Bangalore-2. 7. The Bombay Diamond Merchants Association, 3rd Dhanii St., Bombay-3. 8. The Pearl Importers and Exporter Association, 80, A/B Sheikh Memon Street, Bombay-2. 9. The Precious Stone Importers and Exporters Association, 29, Gurukul Chambers, 187-189, Mumbadevi Road, Bombay-2.

1	2
Custom House, Calcutta	Jewellers' Association, 38-Burlton Street, Calcutta.
Custom House, Madras	Diamond Jewellers' Association, Madras; Jaipur, Bombay/Delhi/Tiruchi/Coimbatore/Madurai.
Central Excise collectorate Delhi	1. President Jewellery Association A-E Connaught Place, New Delhi. 2. The Secretary, Glass Beads & Chattons Merchants Association, 414, Sadar Bazar, Delhi. 3. The Secretary, Jewellers Association, Johri Bazar, Jaipur.

1.25. Asked as to why the copies of the advertisements were sent to associations, the Chairman, Central Board of Excise and Customs, has replied:—

“The idea of sending copies of the advertisements and intimating the associations of the concerned trade was merely to give greater publicity to the fact that a tender was being invited. Most of these are rough uncut diamonds and the public at large is not interested in this. The public will be interested only in cut and polished diamonds and precious stones. It is really the dealers who are interested in rough diamonds. If you give the advertisements in the papers, only some dealers will read it, whereas if you send a copy to the association, it will circulate it to all the dealers. So, there will be greater competition in the auction.”

1.26. In regard to the apprehension about the dealers and merchants joining hands and offering low prices at the auctions, the Chairman, Central Board of Excise and Customs, has replied:—

“In so far as the buyers forming a combine or a ring in an auction is concerned, that possibility cannot be ruled out. The only way to check is to have a proper valuation before the auction, and that is what we do.”

1.27. The Committee wanted to know about the possibilities of the export of seized diamonds. The Chairman, Central Board of Excise and Customs, has replied during evidence:—

“This question was very much in our minds. The Handicrafts Corporation could not see it. We asked the National Mineral

Development Corporation and they said that they have no expertise. Then we approached the Handicrafts Export Corporation. The experience there also is that in the course of three years they could sell only a couple of diamonds. Now auctions are being held with the condition that it is only for export."

1.28. The Committee wanted to know whether there was any proposal to dispose of cut diamonds through National Mineral Development Corporation. The Additional Secretary, Department of Revenue and Banking, has stated:—

"So far as cut and polished diamonds are concerned we have requested the National Mineral Development Corporation to come forward with a scheme if they have any so that they can export this stock which lies with the Customs House. The offer is still open to them. It has not been withdrawn. If they have expertise they can do."

Seizures

1.29. The Committee desired the details of seizures of diamonds, precious stones and semi-precious stones during the years 1966-67 to 1975-76 and their disposal Collectorate-wise (including Central Excise Collectories). On the basis of the information received from the Department of Revenue and Banking, three statements showing the seizures and particulars of disposal separately in respect of diamonds, precious stones and semi-precious stones are annexed as Appendices I, II and III.

1.30. The statements reveal that out of 245 cases of seizures of diamonds, 90 were released, 85 confiscated and 70 were pending adjudication. Out of 304 cases of precious stones, 238 were released, 45 confiscated and 21 were pending adjudication. Out of 171 cases of semi-precious stones, 64 were released, 87 confiscated and 20 were pending adjudication.

1.31. From the information received from the Department of Revenue and Banking, it was also noticed that the valuation of diamonds and semi-precious stones in a number of cases in the various Collectories was on the low side. The details of such cases are contained in Appendices IV and V.

1.32. The Committee wanted to know the difference in the price of rough and cut diamonds. The Chairman, Central Board of Excise and Customs, has stated during evidence:—

"There is an enormous difference. I am afraid I cannot tell you exactly whether there is any sort of generality in prices with

regard to roughs, but all that I know of is that the prices cannot be described as per carat so much. It will be very difficult to say so."

1.33. Giving detailed reasons for the variations in valuation of diamonds etc., the Department of Revenue and Banking have intimated in a written note thus:—

- “(a) Factors such as colour, clarity, cleanliness, size and type of cut etc. determine the value of diamonds and precious stones, as such the value could differ on account of these factors.
- (b) The value arrived at by one expert is likely to differ to some extent from the value appraised by another expert. Moreover in many cases as considerable period elapses between the date of seizure and the date of disposal of the goods, the goods are not valued by the same experts on two occasions and therefore, the value estimated at the time of disposal of goods differs from the value ascertained at the time of seizure.
- (c) The valuation in the case of goods seized while being smuggled into the country is done under section 14 of the Customs Act, 1962 whereas the value for the same goods at the time of disposal is fixed with reference to the prevailing market price. At the time of disposal the valuation is also done by an independent valuer as well as the trade representative in addition to the valuation of the experts attached to the respective Custom Houses whereas the valuation at the time of seizure is done by the Jewellery Appraiser alone.
- (d) The value at the time of seizure also differs from the value at the time of disposal because of the fluctuations in the market rate for the particular commodity.”

1.34. When asked about the steps taken to avoid such variations, the Department of Revenue and Banking have stated in a written note that:—

‘With a view to reduce the variation in value to the minimum the Department is exploring the possibility of centralising the sale of the precious and semi-precious stones and diamonds both cut and polished and rough and uncut at certain specified Custom Houses.’

1.35. The Committee wanted to know the qualifications and salary prescribed for the post of a Valuer. The Chairman, Central Board of Excise and Customs, has replied:—

“They are jewellery experts whom we recruit through the UPSC. The UPSC go into their qualifications, how long they are in the trade and so on and select the best available people. . . . They must be a diploma-holder in Gemology.”

1.36. About the persons working in the Bombay Custom House for the valuation of diamonds, the Department of Revenue and Banking have in a written note intimated that:—

“There are six persons who are experienced in valuation of diamonds. Their names, qualifications and experience for the purpose are given below:—

S. No.	Name of Appraiser	Qualification for the purpose.
1	2	3
1	Shri H.C. Jain, Expert Appraiser in Jewellery	Experienced in evaluation of diamonds from the year 1965 in Custom House. Hence an experienced of about 12 years. Prior to joining the service as a Jewellery Expert A.O., assisted in one of the leading firms, in the field of manufacturing, sorting and valuation.
2	Shri S. B Bapat Expert Appraiser in Jewellery	Worked as Examiner in Jewellery Section for 4 years in respect of identification and weighment of diamonds, precious and semi-precious stones. From 1972 working as Expert Appraiser (Jewellery) in Custom House which involves valuation of Diamonds. Passed the Preliminary Examination of the Gemmological Institute of Great Britain in 1975 and intends to complete the Diploma Course soon.
3	Shri Alim Akhtar Expert Appraiser in Jewellery	Worked as examiner in the Postal Jewellery Section (2A.3) from 1972 to 1976 involving the work of identification and weighment of diamonds, precious stones etc. appointed in August, 1976 as Jewellery Expert Appraiser which involves the work of valuation of diamonds, besides other precious stones.

- | 1 | 2 | 3 |
|---|--|---|
| 4 | Shri G. Bhaskaran | Worked as Examiner in Jewellery Section of the Custom House from 1972 to 1975 which involved the job of identification and weighing of Diamonds, precious stones, etc. Working as Jewellery Appraiser from May, 1975 in the Custom House which involved valuation of diamonds, besides other precious stones. Passed the First Year Preliminary Examination of Gemmological Institute of Great Britain in 1975. Intends to complete the F.G.I. (London) Diploma soon. |
| 5 | Shri S. A. Sachdeo | Worked as Examiner in Jewellery Section of Custom House and P.A.S for 2 1/2 years. Work involved the job of weighing, identification of precious stones and diamonds. Worked as Jewellery Appraiser in P.A.S. for about 3 years, which involved the evaluation of diamonds and precious stones. |
| 6 | Shri R. S. Joshi Expert Appraiser in Jewellery | B. Com/Jewellery Expert. He was appointed as direct recruit Jewellery Expert Appraiser on 31-8-1968. |

1.37. Asked whether the jewellery experts did only the valuation of diamonds and precious stones or other kinds of jobs also, the witness has added:—

“They do valuation of diamonds and precious stones. But when they do not have enough work, we might divert them to other jobs. But no valuation of diamonds and precious stones is done by other people.”

1.38. To a question in regard to the procedure for the fixation of fair sale price of diamonds and other precious stones, the Department of Revenue and Banking have intimated in a written note, as under:—

“Diamonds, precious/semi-precious stones are valued by a panel consisting of expert jewellery appraisers after enquiries. They are also valued by reference to an independent valuer appointed by the Custom House as well as by a panel of trade experts consisting of the representatives from the respective associations, namely, Diamond Merchants’ Association, the Precious Stones Imports and Exports Association etc. The valuation of the expert jewellery appraiser is accepted provided it is not less than the other valuations. In the latter case the highest of these valuations is taken.”

1.39. The Committee wanted to know whether the valuation of diamonds etc. made at the time of seizure was accurate to ensure that there was no loss in value at the time of disposal. The Chairman, Central Board of Excise and Customs, has replied during evidence:—

“Over a period of time, these prices have been going up. There may be very rare cases where the old valuation may have gone wrong. . . . There are experts on the job who value these things. They are reputed jewellery experts. I can assure you and the honourable Committee on this point.”

1.40. The Committee referred to the seizure made in Jaipur Collectorate on 4 October, 1969 and asked how 172 carats were valued for Rs. 1615 which works to less than Rs. 10 per carat. The Joint Secretary, Ministry of Commerce, has stated:—

“Rough diamonds would be Rs. 200 per carat. A gem will not be less than 200 rupees even in 1971. If it is industrial quality it can be even Rs. 2 a carat. That is used for drills and other things. If it is gem quality I would be surprised if it is available for Rs. 10 only.”

1.41. The Committee pointed out to the case from Shillong Collectorate where 134 pieces were confiscated on 29 December, 1972 and valued for Rs. 2919. They wanted to know why were the same disposed of on 6 April, 1973 for Rs. 1315 which was less than half of the price valued at the time of seizure. The Chairman, Central Board of Excise and Customs, has replied—

“It is obvious that the valuation at the time of seizure was wrong.”

1.42. Explaining the position further, the witness has stated:—

“There is valuation done at the time of seizure. That is more with a view to avoiding substitution etc. Unless we put a value at the time of seizure, there is a possibility of substitution of the goods. Therefore, we put the value at that time. But when it is ripe for sale, we have it revalued so that we should know what it is likely to fetch at current prices. . . . Normally we do not sell it below that price.”

1.43. The Committee wanted to know as to why low valued precious and semi-precious stones were seized when seizures involved lot of legal processes. The Chairman, Central Board of Excise and Customs has stated:—

“Normally many a time when you raid the premises if you find something petty and yet it is liable to confiscation, some officers would not feel like leaving.”

1.44. Asked whether the cut, uncut, industrial or gem quality are classified in the seized documents, the witness has replied:—

“When the seizure is made, the packet is opened and weighed and then kept there. I do not know whether on the records they write whether it is industrial or not industrial. Some people may be doing it others may not be.”

1.45. Adding further in this connection, the witness has stated—

“We will straightway tell our Collectorates that in future at least they must not club together the industrial diamonds and the other items. They should give the figures for cut and other varieties separately so that if and when you need the figures, we can give them separately.”

1.46. The Committee wanted to know the criteria adopted for the release and confiscation of the diamonds etc. seized by Customs authorities. The Chairman, Central Board of Excise and Customs has replied during evidence:—

“These are not necessarily cases of what is in the process of coming from outside. In those cases, normally there cannot be much doubt because if a person has brought something from abroad either he has got an import licence or he does not have. But the doubt arises mostly in the case of seizures within the country. We get some information that shop ABC is dealing with smuggled stones, and we go and raid the premises of that shop. We examine their account books and examine all other details, and if we find that everything is satisfactorily explained, then it is alright, but if we find that everything is not satisfactorily explained, then there will be a case for confiscation.”

1.47. Asked if it did not amount to harassment when releases were made in the majority of the cases of seizures, the witness has stated:

“I am personally of the opinion that, if a high percentage of goods is getting released after seizures, this is bad administration because it means that either the seizures was 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.”

1.48. The Committee wanted to know whether the releases of 64,238 and 90 cases of diamonds, precious stones and semi-stones respectively out of 171, 304 and 245 cases of seizures in the various Central Excise/Custom Collectorates were not suggestive of exercise by authorities of their discretionary powers for the benefits of the dealers. The Chairman, Central Board of Excise and Customs, has stated:—

“I would be very much perturbed if a large percentage of seizures were to be released later, because it means that either the discretionary powers of the quasi-judicial officers has been wrongly exercised or that the discretionary power with the seizing officer has been wrongly exercised. It might have been that the seizing itself was wrong and I would be more inclined to believe that, because the seizing is done by the lower officer. and it is there the mistake lies. It may be a case of over-enthusiasm or misplaced enthusiasm to show large figures of seizures. The lower officer may have seized certain things which the senior adjudicating officer, when he looked into the matter, would have found was not a case where there was ground for confiscation. There can, of course, be cases where even after an adjudicating officer has ordered confiscation, the appellate authority which is higher than the adjudicating officer, might come to the conclusion ‘no, there is not enough evidence’. But, I dare say, most of these cases could probably be at the first stage. Quite frankly, I was rather concerned that such a high percentage of these goods were getting released.”

Stock Verification

1.49. The Committee desired to know the procedure followed for the verification of the stocks in custody. The Additional Secretary, Department of Revenue and Banking, has stated during evidence:—

“There is an Assistant Collector in full charge of all the confiscated goods including precious items and he does periodical checking.”

1.50. Explaining the position further, the Department of Revenue and Banking have in a written note intimated as under:—

“The stock of sealed packets are verified by the Assistant Collector in Madras and Calcutta, and by the Superintendent of Customs (Preventive) specially posted for stock-taking at the Bombay Custom House. Stock taking is done once in a year at Bombay and Calcutta, and once in six months at Madras.”

1.51. When enquired about the safeguards provided to ensure the elimination of the chances of substitution of diamonds etc., after seizure, the Department of Revenue and Banking have stated in writing thus:—

“The packets containing seized diamonds and precious stones are kept in the warehouse with their seals in tact. The sealed packets are not normally opened, unless so required by the officer for inspection at the time of adjudication. Whenever the sealed packets are required to be opened, the seals of the respective officers are again affixed before depositing back in the Strong Room. All such operations are suitably endorsed against the relative entry in the Strong Room register. Further, in order to safeguard against the possibility of substitution, the Bombay Custom House has laid down the procedure requiring the custodian to verify the contents of the packages with reference to the Panchname before accepting the goods from the seizing officer. No substitution of precious|semi-precious stones has so far been reported.”

1.52. The Committee wanted to know the procedure for the safe custody and maintenance of the record of the confiscated diamonds. The Additional Secretary, Department of Revenue and Banking, has stated during evidence:—

“Diamonds like any other precious material which is confiscated, are kept in a strong room in the Customs House in the charge of a Special Officer and there is probably a record kept.”

1.53. When asked who was the incharge of the records and what was his status, the witness has added—

“He is the Custodian of the Customs House and he is, I think, of the rank of an Inspector.”

1.54. Giving information about the rank of the Officer incharge of the Strong Room and whether any security was obtained from him, the Department of Revenue and Banking have intimated in a written note thus:—

“One Senior Grade Preventive Officer is in charge of the Strong Room, under the direct supervision of Superintendent of Custom (Preventive).

In Calcutta and Madras Custom Houses, a fidelity guarantee for an amount of Rs. 10,000/- is executed by the Officer. In Bombay Custom House, no security has been obtained from the officer.”

Smuggling

1.55. The Committee wanted to know the motive behind the smuggling of diamonds in India. The Additional Secretary, Department of Revenue and Banking has stated:—

“It may be done to arrange for certain funds abroad, so that they can be used for further smuggling back to India.”

1.56. When enquired about the action taken to stop or reduce the smuggling of diamonds, the witness has replied:—

“The anti-smuggling measures are common. There is nothing particular about diamonds. So far as names of smugglers who have been caught are concerned, we can supply them to the Committee after finding out from the various places. If the case is serious, the people are proceeded against not only under the Customs Act but also under COFEPOSA. None of the smugglers would be left at liberty. It is because of all these stringent measures that smuggling has come down.”

1.57. Supplementing further, the Department of Revenue and Banking have intimated in a written note as under:—

“The main steps taken by the Department to counteract smuggling of diamonds are the creation of Special Cell in most of the major Customs Houses/Central Excise Collectorate for gathering intelligence regarding smuggling of diamonds. The baggage of the suspect persons is being screened more thoroughly and even their persons searched to detect concealment of diamonds. Raids/searches have been intensified to unearth smuggled diamonds and preventive measures have been tightened up. In some cases persons concerned in smuggling of diamonds have been arrested and prosecuted and some of them were also detained under the provisions of COFEPOSA Act, which have served as a deterrent to a very great extent.”

1.58. In regard to the type of smuggling of diamonds etc. indulged in and the incentive for such smuggling, the Department of Revenue and Banking have stated in writing as under:—

“(i) Cases of smuggling of diamonds which have come to the notice of the Department recently are generally those of attempted export of diamonds out of the country. In some of the cases of seizures of diamonds, such attempted export was resorted to by air Passengers by concealment either on person or in

the baggage. Air passage is normally availed of for quick transport.

- (ii) It appears that one of the motives/incentive for smuggling of diamonds out of India could be convenient transfer of assets out of India, which could be utilised for the purposes of financing foreign trips, smuggling activities and for the purpose of Hawals payments."

1.59. The Committee wanted to know whether the internal demand was met by smuggling. The Chairman, Central Board of Excise and Customs has stated:—

"On the smugglers' list diamond is not a high priority item, for the simple reason that it is difficult to dispose it of. Gold is something which any person will purchase because it has refinery markings and biscuits are saleable anywhere."

1.60. Elucidating the sources through which internal demand is met, the witness has added:—

"It is mostly the floating stock of diamond which is being re-used ... Our assessment is this. Some part of the replenishment licences are used for internal consumption. Some part is provided by Panna mines."

Import of Rough Diamonds

1.61. The Committee desired to know the places wherefrom the rough diamonds were imported by India. The Joint Secretary, Ministry of Commerce has replied during evidence:—

"We do not import from primary sources. We import either from the selling organisation in London or from the free market in Belgium. Open purchases from the European market, and from the Central Selling Organisation are to the extent of 70 per cent. 80 per cent of the world rough diamond trade is controlled by Diamond Trading Company which has its Head Office in London. It has its sight holders all over."

Asked whether the licences were issued for import from a particular country, the witness has replied:—

"We issue import licences only for import from any general currency area. I have worked out on the basis of data that 80 per cent of the roughs are ultimately from the Diamond Trading Company."

1.62. On being asked what type of diamonds were allowed for import, the witness has added:—

“We are allowed to import rough stones on the condition that these will be polished for export.”

1.63. At the instance of the Committee, the Ministry of Commerce have furnished the following information in writing regarding the total imports and percentage of imports of diamonds made by the Indians from the DTC from 1969-70 to 1975-76:—

Figures in Rs. lakhs			
	Total imports	Imports from DTC	% share of DTC
1969-70	2125.31	3.60	0.16%
1970-71	1890.70	111.56	5.9%
1971-72	2006.58	1093.71	55.5%
1972-73	3594.75	2095.60	57.1%
1973-74	6602.15	2590.70	38.4%
1974-75	4478.97	1575.60	30.9%
1975-76	5393.09	3391.92	61.6%

1.64. The Ministry of Commerce have also furnished in a written note the following break-up regarding imports of diamonds made during the year 1975-76 country-wise and value-wise:—

	1975-76 Value in Rs. lakhs
Belgium	1012.87
Brazil	71.01
Congo	0.64
Ghana	357.32
Guiana	39.48
Guyana	6.92
Hong Kong	0.92
Lebanon	0.67
Israel	8.58

	<u>Value in Rs. Lakhs</u>
Ivory Coast	397.60
Sierraleone	15.61
Switzerland	0.76
Tanzania	432.71
U.K.	2172.21
U.S.A.	17.50
Unknown	32.97
Venezuela	21.48
Zaire	791.07
Others	14.37
	<hr style="width: 100%; border: 0.5px solid black;"/>
	5393.00

1.65. In regard to the sources other than Diamond Trading Company for the supply of rough diamonds and the difference in price paid to D.T.C. *vis-a-vis* other open market people, the Ministry of Commerce have intimated, in a written note, as under:—

“Those rough diamonds which are imported from sources other than the DTC, that is from the open market of London and Antwerp, to a considerable extent could be traced ultimately to the DTC. The suppliers in London and Antwerp market receive DTC sights of rough diamonds which are disposed of to Indian buyers. A very small fraction of the diamonds purchased by the Indian importers would be from non-DTC sources. During 1969-70 initially the DTC had only 13 approved Indian importers on their list. The number has gradually increased and presently there are about 53 sight-holders in India.

The primary sources of rough diamonds in the World are Africa, Angola, Botswana, Central African Republic, Ghana Guinea, Ivory Coast, Lesotho, Liberia, Sierra Leone, South Africa Republic of: premier mine, Other De Beers C. South West Africa Territory of Tanzania, Zaire, Other areas; Brazil, Guyana, India, Indonesia, USSR, Venezuela, U.K., USA and Israel.

All these countries are primary producers of rough diamonds but they have their own Selling Organisations and market through them. Most of these countries traditionally sell their pro-

ducts through the Central Selling Organisation (CSO) in London of which DTC is a part. It is DTC London which controls more than 85 per cent of the diamond production in the world.

The rough diamond marketed by the Diamond Trading Company are standardised while the goods coming from other sources are not standardised. DTC goods are graded as per colour, size, quality, degree of imperfections, etc. It is, therefore, possible to compare the prices of a particular type of DTC rough diamond from one year to another. The rough diamonds from other sources cover a wide range. These could be goods coming to Antwerp and London market directly from Ghana, Bwangi, Central Africa, Venezuela or from stock piles of USA. These could also be rejections of the manufactures of Antwerp and Israel. Non-DTC goods are quite often also from the DTC supplies to sight holders in Antwerp and are ultimately DTC goods. It is our view confirmed by both Gem and Jewellery Export Promotion Council and the MMTC that comparison of prices between goods offered by DTC and goods on sale in the open market can *NOT* be made."

1.66. The Committee wanted to know whether the Diamond Trading Company was dictating its own terms to India in regard to the quantity of the diamonds supplied by them. The Secretary, Ministry of Commerce, has stated during evidence:—

"This dates back to the history when the Diamond Trading Company, along with some other companies who have got diamond mines, formed a kind of cartel in the sense that they control a very large number of diamond mines—they control 85 per cent of all the diamond production in the world. They get all the diamonds that these mines are mining and sort them out and put them in different kinds of packages and then release them according to their own policies at various times in the year. These are called 'sights' and they invite only 'sight-holders' to come and see the stuff. These sights are so difficult to get that people run after them; not only India but other countries also run after them—and it has come to the position of almost a monopoly. But since India has emerged in a big way as a country which cuts and polishes diamonds, the DTS is itself very careful of the fact that India is one of the countries which is buying a very large number of diamonds

and if it were to find some other sources of diamonds and not depend on them, a lot of their market may be lost, and their attitude has somewhat softened. Previously, the number of sight-holders in India used to be less but they have now increased the number of sight-holders. I don't know the actual number, but it is round about 45."

1.67. The Committee desired to know whether the import of diamonds from Diamond Trading Company were made at a higher price as compared to imports from other sources. The Joint Secretary, Ministry of Commerce has replied:—

"The Diamond Trading Company has given in one year 11 sights where selected people were allowed to purchase rough diamonds. Apart from it, there is some trading through subsidiaries and trading from diamonds released to the sight-holders. Releases of the rough diamonds by that company are of the highest quality, and valued by most of the importers. Roughs obtained by the DTS sight-holders or DTC roughs obtained in the Antwerp/London market are supposed to be of a high quality. An importer gets the DTC roughs at the going prices. Secondly, the total trade in rough diamonds is controlled by this company, or the central selling organisation of this company and its associates. It regulates the prices of these diamonds. Unlike some precious stones, the prices of various kinds of rough diamonds in a particular year would be more or less similar in this, or that particular market. This is the achievement of this monopolist company, because it decides upon a pricing policy. Its releases into the market account for 80 per cent of rough diamonds available. It more or less stabilizes the prices. It even plans the price of the polished diamond."

1.68. Asked whether Diamond Trading Company was a world monopoly concern, the witness has replied in the affirmative.

1.69. When enquired as to who these sight-holders were, the witness has replied—

"These are exporters. There is an export obligation on the import of rough diamonds."

1.70. On being asked further whether there were no other companies in the world, the witness has explained:—

"DTC has arrangements with almost all the major diamond-producing areas, including Russia either for selling or mining. I do not say that there are no other primary auctions. Ghana does

auction independently. 2 or 3 countries are not fully in the grip of DTC. The polished diamond market is not in their hands, but in rough diamonds they are well entrenched. The alternatives for purchase of diamond of that company, or their diamonds in the Antwerp market, is to go to the primary markets and purchase rough diamonds. Some of the countries having diamond mines have annual auctions. And we can go and purchase there."

1.71. When asked whether this company had any branch office in India, the witness has replied:—

"They don't have it; not yet. . . . DTC does not have a legal agency here up till now."

1.72. Elucidating the position further about this Company, the witness has stated:—

"Every six months the Diamond Trading Company sends a delegation. They have one meeting with us. They meet the jewellers and distributors on the diamond side. Up till now Government have not authorised the DTC to open a branch here."

1.73. The Committee desired to know the nature of discussion the Government had with the delegation of the company, the Joint Secretary, Ministry of Commerce, has stated:—

"We discuss with them only three things. . . . the average price, the volume of imports allowed to India and the price policy."

1.74. Asked if the volume of imports was also prescribed by them, the witness has replied:—

"The DTC can increase or decrease the number of sight-holders, which affects our total imports."

1.75. Explaining further the scope of discussion, the witness has explained:—

"Government does not come into the picture as to whom they select for the sights. They have got their own method. They have selected 44 persons to whom they have given the sights at the price which they decided centrally in London in the London sales office. For instance, last year they increased the prices unduly. We asked them why they are increasing the prices. Then we ask them why they are not increasing the volume of imports to India. These are the issues which are discussed with DTC. My authority with the DTC is absolutely zero."

It is a formal kind of dialogue. It is not at all negotiation. DTC does not do negotiation. . . . We make certain suggestions. Sometimes they agree, sometimes they do not agree. What I wish to make clear is that twice a year we have a formal dialogue with them. It is unrelated to the marketing activity. As to how much they will give, they decide absolutely on their own."

1.76. Elucidating the position further in this regard, the Ministry of Commerce have, in a written note, intimated as under:—

"Government in November 1973 agreed to have half yearly discussions with the representatives of Diamond Trading Company London. In all, four discussions have taken place. These were on 21st March, 1974, 19th November, 1974, 17th April, 1975 and 22nd April, 1976. The matters discussed at each such meeting have been the following:—

- (i) DTC—sales of rough diamonds to world markets with special reference to India.
- (ii) Activities of Central Selling Organisation in Africa and elsewhere. (This concerns production of rough diamonds).
- (iii) Government's assessment of the Indian diamond market, rough and polished, and MMTC's activities.
- (iv) Diamond advertising by DTC.

It may be categorically stated that while DTC have been informing the Government about the size of the sights and the changes in pricing policy, there were no negotiations with DTC either on the volume of import of rough diamonds or their prices. These decisions are taken by the Diamond Trading Company entirely on its own applications to their sight-holders in all countries.

Such discussions were agreed to be held as DTC enjoys a near monopoly in the sale of rough diamonds. Our contact with DTC earlier had been through the sight holders in India only. It was felt that periodical discussions would inform us better about the policy of DTC. It was also felt that the requirements of the Indian diamond industry could also be conveyed to the DTC through such discussions.

It may also be clarified that DTC delegations visited India for their own survey and assessment of the diamond trade and took an opportunity to call on the Ministry of Commerce for these discussions.

No discussions have taken place after April, 1976."

1.77. The Ministry of Commerce have furnished a list of the names of the Indian Sight-Holders which is annexed at Appendix VI.

1.78. Explaining the control of Government on the sight-holders, the Ministry of Commerce have stated, in a written note, thus:—

“The control of the Government on the sight holders is in a number of ways. It is for the Government to issue import advance licences to the DTC sight holders. These licences are all for a specific value and a period of 4 months is stipulated. These licences are issued on the condition that the re-export should take place within a period of 4 months from the date of the issue of the advance licence and this condition is supported by a legal undertaking or bank guarantee. Government keeps regular watch towards fulfilment of the export obligation of the advance licences issued by the CCI&E to the DTC sight holders. It may be mentioned that in view of the large value of the sight, the holders can import DTC goods only if sufficient bank advance is made available to them. This availability is also controlled by the export policy of the Government.”

1.79. In regard to the measures taken to counteract the monopoly of D.T.C., the Ministry of Commerce have stated in writing as under:—

“The Diamond Trading Company, London controls more than 85 per cent of the rough diamonds trade in the world. All the leading producing countries market their products through the DTC. Even the USSR is committed to sell its rough diamonds through the DTC.

Government through the MMTC has all along been trying to go to the primary sources to procure rough diamond requirements but has not been able to make any progress so far. There are various problems connected with such procurements from any primary sources. Generally the goods sold in our open auction by the producing countries are in a mixed lot containing an appreciable quantity of rejects and industrial variety rough diamonds there is hardly any market in the country itself and there are problems in marketing them abroad. It is only the gem variety diamonds which after cutting and polishing can be sold in overseas markets. Since an overwhelming risk is involved in going for an open auction purchases, the Indian buyers are very shy to associate themselves with such ventures. The rough diamonds supplied by the DTC are considered by the Indian cutters and polishers safe and profitable.

Government tried to negotiate with the USSR which is the second largest producer of rough diamonds. But they turned down our

request for including rough diamonds in trade plan or on sale against foreign exchange. However, an attempt is being made to send an official delegation to Tanzania with a view to exploring possibilities of obtaining rough diamond supplies from there."

1.80. The Committee wanted to know whether alternative sources were explored for the import of diamonds. The Joint Secretary, Ministry of Commerce, has stated:—

"We have twice to my knowledge, perhaps even more number of times, in the past tried to move the Soviet Union for the import of rough. Up till now, they have not agreed. Similar attempts were made by Ghana, Zaire and other countries for collaborating at some level to get rough diamonds."

1.81. Asked about the results achieved in regard to purchase of diamonds from African countries, the Secretary, Ministry of Commerce, has replied:—

"I do not think we have succeeded as yet. We are sending our delegation from here to Zaire and Tanzania, the African countries. We hope to get better results out of it."

1.82. Subsequently in a written note, the Ministry of Commerce have intimated as under:—

"The countries like Angola, Mozambique etc. have informed through our missions that they are not keen for such a visit from India. Tanzanian Government has shown keen interest and a delegation will shortly be leaving."

1.83. Asked if the DTC was trying to beat down Ghana and other countries, the Joint Secretary, Ministry of Commerce, has replied:—

"Up till now the hold of the DTC on the rough market, not polished material, is completely absolute. In African countries they are financing equity loans. Their mining interests cover most of the major diamond producing countries, like South Africa."

1.84. The Committee wanted to know whether sufficient supplies of rough diamonds were available to meet the requirements of the diamond cottage industry. The Secretary, Ministry of Commerce has stated during evidence:—

"It is true that, probably, at one time we were receiving sufficient supplies. But today I would rather make bold to say that we can use much more from other sources than what we are getting from the DTC through the sight-holders."

1.85. Asked about the efforts made to tap other sources for the import of diamonds, the witness has added:—

“The import of diamond is not restricted only to sight holders. It has now been made open to all diamond importers who want to get into this business. They get diamonds not only from the DTC, through their sight holders, but also from London, Europe and other markets where these rough diamonds are sold openly. We are certainly on our feet to find out other sources from which rough diamonds could be imported. We have been trying to ask the Russians to give their diamonds. They have got the diamond mines also.”

1.86. On an enquiry as to why the Diamond Trading Company was not being asked to meet our entire requirement, the witness has stated:

“You are very right in saying that we should tell them to increase their supplies to us and that the sight-holders should get more. But, naturally, that will mean that we become entirely dependent on them for our requirements, whereas we are not entirely dependent on them now but are encouraging a lot of other people to come into the market.”

1.87. The Committee wanted to know if the Government had any proposal to increase the import of roughs in this country besides that allowed as replenishment. The Secretary, Ministry of Commerce, has replied:—

“It is certainly a major policy objective to add to the import of rough diamonds in this country so that more and more people are engaged in this industry. It is being allowed as an import replenishment. It is also being allowed in the shape of advance licences. People who want to get into the trade can ask for advance licence, and it is given very freely.”

1.88. Explaining the position about import of rough diamonds, the Chairman, Central Board of Excise and Customs, has stated during evidence:—

“In this trade you get the replenishment. Import of rough diamond is allowed only on the basis of export of cut and polished diamond. The importer and exporter is the same person.”

1.89. The Committee wanted to know whether certain foreign concerns had offered prices which were more favourable than those of Diamond Trading Company. The Joint Secretary, Ministry of Commerce, has stated:—

“There have never been such offers. Government is not the purchaser. Everybody is free to purchase wherever he likes. Import

licence holders are free to purchase either from DTC or any other agency. Government does not come into the picture. As a rule, I am not aware of any offer made to Government or brought to the notice of Government of goods at a price cheaper than DTC which we may not have accepted. I would be very glad to have such offers. We are always short of roughs. We are always in the market for other goods.

1.90. The Committee wanted to know whether the Diamond Trading Company was black-listed in Ghana and other countries. The Secretary, Ministry of Commerce, has replied:—

“We have no information about Ghana; we can check up on that.”

1.91. The Ministry of Commerce have, in a written note, stated the factual position as under:—

“Regarding Diamond Trading Company Limited (DTC) and its trade relations in Ghana and other neighbouring countries, our mission in Accra has replied as follows:

‘Of countries covered by this Mission, Ghana, Liberia and Sierra Leone export diamonds. In Ghana sales are handled by Diamond Marketing Corporation. Understand informally from latter that they have no dealing with London firm. About specific black-listing, information not forthcoming.’

As regards Sierra Leona and Liberia, Indian Mission in Accra has reported that the Diamond Trading Company of London is not in existence in Sierra Leone. However, their associates Diamond Corporation West Africa Limited are operating there as exclusive buyers of Diamonds for a period of 20 years.”

1.92. Asked to state whether the profits earned by Diamond Trading Company on sales through sight-holders were assessed to income tax in India, the Chairman, Central Board of Excise and Customs, has stated in evidence:—

“If DTC is a foreign company and doing business abroad, we cannot assess them. If a business-man outside i.e. in U.K. or Japan or America is selling something to a person in India, we cannot go and tax that person on that account.”

1.93. Explaining the position that obtained in this connection, the Director (Receipt Audit), has stated:

“If a foreigner has a business transaction without any business establishment, but through an Indian, that Indian is treated as the

agent of the foreigner in respect of the profits that accrue to the foreigner from the transaction. In this case, 40 or 50 persons are designated as sight-holders on behalf of the DTC. These sight-holders distribute diamonds to the various registered holders. Therefore any profit accruing to the foreign non-resident company is assessable, treating any or all of them as assessee. Under the provisions of the Income-tax Act, they are assessable."

1.94. The Committee wanted to know whether the London Star Company of Bombay had any links with or was the subsidiary of Diamond Trading Company. The Secretary, Ministry of Commerce, has replied:—

"The London Star Company operating in Bombay is, of course, an Indian company. There is another, London Star Company, operating in London which, I am told, is one of the agents or subsidiaries, or may be, one of the quota holders of DTC. But on these matters, I would not venture specific immediate reply because these require to be gone into."

1.95. Stating the factual position about this Company, the Ministry of Commerce have stated, in a written note, as under:—

"M/s. London Star Diamond Co. (India) Private Limited is a sight-holder of the Diamond Trading Company, London. They are not agent or subsidiary or an associate of the DTC.

They are in no way connected with the personnel managing DTC.

Star Diamond Co. Ltd. London (and not London Star Co., London) holds 2580 shares of Rs. 100/- each in M/s. London Star Diamond Co. (India) Pvt. Ltd. This equity participation has the approval of the competent authority in India and necessary reports and returns in this regard are being submitted by them to Reserve Bank of India."

1.96. The Committee wanted to know the name and status of the person who fixed appointments on behalf of the D.T.C. The Joint Secretary, Ministry of Commerce, has stated:—

"His name is Genl. Virendra Singh. He fixes the appointment on behalf of the D.T.C. for the D.T.C. delegation to meet me. I do not know the further role of the gentleman."

1.97. Asked whether he was an accredited representative of Diamond Trading Co., the witness has clarified:—

"The gentleman is not a representative of the Diamond Trading Co."

1.98. On an enquiry as to whether Genl. Virendra Singh could be relied upon without any status, the witness has added:—

“I don't have to rely on Genl. Virendra Singh. There is no dialogue or negotiation with him. The dialogue or negotiations or talks are with the Diamond Trading Co. representative, as and when they came.”

1.99. Giving further details about General Virendra Singh, the Ministry of Commerce have stated as under in a written note:—

“Maj. Gen. Virendra Singh (Retd.) in so far the Ministry is aware, is the representative of the Central Selling Organisation, London (DTC is a part of it). He is the only individual who did any liaison work on behalf of the DTC with the Ministry of Commerce.

As his title suggests he is a retired senior Army Officer. We are not aware of his other antecedents. The Ministry of Commerce is not directly concerned with him or with the activities of the DTC are in India for their business dealing with the Indian DTC Sight-holders they also seek permission to visit the Ministry for discussion of the common trade problems. The Ministry of Commerce had no occasion to find out the frequency of Maj. Gen. Virendra Singh's visits to London.”

1.100. The Committee wanted to know whether there was any information available with the Director General of Revenue Intelligence in respect of General Virendra Singh who worked for Diamond Trading Company. The Member (Customs) has replied:—

“Whether there is anything in record with the Director General with regard to this gentleman, it is only by reference to the records I might say that. As I said, from memory I cannot say anything. But this could be conveyed to the DG.”

1.101. In a written note, the Department of Revenue and Banking have intimated that the Directorate General of Revenue Intelligence has not reported any concrete evidence against General Virendra Singh.

1.102. The Committee wanted to know whether General Virendra Singh had accompanied any of the delegations which had gone to various foreign countries for jewellery export promotion. The Secretary, Ministry of Commerce, has replied:—

“It is difficult for us to say; he was not nominated in any of our delegations and so he could not; he is not an exporter. Whether he accompanied some of them in some other guise in some place, we would not know.”

1.103. Asked whether any Government representative was there in any of these delegations, the witness has replied:—

“I shall check up; as far as my knowledge goes, there was no government representative on any of those delegations.”

1.104. Stating the detailed position about the composition of such delegations, the Ministry of Commerce, have, in a written note, stated as follows:—

“A Sales cum Study Team consisting of two members of the Diamonds panels of the Gem and Jewellery Export Promotion Council visited U.K. and Belgium. Another team consisting of 4 members from the trade and sponsored by the Gem and Jewellery Export Promotion Council visited U.S.A., Canada and Venezuela during 1976. Earlier during April 1972, a five member delegation from all the panels of the trade was sent to the U.S.A., U.K, Switzerland, Holland, Italy, France, West Germany and Belgium.

In all these teams, there was no representative of the Government.”

1.105. The Committee wanted to know the details about the achievements of the delegation which was sent to Ghana for purchase of diamonds. The Commercial Manager, N.M.D.C., has stated:—

“The delegation was sent headed by the then Chairman, N.M.D.C., Nothing really materialised in Ghana because Belgian interests were there and they were not prepared to sell their diamonds to NMDC or Government of India. Ghana had just formed the Diamond Marketing Corporation of Ghana. There was a memorandum of understanding which was entered into by which they were willing to consider the NMDC's candidature as a licensed buying agents some of whom were Jewish and they were representing the Jewish interests in the diamond trade. NMDC's interests were, if we could get the diamonds either by tender or by negotiation, we would be able to supply them to the Indian trade. Lot of resistance was felt there. So we entered into this memorandum of understanding. There are auctions held three or four times in a year. The goods consist of all sorts of diamonds. There are industrial diamonds ranging in size from big pieces to extremely small dust which are not useful for India. The entire package is offered for sale.”

1.106. Asked how the other countries were able to operate profitably in Ghana, the witness has stated:—

“They are operating in Europe and they have got connections with industrial diamonds traders etc. Foreign buyers in Ghana have

connections with industrial diamonds users and they are able to dispose of to the best advantage."

1.107. Asked to state the further efforts made to make purchase of diamonds from Ghana, the witness has added:—

"In August, 1970, they invited us to participate in a sale in Ghana and a delegation went there. On it there were valuation officers... They evaluated them and we were working in close connection with our High Commission Office there. They bought the diamond at 42 sh. per ct. and the entire quantity of 200,000 ct. were put on sale in India. Thereafter, the Commerce Ministry introduced the system of issue of release orders. Canalisation at that time was started with 10 per cent of purchases. The NMDC offered the diamonds for sale to the release order holders. But, even after 14 to 15 months, we could sell only a few lakhs or worth of the diamonds. The reason given by the trade was that all these diamonds were not acceptable to them. So, what we could sell in India we sold and the rest was exported with the permission of Government. We had to re-export them. In that process we recouped the entire foreign exchange which had been spent on the deal.

But in view of the time of over sixteen to seventeen months being taken, interest calculations were notionally made on the diamonds that had been bought i.e. on the capital blocked. We lost a total of Rs. 5 lakhs roughly as interest on capital."

1.108. On an enquiry about of NMDC after that experiment, the witness has replied:—

"It was decided that the import trade in diamonds would be transferred to MMTC and the NMDC confined themselves only to sale of its own Panna diamonds. The imported diamond was made over to MMTC."

1.109. The role of NMDC in regard to the import of rough diamonds to meet the demands of canalisation also came in for criticism by the Committee on Public Undertakings who in para 7.37 of its 37th Report (5th Lok Sabha) had observed as under:—

"The Committee are not able to understand the rationale of canalising the import of rough diamonds through the NMDC who are primarily concerned with exploration and development of minerals. The Committee are also distressed to note that before appointing the NMDC as the canalising agency for import trade, Government have not issued specific guidelines in regard to the particular quality of rough diamonds to be

imported keeping in view the diamonds of trade and requirements of the country but simply left the matter entirely in the hands of the Corporation with the result that the transaction has not only ended in a loss of Rs. 5.16 lakhs but the specific objective with which this task was undertaken was not fulfilled. The Committee would strongly urge that the entire deal should be thoroughly investigated and responsibility for such lapses fixed.....”

1.110. In their Action Taken Note, the Ministry of Commerce stated (4th January 1975) that “Government had decided to constitute a Committee to investigate into the whole deal relating to the import of rough diamonds which had resulted in the loss of Rs. 5.16 lakhs and the fixation of responsibility for lapses, as recommended by the Committee on Public Undertakings.”

1.111. The Committee wanted to know whether the purchases from Ghana were stopped due to pressure of Diamond Trading Company. The Secretary, Ministry of Commerce, has stated:—

“I do not know whether there is any pressurisation. But cartelisation is so obvious that there might have been some pressure build up.....NMDC explained that there was some kind of pressure felt then. I think that with that kind of relation that we have now with the African countries, we should be able to get over this problem.”

1.112. The Committee wanted to know why the NMDC could not sell the diamonds imported by them. The Commercial Manager, NMDC, has stated:—

“We had ourselves satisfied that the gem portion of the diamond would be by and large useful in India and they were actually being imported through the intermediaries in London and Belgium. But when we brought them there was an organised resistance to the public sector undertakings being inducted in the importation of diamonds and we had difficulty to sell in six months. We sold those to some extent. Despite our efforts, they used to come with the Release Order that the quality is not of an acceptable order or the price is not acceptable. There was an organized resistance to a public sector undertaking entering into the field and getting experience in trading activities.”

1.113. Asked about the efforts made to overcome the resistance from the traders, the witness has stated:—

“On the next occasion when we wanted to go to Ghana we made an arrangement with a foreign collaborator by which the diamonds

would be assorted abroad—particularly the industrial diamonds which could not be used in India. The point was that we would bring into India only the diamonds which can be useful immediately, and that we could complete the sales in few months and repeatedly go to Ghana and bring them. We had no occasion to operate it, because by that time the import of Industrial diamonds was transferred to another organization; and these details were made available to the MMTC.”

1.114. On an enquiry as to how the domestic demands of industrial diamonds was met by imports, the Secretary, Ministry of Commerce, has stated:—

“The factual position is that the industrial diamonds are allowed to be imported by various kinds of actual users, e.g., cutting tool manufacturers. There is a policy which allows them to import industrial diamonds, not natural but synthetic diamonds and metal strips in all forms, including diamond strips and power. They are being imported. I understand, by quite a large number of people who use them for the manufacture of metal cutting tools.”

1.115. In regard to the demand of industrial diamonds met through indigenous production, the Commercial Manager, NMDC, has explained:—

“Roughly about 20 per cent of the production of Panna, or 5000 to 6000 carats per year is of industrial quality. India’s domestic requirement is much more than that. But we have no difficulty in marketing them. A scheme for the expansion of the Panna diamond project has been submitted to government and is receiving their attention—so that we can treble the production from 20,000 carats to 60,000 carats. Industrial diamonds would be 20 per cent of this 60,000 cts..”

1.116. The Committee wanted to know the value of import licences issued to actual users during the last two years. The Export Commissioner, Office of the Chief Controller of Imports and Exports, has stated:—

“The actual users need some quality of diamonds, mainly industrial diamonds for cutting tools, drills etc. Their main requirement is of industrial diamonds, synthetic diamonds and metal-clad diamonds. We were advised early last year by the DGTD that the industry needs a very small quantity of gem variety of diamonds. In January 1975, we permitted import of gem variety of diamonds on a restricted basis to the actual users to the extent of 5 per cent of their licences.”

1.117. The Committee wanted to know the role played by MMTC in the import of diamonds. The Secretary, Ministry of Commerce, has stated during evidence:—

“The MMTC imports 20 per cent of the requirement of diamonds. We have been trying to see that the MMTC imports more. They are actually importing more from other sources. The development of expertise in getting its diamonds needs from primary sources, I must say, is not there with the MMTC. But the MMTC has been securing its diamond requirement from various markets.”

1.118. Asked if the Government had any policy to expand the activities of the MMTC, the witness has replied:—

“Government have been watching the situation, and I think, it is too early or too premature for us to say anything. If they succeed in some kind of a contract for direct purchase with some African countries and for which we are trying, I think our efforts to bring the MMTC in a bigger way will succeed.”

1.119. The Committee desired to know as to why the importers preferred the Diamond Trading Company and its subsidiaries rather than depend on the MMTC for the import of their requirement. The Secretary, Ministry of Commerce, has replied:—

“The intention of the Government was to see that the MMTC got into the business of diamonds and therefore it was made incumbent on them to bring in 20 per cent of the roughs into the country. Then, again, the general psychological reaction of the trade is that this is a kind of canalisation and that partly explains their apathy or allergic reaction to this arrangement. The MMTC, of course, has not been able to give them such credit terms as probably some other people are prepared to give.”

1.120. Asked if our traders were having close links with the traders abroad who were represented predominantly by Diamond Trading Company the witness has clarified:—

“There are certain parties who are known to give their roughs on deferred credit terms. Whether there is some kind of link or liaison would not be known to us because it is difficult to find out from this end. But there is no doubt that certain financial terms offered to them are better than what the MMTC would like to offer—viz. cash and carry basis.”

1.121. When asked whether any investigations were made in regard to the supply of roughs by Western capitalists to our traders, the witness has stated:—

“We have done a preliminary study and have sent it to the Department of Customs who will be able to carry on further with it. Our investigations did not reveal too much about this, but we have just a suspicion that probably everything is not in order.”

1.122. At the instance of the Committee, the Ministry of Commerce have sent the following note in writing in regard to the study made about the diamond trade:—

“Ministry of Commerce had prepared two studies regarding the diamond trade. These were largely to examine whether there are grounds to presume that there is a considerable inflow of rough diamonds through unofficial channels.

In the first paper it was brought out that on certain assumptions of productivity per worker and on some assumptions regarding the break down of the total export trade between different types of cuts, the exports of 1974-75 would be accounted by employment of 69,340 workers. If the actual number of workers were very much larger than this figure there could be a presumption that official trade was supplemented by unofficial trade was. There has been no census of the actual workers in the diamond trade though some estimates, put the figure at over one lakh persons. It was decided as a result to confirm the strength of workers in the diamond trade. Such a study is now being ordered.

The profitability of the unofficial diamond trade *vis-a-vis* official trade was also examined specially with reference to import duty and other costs. Here the conclusion was that the superior profit of smuggling depended upon the added value (value of the polished over the value of the rough diamond) and the difference between the black market rate of the dollar and official rate.

In the second paper, an attempt was made to estimate the total supply of Indian type of makeables made by the DTC both in India and in other markets. The idea was that if the total releases of Indian makeables in the world market by the DTC were larger than the official imports of Indian makeables than there was some ground to presume that the balance of the Indian makeables would be coming to India through unofficial sources.

The presumption being that it would be ultimately economic to have the Indian makeable type of rough diamonds polished only in India. In this study we found that according to the unconfirmed information given by some sources there were seven companies in Antwerp which were owned by Indians who receive Indian makeable sites in Antwerp. Further the owners of these companies had also related companies in India.

It was not possible officially to obtain the details and values of sights given by the DTC of Indian makeables to such parties in Antwerp. Our conclusion, however, was that only a portion of the Indian makeables released in the Antwerp market came to India through the official channels. The crucial questions here were: (a) the details of the sites of Indian goods in Antwerp released by the DTC and (b) the value of official exports to India of such goods by those sight-holders. The Department of Revenue Intelligence did not have such information.

In the meanwhile, due to the strong actions taken against smuggling by the Government during the emergency the difference between the black market rate of the dollar was narrowed down. This would by itself remove the special premium on doing the business through unofficial channels.

It may be clarified that both the studies were not on the basis of definite information and were in the nature of speculations based on the best assumptions available. They also relied on information supplied by individuals which could not be confirmed from the official statistics.

Export of Diamonds

1.123. The Committee wanted to know as to why the export price realisation by India. On diamonds was less than compared to other countries like Israel and Belgium. The Joint Secretary, Ministry of Commerce, has stated during evidence:—

“It is unfair to compare the realisation of polished Indian markables to the price realised by Israel and Belgium; they cut only sawables and that is very much bigger than the one which is brought here and polished. In India, we make only makeables and the average realisation presently is Rs. 1050 per carat, while we do not deal in the larger type of stones which are cut in Israel and Belgium. To compare realisation of makeables against sawables would be a wrong thing to do. The total diamond realisation from mines consists of various grades. You have industrial diamonds, small size and bigger size, mellees, fractures etc. The Indian expertise is to

cut the smalls and the makeables. In 1975, the market of makeables was better than that of sawables. The rough of the sawables is more costly. The value added for both would, however, be of the same order." N

1.124. The Committee learnt from Audit that there was 160 per cent increase in the average import price compared to disproportionate increase of only 84 per cent in the export price of diamonds during the year 1971-74 and wanted to know the reasons for this disparity. The Joint Secretary, Ministry of Commerce, has replied:—

“The Indian export is based on the import of roughs. The volume of trade depends on the import that can be arranged. As far as the value of the roughs is concerned, both are controlled by one Company. The diamond rough trade in the international market is completely regulated; there are no ups and downs. If prices of roughs are higher, the prices of the makeables are also higher. It is true that there has been an increase in the rough diamond price, but it means that there has been increase in the price of polished ones also. The added value is going up continuously. Indian industry is not backward. We specialise in cutting very small size of diamonds in single and double cut. The Indian industry does not operate in bigger sizes of diamonds; that is highly mechanised. It is done in developed countries like Israel and Belgium. Because of their labour cost, they are not able to make makeables. The total sawable cut is a very small proportion of our trade. We specialise on working of size makeables and mellees. I would say that the polishing of makeables has become more profitable in 1974 than before. The average price of Indian makeables was 1050 per carat; today the price is between Rs. 1250 and Rs. 1500 per carat.”

1.125. The Committee wanted to know whether the export price of our diamonds compared with the prices of other diamond exporting countries. The Secretary, Ministry of Commerce, has stated:—

“Comparison is very difficult in this kind of business. We can only compare as between our own parties A, B, and C etc. in India because we are not really in competition with other countries in this respect. . . . If we are to compare the prices of makeables, such a comparison is not really available; but if we are to compare the prices of sawables, our prices are certainly not as good. The trouble is that our diamonds are rather smaller in size. It is the number of faces on the diamond after it is cut and polished which determines the price of it. If there are 56 faces, then that diamond is the best diamond, but our

faces, I think, don't exceed 15 to 18. So the prices they fetch are certainly less."

1.126. The Committee wanted to know the details of the import of diamonds and export were maintained. The Secretary, Ministry of Commerce, has replied:—

"Whatever exports take place out of India of gem and jewellery are recorded and Customs sends the records to us, and they are recorded and published in the figures given by the Director-General of Commercial Intelligence and Statistics—which came out in the form of a printed brochure. Besides this, party-wise details and types of diamonds are going out are kept under constant study by the Gem and Jewellery Council. We also get a monthly report on that. This is only for statistical purposes. The statistical material that we get initially is from the Export Promotion Council about the various kinds of diamonds exported, and whatever is reported as exported is later on available to us in a final form from the Director-General of Commercial Intelligence and Statistics."

1.127. The Committee wanted to know the ratio between the import and export price of diamonds. The Joint Secretary, Ministry of Commerce, has stated:—

"Every importer has to export the diamond at more than 50 per cent added value."

1.128. About the value added against the imports, the witness has explained further:—

"If the value of the rough diamonds is Rs. 65, the value of the polished diamonds will be Rs. 100. . . . It comes to about 54 per cent. It ranges between 50 to 80 per cent."

1.129. In regard to the enquiry as to why during 1973-74, the value added was less than 50 per cent, the exports and imports being respectively of the order of Rs. 80 crores and Rs. 64.6 crores, the witness has replied:—

"This is perhaps due to lean period."

1.130. The Committee desired to know as to why the margin of profit on cut diamonds should not be more than 54 per cent as the prices of uncut diamonds was negligible. The Joint Secretary, Ministry of Commerce, has explained:—

"It is a very competitive market and the price of diamonds, unlike precious and semi-precious stones, is regulated by the supply position."

1.131. The Committee desired to know if fabulous profits were not made by the exporters. The Chairman, Central Board of Excise and Customs has replied:—

“It would be correct to say that, carat by carat, the difference between the price of cut diamonds and that of uncut diamonds would be very large and much higher than 54 per cent. But that does not mean that, carat by carat also, the value appreciation will be 54 per cent. It may be six to ten times more. . . What happens is that, if you take a rough of, let us say, six carats, after you cut it, all that may come out of it may be only half a carat, so a lot of wastage will be there.”

1.132. The Committee drew the attention of the witness to the following letter dated the 4 February 1976 from the Assistant Collector of Customs, New Delhi addressed to the Director, Ministry of Finance:—

“There has been an increase of nearly 60 per cent in the export price of three main manufacturing countries in the world. In the case of Israel and Belgium the increase in export prices of cut and polished diamonds has been in proportion to the increase in price of rough imported into these countries. In the case of India while imports have gone up by 110 per cent the exports have not moved in the same proportion. The increases in export price of our cut and polished diamond have in fact remained at par with the increase in price of cut and polished manufactured in the other manufacturing centres viz., Israel and Belgium. Thus the proportionate increase in the import price of rough diamond of the kind imported by us has affected the profitability of our exports to cut and polished diamond adversely. The increase in the case of smaller and cheaper diamonds is much steeper than in the case of larger and better quality diamonds. Although Israel and Belgium also cuts smaller diamonds along with larger and better quality goods, India manufactures only the small and the cheapest in the market and, therefore, special increase in the price of smaller diamonds has adversely affected our trade.”

and enquired why in the case of India while imports had gone up by 110 per cent the exports had not moved in the same proportion. The Joint Secretary, Ministry of Commerce, has replied:—

“Last year the price of rough diamond (makeables) had gone up. This increase was higher than for larger size roughs made in Israel and Belgium.

We had taken up this matter with the main suppliers of the rough diamonds of the makeable class. They pointed out that overall profitability had not been lowered as makeables had a good market. We could make up through larger sales. Our profitability in 1974-75 was perhaps lower."

1.133. The Committee desired to know if a seized diamond valued at Rs. 1000 per carat could fetch Rs. 1500 by crafty manipulation. The Joint Secretary, Ministry of Commerce, has stated during evidence:—

"Yes. Diamonds whether rough or polished have a predictable price. Polished diamonds have uniform market. You can reduce the value added to get price of rough diamond. If it is a gem quality, the variation will not be much. If it is of industrial grade then it can be of any price."

1.134. In regard to an enquiry whether there were rough diamonds of the value of Rs. 1000 per carat in stock after seizure which could fetch a price of Rs. 1500 per carat on export after cutting and polishing, the Department of Revenue and Banking have replied in writing that there are no such stocks.

1.135. About the exploration of the possibility of export of seized rough diamonds after getting them cut and polished, the Department of Revenue and Banking have replied in a written note, as under:—

"The Government has not explored the possibility of export of rough diamonds after getting them cut and polished. Such cutting and polishing of rough diamonds by artisans will require supervision by highly skilled and experienced officers. In the absence of such experience, it will not be practicable for the Department to explore such possibilities of export."

1.136. The Committee wanted to know the share which accrued out of the added value to the craftsman who cut and polished the diamonds. The Joint Secretary, Ministry of Commerce, has stated:—

"The diamond polisher gets most of the value added: his profit in terms of percentage may be low but the money is quite a large amount. Even 2 per cent is a large amount of money."

1.137. Asked whether the 54 per cent of value appreciation also included the cost of cutting etc., the witness has stated:—

"This was done on the advice of the Export Promotion Council and I cannot therefore say whether this was done by them or not. My impression is that it is not the trader that has a very high margin of profit but if the profitability of Indian artisan is low it is because we cannot compete with the machine work of Israel and Belgium."

1.138. **Allegating the inability of Indian craftsman to compete with Israel and Belgium, the witness has stated—**

“Our quality of craftsmanship is specialised as it can handle a size of diamonds which is not economical to cut on machines. We work on very small diamonds and our price will depend on the market for the total makeables. But the makeables market is only a small portion of the diamond market. Israel and Belgium work on bigger diamonds.”

1.139. The witness also informed the Committee that no facilities were available for working on bigger diamonds which could be cut only on machines and added—

“The skill of working with machines on high quality, big diamonds is very much developed in Belgium and Israel. We have to learn that trade gradually. We are good at handling small diamonds.”

1.140. The Committee wanted to know the steps taken by Government for the development of diamond polishing in the country. The Joint Secretary, Ministry of Commerce, has stated—

“Government is aware of the need to develop diamond-polishing in the country. We have opened two training schools and we try to encourage those exporters who can manage to polish bigger diamonds. But the position is that it is a small portion of the imports/exports.”

1.141. The Committee noted that most of the polishing was done in this country manually whereas cutting and polishing in Belgium and other places was being done by sophisticated machinery. They wanted to know whether there was any scheme to allow import of sophisticated machinery. The Secretary, Ministry of Commerce, has stated during evidence:—

“The work that is being done in Belgium is with somewhat large-sized diamonds and they have sawable diamonds which are sawn and for that purpose they use machinery. But our country has specialised in smaller diamonds. For that, some machinery will certainly be helpful for which we are encouraging people to get the machinery. Otherwise, generally speaking, the people who are working even with hands are able to turn off very well; particularly in certain areas of Gujarat and Bombay, they are doing so well that even machines would not be able to do that.”

1.142. The Committee wanted to know the efforts made to develop the knowhow of the cutting and polishing of bigger diamonds. The Secretary, Ministry of Commerce, has replied:—

“In the case of bigger diamonds, we do not have the knowhow. We have to introduce this as a new kind of product, because

the diamond which is made from big diamonds with a larger number of faces is a quite different product from what we make today in our country. We make small diamonds and the number of faces are not too many. We will have to get into this as a new business. . . . We are trying to get some kind of expertise on the subject of sawable diamonds. I understand that recently two or three parties are taking up this sawing of bigger diamonds. They are still at the experimental stage. It is too early for us to say, how far they have succeeded."

1.143. Asked about the role played by Gem and Jewellery Export Promotion Council in this direction, the witness has stated:—

"The Gem and Jewellery Export Promotion Council have set up two artisan schools for purposes of giving training in the matter of cutting and polishing of diamonds. But that kind of training at present remains on a theoretical basis as the business of big diamonds is not coming up just now. But we hope, some beginning will be made shortly."

1.144. On a suggestion whether the job on bigger diamonds could be taken up in the Public Sector, the witness has replied:—

"We have really not thought of it. It is a good suggestion. All these require a lot of promotional effort from us. Everything starts on a small scale and then it gains momentum."

1.145. As desired by the Committee, the Ministry of Commerce have sent the following note in writing in regard to the development of diamond cutting industry:—

"Diamond cutting and polishing industry is a lapidary industry and is spread over a very wide area primarily of S. Gujarat in Surat and Navsari Districts. There have been some recent developments of the industry in sectors of South India (Kerala) and some units of N. Gujarat in the boarder district.

It is a highly job-oriented industry and more than a lakh and a half workers are presently employed though many of them are part-time workers and they go back to farming during the farming season. This is a particularly advantageous to the younger generation who can advantageously employ themselves over the year in both the lapidary industry as well as farming. Hence it can be termed as a 'Cottage Industry' for that purpose.

Most of the units work on piece work basis and very few units have a salary base working. Most of the units are very small establishments from 2 to 3 to maximum of 10/20 polishing benches and hence it can be termed as an industry where the workers are themselves employed.

With a view to diversifying the processing of diamonds from smaller sizes to bigger sizes, Government has sanctioned establishment of a Diamond Cutting and Polishing School at Surat to train the artisans. The Gujarat State has provided land and building for the school. 80 per cent of the expenditure will be provided by the Central Government and the school will run under the Administrative control of the Gem and Jewellery Export Promotion Council, Bombay. A similar type of artisan training school for processing precious stones has been established at Jaipur under the management of Gem and Jewellery Council. The land and the building for the school here also has been provided by the Rajasthan Government. Besides the applications for the import of sophisticated machinery for processing large sizes diamonds are considered favourably. Since it is a very specialised industry, requiring personal skill and tremendous element of risk, it is only through individual entrepreneurship that the diamond cutting industry can be encouraged. There are two types of cutting.

(a) Single Cut (b) Double cut. The single cut is done in 8x8 faciets and double cut has 58 m faciets. Presently there are diamonds of small sizes known in the trade circle as makeables are being processed in the country. It is processed by the artisans with their skilled hands and using their personal tools.

The incentive such as cash assistance or development rebate are not available to this industry for its development. The diamond industry has to pay 5 per cent import duty on the import of diamonds."

Replenishment Licences

1.146. The Committee wanted to know the *modus operandi* for the grant of replenishment licences and whether it had achieved the desired results. The Secretary, Ministry of Commerce, has replied:—

"The replenishment licence system is intended to see that we send out better and more value added items from our country. Better polished and cut diamonds will give better realisation. We want better realisation. That is why, incentive is built in for higher replenishment to be given to the party. As regards

the question whether proper price realisation has been made or not, the party concerned will make efforts to get the best price realised. Otherwise, the replenishment licence will come down."

1.147. The Committee desired to know the criteria adopted for the grant of replenishment licences and how the position was kept under review from time to time. The Ministry of Commerce have, in a written note, stated the position as under:—

"A statement containing relevant extracts of policy for import of rough diamonds against exports of cut and polished diamonds under the import policy for registered exporters during the last 10 years *i.e.*, from 1966-67 to 1976-77 and 1977-78 is enclosed (Appendix VII).

In diamond exports, every Rs. 100 worth rough diamonds after cutting and polishing is estimated to fetch about Rs. 54 as an added value. In other words every Rs. 100 worth rough diamonds when exported in the polished form would realise about Rs. 154 which in percentage comes to about 65 per cent. On the basis of this added value realisation and procurement cost of rough diamonds, different slabs of replenishment for import of rough diamonds are fixed:—

The import policy is reviewed every year in consultation with the technical authorities like DGTD, Department of Economic Affairs, Commodity Officers of the Ministry of Commerce. The Gem and Jewellery Export Promotion Council is required to furnish proforma information on cost structure and f.o.b. value realisation by the export products. After taking into consideration the c.i.f. value of the import content going into the manufacture of export product of a given f.o.b. value, the rate of replenishment is fixed.

Indian exporters import mostly smaller size diamonds known in the trade circle as makeables and are mainly obtained from the Diamond Trading Co., London which controls over 80 per cent of the world diamonds production. The rate of replenishment in the case of rough diamonds (Makeables) imported from the DTC, London has been fixed at 60 per cent. For imports from non-DTC sources the rate of replenishment allowed is 65 per cent as they have to buy 20 per cent of their requirements from the MMTC.

There are other slabs of import replenishment *viz.*, 70 per cent, 75 per cent and 80 per cent at a comparative higher rate of per

carat value realisation. These higher rates of replenishment are applicable to all registered exporters, irrespective of the fact whether they are DTC sight-holders or Non-DTC. The idea of introducing these higher import replenishment rates against a certain minimum f.o.b. realisation respectively is to encourage export of quality diamonds and of a larger sizes known as sawable. India's exports of bigger sizes are negligible for the present. In all these cases, there is a compulsory off-take of 20 per cent of import replenishment from the MMTC by way of release orders.

From the statement it will be seen that there was one rate of replenishment of 80 per cent in 1966-67. It was revised to 70 per cent in 1967-68 until 1969-70. It was further revised to 65 per cent during 1970-71. In 1972-73 the replenishment was allowed under two rates *viz.*, 65 per cent and 80 per cent. 80 per cent replenishment was given for a minimum f.o.b. value realisation of Rs. 1125 or above per carat.

In 1973-74 the rates of replenishment were further categorised under 5 slabs as follows: (a) 60 per cent for import of diamonds under special scheme of imports from DTC, London, (b) 65 per cent for import from Non-DTC sources, with 20 per cent release through the MMTC imports, (c) 70 per cent replenishment where per carat realisation was not less than Rs. 900 with 20 per cent replenishment from the MMTC, (d) 75 per cent where per carat realisation was not less than Rs. 1125 with 20 per cent replenishment from the MMTC, and (e) 80 per cent replenishment where per carat realisation was not less than Rs. 1350 with 20 per cent replenishment from the MMTC.

The replenishment rates for the year 1977-78 have been revised further as follows: (a) 60 per cent will be applicable to only advance licensing under the special scheme of import of rough diamonds from the DTC, (b) 65 per cent for non-DTC Sight-holders, (c) 70 per cent where per carat realisation is not less than Rs. 1125, (d) 75 per cent where per carat realisation is not less than Rs. 1350, (e) 80 per cent where per carat realisation is not less than Rs. 1500 and (f) another 80 per cent import replenishment where minimum per carat realisation is not less than Rs. 1125 but each diamond in this case should be of size 10 per carat or bigger."

1.148. Explaining the procedure for the grant of method for the utilisation of replenishment licences, the witness has stated:—

"On the basis of enquiries from the Export Promotion Council and on the basis of knowledge of their own officers and such other

enquiries as they may like to make, the Chief Controller of Imports and Exports Organisation lays down a percentage in terms of value; if you export so much, you, get such and such replenishment. Once that replenishment is granted for a particular purpose, then the only condition, generally speaking, is that you will use it only in that industry. It can very well happen that, while he has exported for Rs. 100 and they have given an import licence for Rs. 65; out of this Rs. 65 worth of import he may use only Rs. 62 for further exports and Rs. 3 may be available to him for sale indigenously. In another case, it may be slightly more than Rs. 65. It may be that this amount of Rs. 65 leaves him a little bit of margin for internal sales. That could be, because obviously, in any thing like this, there has to be some sort of an average."

1.149. In regard to the enquiry whether any record is maintained about the export and import of diamonds, the Export Commissioner, Office of the Chief Controller of Imports and Exports, has stated during evidence:—

"We keep a record of the total imports of roughs and total exports of cut and polished diamonds."

1.150. Explaining the methodology for the allocation of replenishment and grant of import licence, the witness has explained:—

"We have got an Export Promotion Council called the Gem and Jewellery Export Promotion Council. We ask this Council to furnish us information on the f.o.b. value of exported goods and the c.i.f. value of the imported components of those goods in a set proforma. The Council chooses these details from certain representative transactions. For example, if Rs. 1,000 worth of goods are exported, the Council would tell us in the proforma that these goods require so much of imported raw material and components, and if these were to be imported, their c.i.f. value would be Rs. 650. The result is that, to export Rs. 1,000 worth of goods in f.o.b. value, we require imported materials and components worth Rs. 650 c.i.f. value."

1.151. The Committee wanted to know whether there was any mechanism to ensure that goods worth Rs. 650 only were needed for the export of goods worth Rs. 1,000. The witness has stated:—

"We take this data from the Council. Every year we review these figures. . . . We generally reply on the data furnished by the Council."

1.152. The Committee wanted to know the composition of the Gem and Jewellery Export Promotion Council. The Export Commissioner,

Office of the Chief Controller of Imports and Exports, has stated:—

“The registered exporters are the members of the Export Promotion Council. Each Council has got a Committee of Administration and an elected Chairman and a Vice-Chairman. On the Committee of Administration, we have got Government nominees and on the basis of the data furnished by the Councils, the replenishment rates are determined by an inter-ministerial policy group, in which the DGTD, Economic Affairs Department and representatives of our Finance Division are there. . . . We have got no other independent machinery except to depend upon the Council and to have a judgement in the inter-ministerial policy group.”

1.153. Asked how the correctness of the replenishment allowed was verified, the witness has stated:—

“Generally, in the matter of determining replenishment rates, we have the counter-check by the Export Organisations like DGTD, Textile Commissioner etc., but in the matter of diamonds, I must admit, we do not have any other expert Government agency for the purpose.”

1.154. The Committee wanted to know the composition and membership of the Council, how the Council worked out the data of the exports made; and the mechanism available with the Government for the verification of the correctness of the data furnished by the Council. The Ministry of Commerce have, in a written note, stated as under:—

“The composition and the membership of the council consists of 2 types of membership, i.e. (i) membership and (ii) associated membership. The membership subscription is Rs. 500 per annum (April-March). The associate membership subscription Rs. 150 per annum (April-March) the associate membership is given on the basis of declaration from the exporter that his firms export performance in the preceeding year is Rs. 2 lakhs or below. The members of the Council have voting right in the respective panels in the election. There are 7 panels in the Gem & Jewellery trade for which members opt for their voting rights i.e., (i) Diamonds Panel, (ii) Precious/semi-precious stones Panel, (iii) Pearls, (iv) Gold Jewellery Panel, (v) Non-Gold Jewellery Panel, (vi) Synthetic Stones panel and (vii) Sales to Foreign Tourists Panel. In addition 3 representatives are nominated by the Union Government.

The Council works out the data of the exporters on the basis of the figures supplied/published in the daily lists of customs authorities. The figures of exports compiled by the council are

generally taken as 'estimated figures for day-to-day purposes as to provide an working idea and likely trend in the export markets. The final export figures are the figures published by the Department of Commercial Intelligence & Statistics, Calcutta, and which are finally taken into account."

1.55. In regard to the role of Export Promotion Council for valuation of diamonds for grant of replenishment, the Audit has stated:—

"As regards the value of the diamonds, the Gem and Jewellery Export Promotion Council is dominated by the gem traders and the exporters. Of course, there is the administrative body and certain Government representatives are there, but the figures given by them are found not reliable...for the purpose of drawback...because there is no external varification of the correctness. If the Ministry were to depend on these figures for the grant of 80 per cent replenishment, certainly the possiblity that diversion takes place inside India, where there is a very good demand for these things, cannot be ruled out on a substantial scale."

1.156. Clarifying the position in this connection, the Export Commissioner, Office of the Chief Controller of Imports and Exports, has stated:—

"Audit has stated that most of our exports are in the slab where replenishment is 70 or 80 per cent. To my knowledge, that is not correct. The bulk of our exports are in the slab where the replenishment to 65—70 per cent and there the value added comes to around 50 per cent. The logic is this; the replenishment is more where carat realization is more because in such cases better quality and costlier rough diamonds are needed."

1.157. The Committee were informed that the Government was dependent upon the said Council and had to go by the members of the Council who were in the trade. At the instance of the Committee, the Ministry of Commerce in a written note have intimated the steps already taken or proposed to be taken to reduce the dominant role of this Council. These are stated below:—

"In view of the large number of exporters and the competitiveness of exports it is felt that the price trends quoted by the Council which is based on information from the traders would be largely reliable. The export prices cannot be reduced at the macro level because of the variety and the differences in prices between various types of polished diamonds. The problems of compiling detailed figures for the entire export from India of the diamond trade can be appreciated. The information pro-

vided by the traders and the Council can be checked by the experts in Government. Information may also be required by Government regarding added value and profits of diamond polishing. It is also relevant to know about the structure of diamond polishing industry. Information on these accounts is not obtained by Government on any regular basis and has to be obtained at particular times for policy formulation. We have recently decided to entrust the Ahmedabad Institute of Management certain studies about the structure of the diamond trade."

1.158. On being informed that the replenishment percentage is fixed slightly on a generous scale and that a part of the diamonds imported against replenishment licences got diverted to internal consumption, the Committee wanted to know the remedial measures which had been taken or proposed to be taken to arrest this trend. The Ministry of Commerce in a written note have stated as under:—

- "(a) where the licensing authority considers that goods exported is over-invoiced or there has been a misdeclaration of description of the product exported, it is open to the authority to refuse issue of any licence against such exports or to reduce the value of the licence such figures as it deems fit.
- (b) Replenishment licences against cut and polished diamonds exports are issued only in the name of registered exporters.
- (c) No nomination is allowed."

1.159. The Committee wanted to know the nature of control exercised by the Government on the price indicated by exporters. The witness has stated during evidence:—

"We do not interfere in the matter of price. The price is declared at the Customs counter when the thing is exported."

1.160. The Committee wanted to know the instances of under-invoicing and over-invoicing in regard to the export/import of diamonds. The Additional Secretary, Department of Revenue and Banking, has stated:—

"We can check up that position."

1.161. The Department of Revenue and Banking in a written note have furnished the following information in this connection:—

"During the year 1974, no case of under/over invoicing in the import/export of diamonds was notice. However, during the year 1975 and 1976 one and two instances respectively of

under valuation of diamonds were detected. The details are given below:—

Year	Import or Export	Description of goods	Declared value	Panch-nama's valuation	Extent of under valuation	Remarks
			Rs.	Rs.	Rs.	
1975	Import	Rough Diamonds	1,50,524	2,18,873	68,249	De novo adjudication proceedings initiated.
1976	Import	Do.	7,737	10,475	2,837	Clearance of goods allowed on "Caution."
1976	Export	Single cut diamonds	51,379.70	54,997.70	2,720	Goods allowed to take back to town on "Caution."

1.162. The Committee referred to the following recommendations made in paragraphs 3.48 and 3.49 of the "Report of the Study Team on Leakage of Foreign Exchange through Invoice Manipulations":—

"3.48. The price of a diamond is essentially dependent on four factors: (i) Size; (ii) colour; (iii) cut; and (iv) perfection or purity. It was represented that a diamond could be valued fairly accurately by experts and the various assessments of value need not vary by more than 10 per cent to 15 per cent. It is gathered that in the documents, including invoices, the exporters do not give sufficient details of the diamonds. They also do not indicate in the shipping bills the market value of the diamonds. They also do not indicate in the shipping bills the market value of the diamonds in India. It would help considerably in valuation, if it is insisted upon the exporters that they declare the size, colour, cut and perfection of the diamond in the invoice. We understand that for colour, purity and cut, there are standard nomenclatures which are understood throughout the world, such as pink colour, blue colour, extra white colour, white colour, crystal or commercial white; for purity there are terms, such as 'perfect', 'slightly imperfect', 'very slightly imperfect' and 'pique'. Similarly for cut, there are standard terms such as 'brilliant cut', 'single cut', etc. If all these details are available in the invoice, comparison of values with the prices quoted in the world markets would be easier. We would also suggest that in the shipping bill, in addition to the export value, the exporter should also be asked to declare the local market value of the diamonds. The diffe-

rence between the local market value and the export value would enable the appraising officer to make a better judgment regarding values.

- 3.49. In the case of precious stones, generally it has been noticed that the prices finally realised are far below the prices declared on the GR forms. This is partly explained on the ground that the originally declared prices are somewhat loaded with a view to getting advantage in negotiation with the overseas buyer. But this may not always be the true explanation. In our opinion, the scrutiny of values in the case of precious stones should be closer in view of the fact that the exports being largely on consignment account, manipulation of final sale price is comparatively easy. In this connection, it is relevant to mention that if the exporter is not able to sell precious stones exported on consignment account at the price declared by him, he seeks the permission of the Reserve Bank for selling the same at a reduced price. At this stage, the Reserve Bank of India is required to make a judgment as to whether the sale should be allowed at the reduced price or not. It was suggested that it would help the Reserve Bank in making a judgement in this regard if the Customs intimate to them separately the minimum price of the stones. We endorse this suggestion. In our view, the exporter should, in addition to the loaded value, and inform the Reserve Bank of this. In cases where there is doubt that the request for the Reserve Bank's permission for selling the stones at a reduced price is not genuine, further enquiries could be made from our agencies abroad before a decision is taken."

and wanted to know the action taken in the matter. The Chairman, Central Board of Excise and Customs has stated during evidence:—

"We were very much concerned with the consignment accounts. The Government had on the recommendation of Kaul Committee introduced a new scheme to notify commodities in respect of sales after they are on consignment account. These precious stones are one of the commodities which have already been notified under that Notification so that people are not permitted to sell at a low price."

1.163. 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 1-1-1976 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 the 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.

1.164. The Committee note that a decision to suspend the sale of diamonds was taken in 1965. Orders for the 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 overlook 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 Handlooms 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.

1.165. The Committee have been informed that one of the reasons which accounted for the delay in disposal has been an inbuilt inhibition to touch diamond auctions. This position arose because in one of the auctions held on 31-5-53 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 diamonds 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 improvements effected.

1.166. 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 in as much 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 Bunders 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 work-load 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 evaluation 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.

1.167. 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 Department to dispose of Rs. 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.

1.168. The Committee find 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 Collectorate 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.

1.169. 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 29-12-72 and were valued at

Rs. 2919. The same were disposed of on 6-4-73 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.

1.170. The Committee are surprised to note that whereas a fidelity guarantee of Rs. 10,000/- is executed by the officers who are placed in-charge of the Strong Room in Calcutta and Madras Custom Houses, no such security is obtained from the officer given similar assignment in Bombay Customs 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.

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 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 Custom Houses and periodicity of verification is also uniform at these places.

1.172. 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 U.S.A., 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 Government should examine the possibility of including Government representatives in such delegations in future, so that the interests of the public apart from those of the trade could be looked into.

1.173. The Committee note that the production of industrial diamonds in Panna Diamond 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.

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 requirements 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 M.M.T.C. 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 D.T.C. and its subsidiaries for the 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 M.M.T.C. One of the reasons for this attitude is that M.M.T.C. 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.

1.176. 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 of 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 the world, viz., Israel and Belgium, the increase in export prices 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 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 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.

1.177. 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 of machinery to work on bigger size of diamonds. The Gem and Export Promotion Council has also set up two artisan schools for the purposes of giving training in cutting and polishing of 'sawables'. 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.

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 50 per cent to 100 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 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 judgment on the determination of the replenishment in the interministerial 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 economies 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.

1.180. 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.

1.181. 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 payments 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.

1.182. The Committee have been informed that one of 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.

1.183. 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 D. T. C. 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 D. T. C. In the circumstances, it is not clear to the Committee why the D.T.C. sends a delegation to India half yearly for discussions with Government and why the Central Selling Organisation (an affiliate of the D.T.C. maintains a retired Major General in India presumably for purposes of liaison with the Government. Obviously, the D. T. C. looks for some favours from Government. It may be that D.T.C. 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 D. T. C. would like to exploit for their own ends the professional expertise available in India, in respect of these small sized diamonds. If so, Government does not seem to be as helpless as is made out.

1.184. 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).

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

1.186. 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.

1.187. The Committee would urge Government to make an in-depth 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.

NEW DELHI:

December 9, 1977.

Agrahayana 18, 1899 (S).

C. M. STEPHEN

Chairman,

Public Accounts Committee.

APPENDIX II

(Vide Para 1.29)

Statement showing the total number of seizures of Precious Stones made during the period from 1955-56 to 1975-76 and the break-up of their disposal

Sl. No.	Collectorate/Customs House (N)	Seizures	Particulars of disposal			Pending Adjudication
			Released	Confiscated	..	
1	Central Excise Collectorate, Ahmedabad	4	..	4	..	
2	Central Excise Collectorate, Hyderabad	1	..	..	1
3	Central Excise Collectorate, Nagpur	1	1	..	..
4	Central Excise Collectorate, Chandigarh	9	..	7	2	
5	Custom House (Prev) Patn	2	..	2	..	
6	Custom House, Cochin	1	..	1	..	
7	Central Excise Collectorate, Madurai	6	2	2	2	
8	Central Excise Collectorate, Calcutta	19	16	3	..	
9	Central Excise Collectorate, Jaipur	43	32	6	5	
10	Custom House, Bombay	15	12	2	1	
11	Custom House, Calcutta	32	12	13	7	
12	Central Excise Collectorate, Shillong	171	163	5	3	
TOTAL		304	238	45	21	

APPENDIX III

(Vide Para 1.2(i))

Statement showing the total number of seizures of Semi-precious Stones made during the period from 1966-67 to 1975-76 and the break-up of their disposal

Sl. No.	Collectorate/Custom House	Seizures	Particulars of disposal		
			Released	Confiscated	Pending Adjudication
1	Central Excise Collectorate, Bhubaneswar	1	..	1	..
2	Central Excise Collectorate, Madras	4	1	3	..
3	Central Excise Collectorate, Chandigarh	13	..	12	1
4	Custom House (Prev.) Patna	8	3	1	4
5	Custom House, Vishakapatnam	1	..	1	..
6	Custom House, Cochin	2	..	2	..
7	Central Excise Collectorate, Madurai	21	..	18	3
8	Central Excise Collectorate, West Bengal, Calcutta	9	5	2	..
9	Central Excise Collectorate, Jaipur	21	16	1	4
10	Custom House, Madras	31	11	20	..
11	Bombay Custom House	41	21	19	1
12	Custom House, Calcutta	18	7	6	5
13	Central Excise Collectorate, Shillong	1	..	1	..
TOTAL		171	64	87	20

APPENDIX IV

(Vide Para 1.31)

Statement showing details of the loss valuation on seizures of Diamonds during the period from 1966-67 to 1975-76

Sl. No.	Date	Particulars of seizure	Qty.	Value (Rs.)	Date	Particulars of adjudication	Qty.	Value (Rs.)	Particulars of disposal	Qty.	Value (Rs.)	Balance undisposed of as on 31-3-76
1	18-3-68	7 pcs.	110	7-12-68	Released on appeal	7	..	..	..	..	..	..
2	11-2-60	104 pcs.	950									
					<i>Central Excise Collectorate, Kanpur</i>							
3	3-3-72	72 gms.	1350	4-3-72	Confiscated	72	..	..	(Re-exported on 4-3-72 after payment of fine of Rs. 270 00)	..	..	..
					<i>Custom House, Cochin</i>							
4	23-12-73	3 Nos. Diamonds old and used.	50 00	6-12-74	Confiscated	3	..	..		3	..	50 00
					<i>Central Excise Collectorate, Madurai</i>							

11	1	2	3	4	5	6	7	8	9	
				<i>Central Excise Collectorate, Jaipur</i>						
5	4-10-60	.	172 Cts.	1615	24-2-72	Confiscated	..	172 Cts.	1615	
6	20-8-70	.	1168 Cts.	6000	12-4-71	Released	..	..	..
				<i>Custom House, Bombay, (Airport)</i>						
7	1960	.	490 Pcs.	4670	5-3-75	Confiscated	..	490 Pcs.	4670	
8	1973	.	635 Pcs.	6530	6-2-76	Confiscated	..	635 Pcs.	6530	
				<i>Central Excise Collectorate, Shillong</i>						
9	18-4-75	.	95 Cts.	425	12-7-75	Confiscated	..	95 Cts.	425	

APPENDIX V

(Vide Para 1.31)

Statement showing details of low valuation on seizures of 'Precious Stones' during the year 1966-67 to 1975-76

Sl. No.	Particulars of seizure			Particulars of adjudication		Particulars of disposal		Balance undisposed of as on 31-3-1976	
	Date	Qty.]	Value (Rs.)	Date	Qty.	Value (Rs.)	Qty.	Value (Rs.)	
<i>Central Excise-Collaborate, Jyipur</i>									
1	16-4-71	15 Cts.	200	17-4-71	Released	..	..	..	..
2	23-8-72	69715 Cts.	49845		Pending adjudication	..	..	69715 Cts.	49845
3	7-5-73	11350 Cts.	6200	20-5-75	Released	..	..	..	..
4	20-8-74	7719 Cts.	32076	17-6-75	Confiscated	..	..	7719 Cts.	32076
5	24-7-75	33593 Gms.	35950		Pending adjudication	..	..	33593 Gms.	35950
<i>Custom House Bombay</i>									
6	23-5-67	2130.5 Gms.	22765	18-12-67	Released	..	..	..	..
7	7-5-71	280.70 Cts.	167	15-9-71	Released	..	..	..	..
<i>Custom House, Calcutta</i>									
8	29-3-67	18775 Cts.	199843	24-10-68	Released	..	..	..	..
9	29-1-72	269.44 Gms.	2694	18-2-72	Confiscated	..	..	269.44 Gms.	2694

1	2	3	4	5	6	7	8	9
10	2-12-75	558-10 Cts.	5104	Pending Adjudication			558-10 Cts.	5104
11	2-1-76	1549 Gms.	5216	Do.			1549 Gms.	5216
<i>Central Excise Collectorate, Shillong</i>								
12	27-10-66	1650-420 Gms.	8450	19-5-67	Confiscated		1650-420 Gms.	8450
13	27-10-66	1530-880 Gms.	7875	16-5-67	Do.		1530-880 Gms.	7875
14	10-12-66	24-500 Gms.	140	20-5-67	Do.		24-500 Gms.	140
15	10-12-66	69-250 Gms.	420	30-4-67	Do.		69-250 Gms.	420
16	20-3-67	870 Gms.	2175	30-9-67	Do.		870 Gms.	2175
17	25-4-67	340 Gms.	5112	31-8-67	Do.		340 Gms.	5112
18	19-5-67	20 Gms.	236	29-9-67	Do.		20 Gms.	236
19	18-6-67	9 Gms.	86	20-11-67	Do.		9 Gms.	86
20	1-7-67	17047 Gms.	18821	18-5-68	Do.		17047 Gms.	18821
21	4-4-70	4 Pieces	40	23-3-70	Do.	4 Pieces	Rs. 10	

APPENDIX VI

(Vide para 1.77)

LIST OF INDIAN SIGHT-HOLDERS OF THE DIAMOND TRADING COMPANY

1. M/S. B. Arunkumar & Co., Bombay
2. M/s. B. Parikh & Co., Bombay
3. M/s. Bharat Diamond Industries (Prop. Abrasive Diatools P. Ltd), Bombay
4. M/s. B. Vijaykumar & Co., Bombay
5. M/s. Bela Gems, Bombay
6. M/s. Babubhai Manchand, Bombay
7. M/s. Bhansali & Co., Bombay
8. M/s. Chandrakant & Co., Bombay
9. M/s. Chandulal Mohanlal & Sons, Bombay
10. M/s. Diamond International, Bombay
11. M/s. Dimexon, Bombay
12. M/s. Dinesh Bros. & Co., Bombay
13. M's. Diamond Star, Bombay
14. M/s. Everest Gems, Bombay
15. M/s. Gem Diamonds, Bombay
16. M/s. Gem Star Co., Bombay
17. M's. Gem Stars, Bombay
18. M/s. Gitanjali Export Corporation, Bombay
19. M/s. Heeralal Chhaganlal & Co., Bombay
20. M/s. H. Patel & Co., Bombay
21. M/s. K. Chimanlal & Co., Bombay
22. M's. Kantilal Chhotalal, Bombay
23. M/s. Kirtilal Manilal Mehta, Bombay
24. M/s. Kishore K. Mehta, Bombay
25. M/s. Kirtilal Kalidas Exports, Bombay
26. M/s. Kheratilal & Sons. New Delhi
27. M's. Kiran Gems, Bombay
28. M/s. London Star Diamond Co. (India) P. Ltd., **Bombay**

29. M/s. Mahendra Brothers, Bombay
30. M/s. Maneklal Vadilal & Co., Bombay
31. M/s. M. Shashikant & Co., Bombay
32. M/s. M. R. Bhansali & Co., Bombay
33. M/s. Mahendra G. Mehta, Bombay
34. M/s. Manilal Bhabhutbhai & Sons, Bombay
35. M/s. Manish Diamonds, Bombay
36. M/s. Mohanlal Raichand & Sons, Bombay
37. M/s. Madhukar & Co., Bombay
38. M/s. Overseas Trading Corpn., Bombay
39. M/s. P. C. Jain & Co., Bombay
40. M/s. P. D. Kothari & Co., Bombay
41. M/s. Prashant Corporation, Bombay
42. M/s. R. Dalpatlal & Co., Bombay
43. R. Kantilal & Co., Bombay
44. M/s. Rajnikant Bros., Bombay
45. M/s. Ratilal Becharlal & Sons, Bombay
46. M/s. R. Jayantilal & Co., Bombay
47. Ramniklal Bhogilal & Co., Bombay
48. M/s. Sevantilal Fakirchand & Co., Bombay
49. M/s. Samir Diamonds, Bombay
50. M/s. Sevantilal Bros. Exports P. Ltd., Bombay
51. M/s. Star Diamond Co. (India), Bombay
52. M/s. Su-Raj & Co., Bombay
53. M/s. Suresh Bros., Bombay
54. M/s. Samir Diamonds (Exports) P. Ltd., Bombay
55. M/s. Unigems India P. Ltd., Bombay.

APPENDIX VII

Statement on the replenishment rules for the export of rough diamonds during the years 1966-67 to 1977-78

Vide Para 1.1(17)

Year	Export Product	Import replenishment percentage	Materials permitted for imports	Remarks
1966-67	Diamond cut and polished.	80%	Diamonds uncut and unset.	—
1967-68	Cut or polished diamonds.	70%	Diamonds uncut and unset.	—
1968-69	Cut or polished diamonds.	70%	Diamonds uncut and unset.	—
1969-70	Cut or polished diamonds.	70%	Diamonds uncut and unset.	—
1970-71	Cut or polished diamonds.	65%	Diamonds uncut and unset.	Out of the total replenishment of 65% of the export f.o.b. value registered exporters may be allowed to import direct upto 90% of the admissible replenishment and the remaining 10% will be through release orders on NMDC. In the event of non-availability certificate from NMDC, the exporter may be allowed to import direct to the extent of full value of replenishment.
1971-72	Cut and polished diamonds	65%	Diamonds uncut and unset.	Out of the total replenishment of 65% of the export f.o.b. value registered exporters may be allowed to import direct upto 90% of the admissible replenishment and the remaining 10% will be through release orders on NMDC.

Year	Export Product	Import replenishment percentage	Materials permitted for imports	Remarks
1972-73	(a) Cut and polished diamonds of 30 points or above per piece with a minimum Co.b. value realisation of Rs. 1125/- or above per carat. (b) Cut and polished diamonds not covered by above.	80%	Diamonds uncut and unset.	In the event of non-availability certificate from NMDC, the exporters may be allowed to import direct to the extent of full value of replenishment.
1973-74	(a) Cut and polished diamonds. (b) Cut and polished diamonds.	65%	Diamonds uncut and unset.	<p>Out of the total replenishment of 65%, registered exporters may be allowed to import direct upto 80% of the admissible replenishment and the remaining 20% will be through release orders on MMTC. In the event of non-availability of certificate from MMTC the export may be allowed direct to the extent of available replenishment value.</p> <p>This will be applicable only to advance licence using under the special scheme of import of rough diamonds.</p> <p>Out of the total replenishment of 65% direct import will be allowed upto 80% and the remaining 20% will be through release orders on MMTC. In the event of non-availability certificate from MMTC the exporter may be allowed to import direct.</p>

	(c) Cut and polished diamonds.	70%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 900/-. 20% of the replenishment will be through release order on MMTC.
	(d) Cut and polished diamonds.	75%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 1,125/-. 20% of the replenishment will be through release orders on MMTC.
	(e) Cut and polished diamonds.	80%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 1,315/-. 20% of the replenishment will be through release order on MMTC.
1974-75	(a) Cut and polished diamonds.	60%	Diamonds uncut and unset.	This will be applicable only to advance licences under the special scheme of import of rough diamonds.
	(b) Cut and polished diamonds.	65%	Diamonds uncut and unset.	Out of the total replenishment of 65% direct import will be allowed upto 80% and the remaining 20% will be through release orders on MMTC. In the event of non-availability certificate from MMTC direct import to the extent of full value of replenishment will be allowed.
	(c) Cut and polished diamonds.	70%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 900/-. 20% of the admissible replenishment will be through release orders on MMTC
	(d) Cut and polished diamonds.	75%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 1,125/-. 20% of the replenishment will be through release orders on MMTC.

Year	Export Product	Import replenishment percentage	Materials permitted for imports	Remarks
1975-76	(c) Cut and polished diamonds.	80%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 1,315/-. 20% of the replenishment will be through release orders on MMTC.
	(a) Cut and polished diamonds.	60%	Diamonds uncut and unset.	This will be applicable only to advance licences under the special scheme of import of rough diamonds.
	(b) Cut and polished diamonds.	65%	Diamonds uncut and unset	Out of the total replenishment of 65% direct import will be allowed upto 80% and the remaining 20% will be through release orders on MMTC. In the event of non-availability certificate from MMTC direct import to the extent of full value of replenishment will be allowed.
	(c) Cut and polished diamonds.	70%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 900/-. 20% of the admissible replenishment will be through release orders on MMTC.
	(d) Cut and polished diamonds.	75%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 1,125/-. 20% of the replenishment will be through release orders on MMTC.
	(e) Cut and polished diamonds.	80%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 1,315/-.

20% of the replenishment will be through release orders on MMTC.

The minimum per carat realisation should not be less than Rs. 900/-.

Each diamond should be minimum 10% of a carat (10 per carat) and bigger in size.

20% of the replenishment will be through release orders on MMTC.

This will be applicable only to advance licences under the special scheme of import of rough diamonds.

Out of the total replenishment of 65% direct import will be allowed upto 80% and the remaining 20% will be through release orders on MMTC. In the event of non-availability certificate from MMTC direct import to the extent of full value of replenishment will be allowed.

The minimum per carat realisation should not be less than Rs. 900/-.

20% of the admissible replenishment will be through release orders on MMTC.

The minimum per carat realisation should not be less than Rs. 1125/-.

20% of the replenishment will be through release orders on MMTC.

1976-77

(f) Cut and polished diamonds.

80% Diamonds uncut and unset.

(a) Cut and polished diamonds.

60% Diamonds uncut and unset.

(b) Cut and polished diamonds.

65% Diamond uncut and unset.

(c) Cut and polished diamonds.

70% Diamonds uncut and unset.

(d) Cut and polished diamonds.

75% Diamonds uncut and unset.

Year	Export Product	Import replenishment percentage	Materials permitted for imports	Remarks
	(e) Cut and polished diamonds.	80%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 1,315/-. 20% of the replenishment will be through release orders on MMTC.
	(f) Cut and polished diamonds.	80%	Diamonds uncut and unset.	The minimum per carat realisation should not be less than Rs. 900/-. Each diamond should be minimum 10% of a carat (10 per carat) and bigger in size. 20% of the replenishment will be through release orders on MMTC.
1977-78	(a) Cut and polished diamonds.	60%		This will be applicable only to advance licensing under the special scheme of import of rough diamonds.
	(b) Cut and polished diamonds.	65%		—
	(c) Cut and polished diamonds.	70%		The minimum per carat realisation should be not less than Rs. 1,125/-.
	(d) Cut and polished diamonds.	75%		The minimum per carat realisation should be not less than Rs. 1,315/-.
	(e) Cut and polished diamonds.	80%		The minimum per carat realisation should be not less than Rs. 1,500/-.
	(f) Cut and polished diamonds.	80%		The minimum per carat realisation should be not less than Rs. 1,125/-.

Each Diamond should be minimum 10% of a carat
(10 per carat) and in bigger size)

General Note

Release orders will be issued on the MMTC for 20% of the admissible replenishment of Diamonds uncut and uncut except against advance licences issued under the Special Scheme. In cases where the value of the release order to be issued comes to less than Rs. 500, the licensing authorities may issue a direct import replenishment licence instead of issuing a release order on the MMTC.

APPENDIX VIII

Conclusions/Recommendations

S. No.	Para No.	Ministry/ Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1.	1. 163	M/o. Finance (Deptt. of Revenue)	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 1-1-1976 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 the 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.

2. 1. 164 M/o. Finance (Deptt. of Revenue)

The Committee note that a decision to suspend the sale of diamonds was taken in 1965. Orders for the 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 superceded 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 Handlooms 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.

3. 1. 165 -Do-

The Committee have been informed that one of the reasons which accounted for the delay in disposal has been an inbuilt inhibition to touch diamond auctions. This position arose because in one of the auctions held on 31-5-53 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 diamonds 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 appraised of the details of the procedural improvements effected.

4. 1. 166 -Do-

Another reason advanced by the Department for the delay in disposal is that smuggling had been increasing over the years and the staff

1	2	3	4
---	---	---	---

augmentation did not keep pace with the staff requirements. The Collector having lesser staff, therefore, paid more attention to seizures in as much 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 Bunders 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 work-load 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 evaluation 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.

83

5. 1. 167 M/o. Finance (Deptt. of Revenue)

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 Department to dispose of Rs. 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.

6. 1. 168

-Do-

The Committee find 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 Collectorate 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.

7. 1. 169

-Do-

The Committee learn that the value of the 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.

1

2

3

4

In a particular case of Shillong Collectorate it has been noticed that 134 pieces of precious stones were confiscated on 29-12-72 and were valued at Rs. 2919. The same were disposed of 6-4-73 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.

84

8.

1-170

M/o. Finance (Deptt. of Revenue)

The Committee are surprised to note that whereas a fidelity guarantee of Rs. 10,000/- is executed by the officers who are placed in-charge of the Strong Room in Calcutta and Madras Custom Houses, no such security is obtained from the officer given similar assignment in Bombay Customs 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.

9

1-171

-Do-

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 Customs 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 Custom Houses and periodicity of verification is also uniform at these places.

88

10.

1-172

M/o. Commerce

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 U.S.A., 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 delegation sent so far. They desire that Government should examine the possibility of including Government representative in such delegations in future, so that the interests of the public apart from those of the trading could be looked into.

1	2	3	4
11.	1-173	M/o. Industry (Deptt. of Industrial Development)	<p>The Committee note that the production of industrial diamonds in Panna Diamond 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.</p>
12.	1-174	-Do-	<p>The Committee find that the Mineral and Metal Trading Corporation of India is at present importing only 20 per cent of the total requirements 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 M.M.T.C. 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.</p>
13.	1-175	-Do-	<p>The Committee understand that traders prefer the D.T.C. and its subsidiaries for the 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 M.M.T.C. One of the reasons for this attitude is that M.M.T.C. has not been able to offer such credit terms that</p>

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 the MMTC are in no way less attractive than those offered by other competing agencies.

M/o. Commerce

1. 176

13

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 of 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 roughs 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 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 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.

The Committee are distressed to learn that Indian Diamond Industry specialises only in cutting very small size of diamonds in single and double

-Do-

1. 177

14.

1**2****3****4**

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 of machinery to work on bigger size of diamonds. The Gem and Export Promotion Council has also set up two artisan schools for the purposes of giving training in cutting and polishing of 'sawables'. 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.

15.

1. 178

M/o. Commerce

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.

16.

1. 179

-Do-

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 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 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 economies 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.

88

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 judgment about values. The Committee would like to know the action taken by the Government on these recommendations.

18. 1.181 M/o. Commerce

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 payments to the craftsman. The Committee would like the Government to ensure that the entire profits are not pocketed by the traders and middleman and that the remuneration paid to the personnel employed on the job of cutting and polishing the diamonds is in commensurate with the labour and skill put in by them.

00

19. 1.182 M/o. Finance (Deptt. of Revenue)

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.

20. 1. 183 M/o. Commerce

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 D.T.C. 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 D.T.C. In the circumstances, it is not clear to the Committee why the DTC sends a delegation to India half yearly for discussions with Government and why the Central Selling Organisation (an affiliate of the D.T.C.) maintains a retired Major General in India presumably for purposes of liaison with the Government. Obviously, the D.T.C. looks for some favours from Government. It may be that D.T.C. 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 D.T.C. would like to exploit for their own ends the professional expertise available in India, in respect of these small sized diamonds. If so, Government does not seem to be as helpless as is made out.

1	2	3	4
21.	1. 184	M/o. Commerce	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).
22.	1. 185	-Do-	The Committee note that Government have the power to grant licences and make available bank credits through the regulation of the export policy. The Committee would like to be assured that the exercise of these powers has not had the effect of benefiting the Company in expanding its market in this country and increasing our dependence on it.
23.	1. 186	(1) M/o. Finance (Deptt. of Revenue) (2) M/o. Commerce	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.
24.	1.87	M/o. Commerce	The Committee would urge Government to make an in-depth 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.

23

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI.			33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	68
24.	Jain Book Agency, Connaught Place, New Delhi.	11	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	36.	Hird Book House, 82, Janpath, New Delhi.	95
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11	37.	Bookwell, 4, Sant Naran-kari Colony, Kingsway Camp, Delhi-9.	96
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	MANIPUR		
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	AGENTS IN FOREIGN COUNTRIES		
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-f.	27	39.	The Secretary, Establishment Department, The High Commission of India India House, Aldwych, LONDON, W. C.-2.	59
32.	Jayana Book Depot, Chaparwala Kuan, Karol-Bagh, New Delhi.	66			

© 1977 BY LOK SABHA SECRETARIAT

CONDUCT OF BUSINESS IN LOK SABHA (SIXTH EDITION) AND PRINTED BY
THE GENERAL MANAGER, GOVERNMENT OF INDIA PRESS, MINTO ROAD,
NEW DELHI.

